



## KUBOTA CREDIT CORPORATION, U.S.A.

*(incorporated with limited liability in the State of California)*

**U.S.\$500,000,000 4.958 per cent. Guaranteed Bonds due 2026**

guaranteed by

## KUBOTA CORPORATION

*(incorporated with limited liability in Japan)*

**Issue Price: 100 per cent.**

The U.S.\$500,000,000 4.958 per cent. Guaranteed Bonds due 2026 (the "Bonds") of Kubota Credit Corporation, U.S.A. (the "Issuer" or "KCC") will be issued in registered form in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Kubota Corporation (the "Guarantor" or the "Company") will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Bonds.

The Bonds will bear interest from 31 May 2023 at the rate of 4.958 per cent. per annum payable semi-annually in arrear on 31 May and 30 November in each year commencing on 30 November 2023. Payments on the Bonds will be made in U.S. dollars without withholding or deduction for or on account of taxes imposed or levied by the United States or Japan, the extent described in Condition 8 (*Taxation*) of the terms and conditions of the Bonds (the "Conditions" and each condition set out in the Conditions being a "Condition").

Unless previously redeemed or cancelled, the Bonds will be redeemed at 100 per cent. of their principal amount on 31 May 2026. The Issuer may, at its option, redeem the Bonds in whole, but not in part, at any time prior to the Par Call Date (as defined in the Conditions), at the price determined in the manner set out in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*). The Issuer may also, at its option, redeem the Bonds in whole, but not in part, at any time on or after the Par Call Date, at 100 per cent. of their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. In addition, if withholding taxes are imposed on payments in respect of the Bonds or the Guarantee (as defined in the Conditions) by the United States or Japan, the Issuer may, at any time, redeem all of the Bonds at 100 per cent. of their principal amount (as set out herein).

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Bonds to the official list of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor or the Bonds.

The Bonds will be evidenced by a global certificate (the "Global Certificate") evidencing the Bonds in registered form, which is expected to be deposited with and registered in the name of, or a nominee for, a common depository (the "Common Depository") for each of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg", and together with Euroclear, the "Clearing Systems") on or about 31 May 2023 (the "Closing Date") for the accounts of their respective accountholders. The Joint Lead Managers (as defined in "Subscription and Sale") expect to deliver the Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

It is expected that the Bonds will be assigned a credit rating of A by S&P Global Ratings Inc. ("S&P"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for, the Bonds in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Deed of Guarantee (as defined in the Conditions) have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). In addition, the Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA") and may not be offered or sold within Japan or to, or for the account or benefit of, residents of Japan including corporations incorporated under the laws of Japan, unless otherwise provided under the FIEA. For a summary of certain restrictions on offers and sales of Bonds, see "Subscription and Sale".

Singapore Securities and Futures Act Product Classification: solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act 2001 (as modified or amended from time to time, the "SFA"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

*Joint Bookrunners and Joint Lead Managers*

**Morgan Stanley**

**BofA Securities**

**Barclays**

**Nomura**

The date of this Offering Circular is 23 May 2023.

## CONTENTS

	Page
PRESENTATION OF FINANCIAL AND OTHER INFORMATION .....	vi
FORWARD-LOOKING STATEMENTS .....	ix
SUMMARY INFORMATION .....	1
INVESTMENT CONSIDERATIONS .....	6
TERMS AND CONDITIONS OF THE BONDS.....	21
SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM.....	41
DESCRIPTION OF THE GUARANTEE.....	44
USE OF PROCEEDS .....	46
KUBOTA CREDIT CORPORATION, U.S.A.....	47
KUBOTA CORPORATION.....	51
RECENT BUSINESS OF THE GROUP .....	54
CAPITALISATION AND INDEBTEDNESS OF THE GROUP .....	65
BUSINESS OF THE GROUP.....	66
MANAGEMENT AND EMPLOYEES OF THE GROUP.....	90
SUBSIDIARIES AND ASSOCIATES OF THE COMPANY .....	94
TAXATION.....	98
SUBSCRIPTION AND SALE.....	101
GENERAL INFORMATION .....	106
INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY F-1	
INDEX TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL	
STATEMENTS OF THE COMPANY .....	Q-1
INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER .....	I-1

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Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer and the Guarantor (the Issuer and the Guarantor each having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Group (as defined below), the Bonds and the Guarantee which is material in the context of the issue and offering of the Bonds, the statements contained herein relating to the Issuer, the Guarantor and the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Issuer, the Guarantor, the Group, the Bonds or the Guarantee the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by each of the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to the "Group" are to the Guarantor and its consolidated subsidiaries and its associates accounted for using the equity method taken as a whole.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Issuer, the Guarantor or the Joint Lead Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the

information contained herein is correct as of any time subsequent to the date hereof, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers to subscribe for, or purchase, any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Offering Circular, see "Subscription and Sale".

None of the Fiscal Agent, Paying Agents, Transfer Agent, Registrar (each as defined in "Summary Information—The Bonds") or, to the fullest extent permitted by law, the Joint Lead Managers, accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer, the Guarantor, the Group, the issue and offering of the Bonds or the giving of the Guarantee. Each of the Joint Lead Managers, the Fiscal Agent, the Paying Agents, the Transfer Agent and the Registrar accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular (in preliminary or final form) in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, Singapore, the United Kingdom, the European Economic Area, Hong Kong and Switzerland and to persons connected therewith. See "Subscription and Sale".

The Bonds have not been and will not be registered under the FIEA. Accordingly, the Bonds may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws, regulations and ministerial guidelines of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

The Bonds and the Deed of Guarantee have not been and will not be registered under the Securities Act, and subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). The Bonds and the Deed of Guarantee are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. See "Subscription and Sale".

There are restrictions on the offer and sale of the Bonds in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000, as amended ("FSMA") with respect to anything done by any person in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale".

**Prohibition of Sales to EEA Retail Investors:** The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "EU MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "EU Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "EU PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

**Prohibition of Sales to UK Retail Investors:** The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it

forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "EUWA"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**UK MiFIR product governance / Professional investors and ECPs only target market:** Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("COBS"), and professional clients, as defined in Regulation (EU) No. 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("UK MiFIR"); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "distributor") should take into consideration the manufacturer's target market assessment; however, a distributor subject to UK MiFIR is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

## **NOTICE TO CAPITAL MARKETS INTERMEDIARIES AND PROSPECTIVE INVESTORS PURSUANT TO PARAGRAPH 21 OF THE HONG KONG SFC CODE OF CONDUCT**

**Important Notice to Prospective Investors:** Prospective investors should be aware that certain intermediaries in the context of this offering of Bonds, including certain Managers, are "capital market intermediaries" ("CMIs") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission of Hong Kong (the "Code"). This notice to prospective investors is a summary of certain obligations the Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("OCs") for this offering and are subject to additional requirements under the Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Guarantor, a CMI or its group companies would be considered under the Code as having an association (an "Association") with the Issuer, the Guarantor, the CMI or the relevant group company. Prospective investors associated with the Issuer, the Guarantor or any CMI including its group companies should specifically disclose this when placing an order for Bonds and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to this offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to this offering, such order is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should ensure, and by placing an order, prospective investors are deemed to confirm that, orders placed are *bona fide*, are not inflated, and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is an asset management arm affiliated with any Manager, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the Manager or its group company has more than 50 per cent. interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to this offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not such a "proprietary order". If a prospective investor is otherwise affiliated with any Manager, such that its order may be considered to be a "proprietary order" (pursuant to the Code), such prospective investor should indicate to the relevant Manager when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not such a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to this offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including Private Banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the Managers and/or any other third parties as may be required by the Code, including to the Issuer, the Guarantor, any OCs, relevant regulators and/or any other third parties as may be required by the Code, it being understood and agreed that such information shall only be used for the purpose of complying with the Code, during the bookbuilding process for this offering. Failure to provide such information may result in that order being rejected.

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**IN CONNECTION WITH THE ISSUE OF THE BONDS, MORGAN STANLEY & CO. INTERNATIONAL PLC (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, references in this Offering Circular to "U.S. dollar", "U.S.\$" and "\$" are to the lawful currency of the United States of America, and references to "yen" and "¥" are to Japanese yen.

In this Offering Circular, "billion" means thousand million, and, unless otherwise specified, in respect of the financial statements and amounts reproduced directly therefrom, where financial information is presented in millions of yen, amounts of less than one million have been rounded to the nearest one million (with half a million being rounded up), and where financial information is presented in one hundred millions (one-tenth of a billion) of yen, amounts of less than one-tenth of a billion have been rounded to the nearest one-tenth of a billion (with five one-hundredth of a billion being rounded up), except that, in certain cases, the rounding has been adjusted to make the total of individual figures equal to the total figure representing the aggregate of those individual figures. All other figures and percentages, including operating data, have been rounded up or down (in the case of percentages, to the nearest 0.1 per cent. or to the nearest 0.01 per cent.), unless otherwise specified; however, certain percentages in tables may have been rounded otherwise than to the nearest 0.1 per cent. or 0.01 per cent., as the case may be, to make the total of the relevant items equal to 100 per cent.

### Accounting Principles

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as permitted by the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (the "**Ordinance**") as the Company is fully qualified as a Specified Company under Designated International Financial Reporting Standards pursuant to the provision of Article 1-2 of the Ordinance.

The consolidated financial statements of the Issuer are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

### Financial Statements

This Offering Circular contains the following financial statements:

- The audited consolidated financial statements of the Company, prepared and presented in accordance with IFRS, as of and for the fiscal years ended 31 December 2022, 2021 and 2020, and the independent auditor's reports with respect thereto included herein at pages F-2 and F-60;
- The unaudited condensed interim consolidated financial statements of the Company as of and for the three-month period ended 31 March 2023, including the condensed interim consolidated statement of financial position of the Company as of 31 March 2023 and the condensed interim consolidated statement of profit or loss, condensed interim consolidated statement of comprehensive income, condensed interim consolidated statement of changes in equity and condensed interim consolidated statement of cash flows for the three-month period ended 31 March 2023 (together with comparable information as of 31 December 2022 and for the three-month period ended 31 March 2022), and notes to the condensed interim consolidated financial statements, and the independent accountant's review report with respect thereto included herein at page Q-2; and
- The audited consolidated financial statements of the Issuer, prepared and presented in accordance with U.S. GAAP, as of and for the fiscal years ended 31 December 2022, 2021 and 2020, and the independent auditor's report with respect thereto included herein at page I-2.

## **Per Segment Data and Product Groups**

The reportable segments of the Group represent the Group's organisational structure, which is principally based on the nature of products and services. Financial information of the segments is utilised on a regular basis by the chief operating decision-maker of the Company in determining how to allocate the Group's resources and evaluate performance.

Beginning with the Company's fiscal year ended 31 December 2022, in conformity with changes in the internal organisation of the Company, the previously used product group of "Pipe- and infrastructure-related products" has been reclassified as two separate product groups, named "Pipe system-related products" and "Materials and urban infrastructure related products". Unless otherwise specifically stated, the information for the fiscal year ended 31 December 2021 has been retrospectively adjusted to conform to the presentation for the fiscal year ended 31 December 2022.

In this Offering Circular, unless otherwise specifically stated, figures for revenue per segment represent revenue from external customers, while operating profit per segment represents the total operating profit for such segment, without taking into account any inter-segment adjustments.

## **Retrospective Adjustments**

### ***Adoption of IFRS 17***

Effective from the beginning of the fiscal year ending 31 December 2023, the Company and its subsidiaries have adopted IFRS 17 "Insurance Contracts". The Company has retrospectively applied IFRS 17 with a transition date of 1 January 2022. The retrospective adjustment has been applied to corresponding figures for the fiscal year ended 31 December 2022 presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. See "Note 3. MATERIAL ACCOUNTING POLICIES — Changes in Accounting Policy" of the Notes to the Company's unaudited condensed interim consolidated financial statements for the three-month period ended 31 March 2023 included elsewhere in this Offering Circular.

### ***Acquisition of Escorts Kubota Ltd. ("EKL")***

The Company acquired EKL in April 2022. As the Company had not completed measurements of the associated fair value of the assets acquired, liabilities assumed, non-controlling interests and goodwill as of 31 December 2022, the Company recorded provisional values in the consolidated financial statements as of and for the fiscal year ended 31 December 2022. The provisional accounting for the business combination of EKL was finalised during the three-month period ended 31 March 2023, and the Company has retrospectively applied adjustments of the provisional amounts associated with the completion of the initial accounting for business combination to the figures previously recorded for the fiscal year ended 31 December 2022 presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. See "Note 5. BUSINESS COMBINATION" of the Notes to the Company's unaudited condensed interim consolidated financial statements for the three-month period ended 31 March 2023 included elsewhere in this Offering Circular.

### ***Allowance for Doubtful Accounts***

The Company has previously evaluated and recognised an allowance for doubtful accounts for lease receivables based on lifetime expected credit losses. Effective from the fiscal year ended 31 December 2022, an allowance for doubtful accounts of which credit risk has not increased significantly since initial recognition is recognised for the 12-month expected credit losses, and an allowance for doubtful accounts of which credit risk has increased significantly since initial recognition is recognised for lifetime expected credit losses. The Company made this change since the Company had, by the fiscal year ended 31 December 2022, accumulated sufficient data to enable a more detailed evaluation of expected credit losses for the finance lease business offered mainly in Thailand. In this Offering Circular, two separate sets of audited annual consolidated financial statements as of and for the fiscal years ended 31 December 2021 and 31 December 2022, and as of and for the fiscal years ended 31 December 2020 and 31 December 2021, are

included. The change in the accounting policy has been applied retrospectively to the comparative information for the fiscal year ended 31 December 2021 contained in the Company's audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal years ended 31 December 2020 and 31 December 2021. See "Note 3. SIGNIFICANT ACCOUNTING POLICIES — Changes in Accounting Policies" of the Notes to the Company's audited annual consolidated financial statements for the fiscal year ended 31 December 2022 included elsewhere in this Offering Circular.



## **FORWARD-LOOKING STATEMENTS**

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as "may", "might", "will", "expect", "intend", "plan", "estimate", "anticipate", "project", "believe" or similar phrases. The Issuer and the Guarantor each bases these statements on beliefs as well as assumptions made using information currently available to it. As these statements reflect the Issuer's or the Guarantor's current views concerning future events, these statements involve risks, uncertainties and assumptions. The Issuer's, the Guarantor's or the Group's actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Issuer's or the Guarantor's expectations include those risks identified in "Investment Considerations" and the factors discussed in "Recent Business of the Group" and "Business of the Group", as well as other matters not yet known to the Issuer or the Guarantor or not currently considered material to the Group by the Issuer or the Guarantor. Neither the Issuer nor the Guarantor undertakes to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Issuer and the Guarantor caution prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Issuer, the Guarantor or persons acting on any of their behalf, are qualified in their entirety by these cautionary statements.

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## SUMMARY INFORMATION

*The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Bonds, see "Investment Considerations".*

### KUBOTA CREDIT CORPORATION, U.S.A.

KCC is engaged in providing retail financing to purchasers of tractors, outdoor power equipment, construction machinery, and implements in the United States. KCC provides a wide range of financing alternatives for Kubota products, offering competitive interest rates, flexible down payments and monthly and seasonal payment terms. The broad Kubota dealer network in the United States can tailor a variety of finance and lease programmes together with KCC, to meet the specific requirements of their customers.

KCC was incorporated under the laws of the State of California in 1982, and having commenced operations in California, moved its headquarters to Texas in 2017. KCC is a wholly-owned subsidiary of the Company. KCC's principal office is located at 1000 Kubota Drive, Grapevine, TX 76051, United States of America.

### KUBOTA CORPORATION

The Group is a leading agricultural and construction machinery manufacturer in the world, offering a broad line-up of agricultural machines for rice farming and dry-field farming around the world. In addition to farm equipment and agricultural-related products, the Group's Farm & Industrial Machinery business offers a variety of construction machinery as well as compact, lightweight and powerful diesel engines. The Group is also engaged in the Water & Environment business, offering water-treatment technologies which have been refined over the course of more than 130 years. North America, Japan and Asia outside Japan are the Group's main markets, with revenues from external customers accounting for 41.1 per cent., 22.5 per cent. and 19.9 per cent., respectively, of the Group's total consolidated revenue from external customers for the fiscal year ended 31 December 2022, followed by Europe.

The reportable segments of the Group represent the Group's organisational structure, which is principally based on the nature of products and services. The Group's business is categorised into the following three segments:

- *Farm & Industrial Machinery.* This segment mainly engages in manufacturing and sales of farm equipment, agricultural-related products, engines, and construction machinery. For the fiscal year ended 31 December 2022 and the three-month period ended 31 March 2023, revenue from external customers in this segment amounted to ¥2,328.0 billion and ¥685.0 billion, respectively, representing 86.9 per cent. and 87.6 per cent., respectively, of total consolidated revenue for the respective periods.
- *Water & Environment.* This segment mainly engages in manufacturing and sales of pipe system-related products (ductile iron pipes, plastic pipes and other products), materials and urban infrastructure-related products (reformer and cracking tubes, spiral welded steel pipes, air-conditioning equipment and other products) and environment-related products (environmental control plants, pumps and other products). For the fiscal year ended 31 December 2022 and the three-month period ended 31 March 2023, revenue from external customers in this segment amounted to ¥327.6 billion and ¥91.0 billion, respectively, representing 12.2 per cent. and 11.6 per cent., respectively, of total consolidated revenue for the respective periods.
- *Other.* This segment offers a variety of services. For the fiscal year ended 31 December 2022 and the three-month period ended 31 March 2023, revenue from external customers in this segment amounted to ¥23.2 billion and ¥5.6 billion, respectively, representing 0.9 per cent. and 0.7 per cent., respectively, of total consolidated revenue for the respective periods.

As of 31 March 2023, the Company had 199 consolidated subsidiaries (of which 154 were overseas consolidated subsidiaries) and 20 associates accounted for using the equity method. For the fiscal year

ended 31 December 2022, the Group's revenue, operating profit, profit before income taxes and profit attributable to owners of parent amounted to ¥2,678.8 billion, ¥218.9 billion, ¥233.9 billion and ¥156.2 billion, respectively. For the three-month period ended 31 March 2023, the Group's revenue, operating profit, profit before income taxes and profit attributable to owners of parent amounted to ¥781.6 billion, ¥103.2 billion, ¥105.5 billion and ¥69.1 billion, respectively.

The Company's registered head office is located at 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan.

The Company's shares of common stock (the "Shares") are listed on the Prime Market of the Tokyo Stock Exchange.

## THE OFFERING

<b>Issuer .....</b>	Kubota Credit Corporation, U.S.A.
<b>Guarantor .....</b>	Kubota Corporation
<b>Securities Offered .....</b>	U.S.\$500,000,000 in aggregate principal amount of 4.958 per cent. Guaranteed Bonds due 2026.
<b>Issue Price .....</b>	100 per cent.
<b>Closing Date .....</b>	On or about 31 May 2023.
<b>Interest .....</b>	The Bonds will bear interest from 31 May 2023 at the rate of 4.958 per cent. per annum payable semi-annually in arrear on 31 May and 30 November in each year commencing on 30 November 2023.
<b>Delivery .....</b>	It is expected that the Global Certificate will be deposited with, and registered in the name of, or a nominee for, the Common Depositary, on or about the Closing Date.
<b>Form .....</b>	The Bonds will be issued in registered form, evidenced by the Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See "Summary of Provisions Relating to the Bonds While in Global Form".
<b>Listing .....</b>	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of U.S.\$200,000 for so long as the Bonds are listed on the SGX-ST.
<b>Rating .....</b>	It is expected that the Bonds will be assigned a credit rating of A by S&P. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
<b>Use of Proceeds .....</b>	The net proceeds from the issue of the Bonds are estimated to amount to approximately U.S.\$496 million, and the Issuer expects to apply such net proceeds for general corporate purposes. See "Use of Proceeds".

## THE BONDS

<b>Form and Denomination .....</b>	The Bonds will be issued in registered form, in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Interest Rate .....</b>	4.958 per cent. per annum
<b>Status of the Bonds .....</b>	The Bonds are direct, general, unconditional, unsubordinated and (subject to the provisions of Condition 3 ( <i>Negative Pledge</i> )) unsecured obligations of the Issuer, ranking <i>pari passu</i> and rateably without any preference among themselves, and, except for the provisions of Condition 3 ( <i>Negative Pledge</i> ) and with the exception of obligations in respect of obligations required to be preferred by law, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.
<b>Status of the Guarantee .....</b>	The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds. The Guarantee constitutes direct, general, unconditional, unsubordinated and unsecured obligations of the Guarantor which will at all times rank at least <i>pari passu</i> with all other present and future unsecured obligations of the Guarantor (other than subordinated obligations, if any), with the exception of obligations in respect of national and local taxes and certain other statutory exceptions.
<b>Negative Pledge .....</b>	So long as any of the Bonds remain outstanding, each of the Issuer and the Guarantor will not, and will procure that none of the Guarantor's Principal Subsidiaries (as defined in the Conditions) will, create or permit to subsist any Security Interest (as defined in the Conditions) other than a Permitted Security Interest (as defined in the Conditions), for the benefit of the holders of any Relevant Debt (as defined in the Conditions) upon the whole or any part of the Issuer's, the Guarantor's or such Principal Subsidiary's property or assets, present or future, unless the same security or such other security or guarantee as provided in Condition 3 ( <i>Negative Pledge</i> ) is accorded to the Bonds. See Condition 3 ( <i>Negative Pledge</i> ).
<b>Redemption at Maturity .....</b>	Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, the Company will redeem the Bonds at 100 per cent. of their principal amount on 31 May 2026.
<b>Redemption for Taxation Reasons .....</b>	If the Issuer has or will become obliged to pay any Issuer Additional Amounts (as defined in Condition 8.1 ( <i>Taxation in Respect of the Issuer</i> )) in accordance with Condition 8.1, or if the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay any Guarantor Additional Amounts (as defined in Condition 8.2 ( <i>Taxation in Respect of the Guarantor</i> )), as a result of any change in, or amendment to, the laws or regulations of the United States or Japan (respectively), or any political subdivision or any authority thereof or therein having power to tax, or

	any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 23 May 2023, and the Issuer or the Guarantor (as the case may be) is unable to avoid such obligation by taking reasonable measures available to it, the Issuer may, at any time, having given not less than 30 nor more than 60 days' prior irrevocable notice to the Bondholders in accordance with Condition 15 ( <i>Notices</i> ), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount. See Condition 6.2 ( <i>Redemption for Taxation Reasons</i> ).
<b>Redemption at the Option of the Issuer (Make-Whole Call) .....</b>	The Issuer may, at its option, redeem the Bonds in whole, but not in part, at any time prior to the Par Call Date, at the price determined in the manner set out in Condition 6.3 ( <i>Redemption at the Option of the Issuer (Make-Whole Call)</i> ). See Condition 6.3 ( <i>Redemption at the Option of the Issuer (Make-Whole Call)</i> ).
<b>Redemption at the Option of the Issuer (Par Call).....</b>	The Issuer may also, at its option, redeem the Bonds in whole, but not in part, at any time on or after the Par Call Date, at their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. See Condition 6.4 ( <i>Redemption at the Option of the Issuer (Par Call)</i> ).
<b>Cross Default .....</b>	The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Issuer, the Guarantor or any Principal Subsidiary in respect of amounts of at least U.S.\$50,000,000 (or its equivalent in any other currency or currencies). See Conditions 9.3 ( <i>Cross Default on Indebtedness</i> ) and 9.4 ( <i>Cross Default on Guarantee/Indemnity</i> ).
<b>Taxation.....</b>	All payments by the Issuer or the Guarantor in respect of the Bonds will be made without any deduction for withholding taxes of United States or Japan, respectively, except to the extent described in Condition 8.1 ( <i>Taxation in Respect of the Issuer</i> ) and 8.2 ( <i>Taxation in Respect of the Guarantor</i> ), respectively. See Condition 8 ( <i>Taxation</i> ).
<b>Governing Law .....</b>	English law
<b>Jurisdiction .....</b>	English courts
<b>International Securities Identification Number ("ISIN").....</b>	XS2544560639
<b>Common Code .....</b>	254456063
<b>Legal Entity Identifier ("LEI") for the Issuer.....</b>	549300AU3IAKTN5NZ764
<b>LEI for the Guarantor.....</b>	549300CSY4INHEHQQT13
<b>Fiscal Agent .....</b>	Citicorp International Limited
<b>Paying Agent, Transfer Agent and Registrar .....</b>	Citibank, N.A., London Branch

## INVESTMENT CONSIDERATIONS

*Prior to making an investment decision, prospective investors should carefully consider, along with the other information set forth in this Offering Circular, the following considerations:*

### **Considerations Relating to the Group and its Business**

#### ***Economic and Market Conditions***

Industrial and capital goods make up a substantial portion of the Group's products. The business environment in which the Group operates and the market demand for its products may change substantially as a result of economic and market conditions, political and social circumstances, competitive conditions and other factors, which differ from region to region. Accordingly, the Group may face reduced demand resulting from declines in general economic conditions, including private-sector capital expenditures, construction investment, and domestic public investment. The demand for the Group's products and services tends to be cyclical and can be significantly reduced in periods of economic weakness (such as the recent significant downturns in the global economy) characterised by lower levels of government and business investment, lower levels of business confidence, lower corporate earnings, high real interest rates, lower credit activity or tighter credit conditions, perceived or actual industry overcapacity, higher unemployment and lower consumer spending. A prolonged period of economic weakness may also result in increased expenses due to higher allowances for doubtful accounts and potential goodwill and asset impairment charges. Economic conditions vary across regions and countries, and demand for the Group's products and services generally increases in those regions and countries experiencing economic growth and investment. Slower economic growth or a change in the global mix of regions and countries experiencing economic growth and investment could have an adverse effect on the Group's business, results of operations and financial condition. In addition, the agricultural policies set by the government may adversely affect the sales of agriculture-related products. In the overseas markets, especially in North America and Europe, sales of the Group's products, such as utility/compact tractors, may decrease due to declines in general economic conditions, including personal consumption and residential construction investment in those regions. As a result, there is a possibility that the Group's results of operations and financial position may be materially adversely affected. Furthermore, when economic and/or market conditions change more drastically than expected, the Group may also experience, among other things, fewer orders of its products, an increase in cancellation of orders by customers and a delay in the collection of receivables.

In particular, the global economy has been experiencing, and is expected to continue experience, a period of significant difficulty. Increasing inflation, supply shortages, increases in interest rates, the continued effect of the COVID-19 pandemic and the Russian invasion of Ukraine, moves to less accommodative monetary policy, high volatility in global financial markets, the failure of financial institutions, such as Silicon Valley Bank and Credit Suisse, are having a significant negative effect on global economic conditions. Furthermore, geopolitical instability in various parts of the world, including the deterioration of relations between the United States and China surrounding the legal status of Taiwan and ongoing tensions in Hong Kong, as well as escalating military tensions in Europe as a result of Russia's invasion of Ukraine, and material changes in regional economic or political unions or associations between countries, could contribute to further economic instability. These factors are resulting in, among other things, higher interest rates in the United States and other markets around the world, continuing volatility of the Japanese yen and fears of a potential global recession.

These changes in the environment in which the Group operates may lead to, amongst other things, declines in sales, inefficient inventory levels and/or production capacities and reduced demand for the Group's products and services. Such effects would cause the Group to record lower profitability and incur additional expenses and losses. As a result, the Group's results of operations and financial condition may be adversely affected.

#### ***Changes in Governmental Monetary or Fiscal Policies***

Most countries where the Group's products and services are sold have established central banks to regulate monetary systems and influence economic activities, generally by adjusting interest rates. Interest rate changes affect overall economic growth, which affects demand with respect to the agriculture and infrastructure industries, among others, which in turn affects sales of the Group's products and services that support these activities. Interest rate changes may also affect the Group's customers' ability to finance machine purchases, can change the optimal time to keep machines in a fleet and can impact the ability of



the Group's suppliers to finance the production of parts and components necessary to manufacture and support the Group's products. Increases in interest rates could negatively impact sales and create supply chain inefficiencies.

Central banks and other policy arms of many countries may take actions to vary the amount of liquidity and credit available in an economy. The impact from a change in liquidity and credit policies could negatively affect the customers and markets which the Group serves or the Group's suppliers, create supply chain inefficiencies and could adversely impact the Group's business, results of operations and financial condition, as has been the case in recent periods; see "—Economic and Market Conditions" above.

Changes in monetary and fiscal policies, along with other factors, may also cause currency exchange and interest rates to fluctuate; see "—Fluctuations in Foreign Currency Exchange Rates" and "—Fluctuations in Interest Rates" below.

Government policies on taxes and spending also affect the Group's business. Throughout the world, government spending finances a significant portion of infrastructure development, such as water systems. Tax regulations determine asset depreciation lives and impact the after-tax returns on business activity and investment, both of which influence investment decisions. Unfavourable developments, such as decisions to reduce public spending or to increase taxes, could negatively impact the Group's results.

### ***The COVID-19 Pandemic***

The recent COVID-19 pandemic disrupted, and continues to disrupt, global economic activity and business operations of companies around the world. The COVID-19 pandemic affected, and continues to affect, the Group's business in a number of ways, including influencing demand for the Group's products and services, impacting the Group's workforce and operations and the operations of the Group's customers, dealers and suppliers, creating material and component shortages, logistics constraints and labour inefficiencies which limited the Group's ability to meet customer demand, and supply chain disruptions (in particular, the lockdown in Shanghai, China in the second quarter of the fiscal year ended 31 December 2022), all which have had and could continue to have a material adverse effect on the Group's business, results of operations and financial condition. Whilst most global economies are no longer being as severely impacted by the more restrictive constraints on activities imposed during periods of higher COVID-19 infections, the full impact of the COVID-19 pandemic remains unclear. If COVID-19 infections were to become widespread again, governments may re-impose travel restrictions, curfews and shutdowns to restrict the movement of people and control the spread of the disease. Such restrictions could affect demand for the Group's products and services, or lead to new supply chain disruptions or the worsening of existing supply chain disruptions, and adversely affect the Group's business, results of operations and financial condition.

### ***Fluctuations in Raw Material and Parts Prices and Difficulties in Procurement and Logistics***

The Group purchases substantial raw materials and parts from third-party suppliers. With the globalisation of the business, procurement at overseas production bases of the Group is increasing, and the Group is promoting procurement at the optimal locations by building a global procurement network. However, prices of parts, as well as those of certain raw material (which can affect prices of parts), have seen substantial increases due to the global inflationary pressure, rising labour and other costs, supply and demand gap and changes in market conditions. In addition, increases in the price of utilities and energy, such as crude oil and electricity, may also increase the production, logistics and transportation costs of the Group's products and adversely affect the profitability of the Group. For instance, marine transportation costs have experienced significant increases over the past year. It may be difficult for the Group to increase product prices to pass on such increase in prices of raw materials and parts and/or increases in utilities, energy, logistics and transportation costs, in entirety, or to increase product prices in a timely manner. In any such cases, the Group's profitability may be adversely affected.

Production challenges at suppliers (including those faced by suppliers of semiconductors over the past year), bankruptcies or production discontinuation by suppliers, a disruption in deliveries to or from suppliers (including disruptions caused by the COVID-19 pandemic or the Russia-Ukraine conflict), or decreased availability of raw materials or parts, could have an adverse effect on the Group's ability to meet its commitments to customers, or increase operating costs. If the Group faces difficulties in procuring adequate supplies of raw materials and parts, or if there are restrictions on energy usage due to fuel shortages caused by factors such as the ongoing Russia-Ukraine conflict, there may be a material adverse effect on

the Group's results of operations and financial position as production and sales activities may be disrupted. On the other hand, in circumstances where demand for the Group's products is less than expected, the Group may experience excess inventories and be forced to incur additional costs and its profitability may suffer.

Further, the Group has experienced and expects to continue to experience transportation delays for raw materials, parts, components and finished products due to significant demands in global transportation and congestion at ports throughout the globe for several reasons, including disruption caused by the COVID-19 pandemic and the Russia-Ukraine conflict as well as the possible delay of product delivery due to certain disagreements in continuing extended labour-management negotiations in North America. The Group's business, competitive position, results of operations or financial condition could be negatively impacted if significant transportation delays interfere with deliveries of products sold by the Group, if the Group were to experience excess inventories, or if the Group is unable to adjust its production schedules or purchases from suppliers to reflect changes in customer demand and market fluctuations on a timely basis.

#### ***The Risks Associated with International Operations***

The Group's operations, which have substantial overseas operations, are exposed to the risks inherent in conducting business in those markets. Such risks include following, among others:

- Risks associated with changes in government licensing and subsidy policies in key markets;
- Risks associated with unexpected changes in tariffs and import/export quotas due to changes in international trade policies;
- Risks associated with unforeseen changes in laws and regulations in various countries;
- Political and economic instability or civil unrest, particularly in developing countries, which may severely disrupt economic activity in affected countries and adjoining regions;
- Immature technology levels and unstable labour-management relations in developing countries;
- Difficulties in retaining qualified human resources;
- Risks associated with supply chain and logistics disruptions, including possibly longer waiting periods due to certain disagreements in pending labour-management negotiations in North America;
- Risks associated with unexpected changes in the taxation systems of countries;
- Risks associated with unanticipated outcomes in transfer pricing issues;
- Withdrawal from or modification of trade agreements or the negotiation of new trade agreements;
- Imposition of new or additional trade and economic sanctions laws imposed by the Japanese, U.S. or other governments;
- War or acts of terrorism; and
- Imposition of currency restrictions, restrictions on repatriation of earnings or other restraints.

If such risks materialise, the Group may face difficulties in stable production and sales of products, and may face decreases in revenue and increases in procurement and transport costs, which may materially adversely affect the Group's results of operations and financial position, and this may hinder growth of the Group.

### ***Fluctuations in Foreign Currency Exchange Rates***

The Group has a number of overseas manufacturing, sales, and financial leasing subsidiaries that contribute significantly to operating results and financial position of the Group. A substantial portion of the Group's overseas sales is affected by foreign currency exchange rate fluctuations. The Company's exports to overseas subsidiaries or external customers are generally denominated in their local currency, and the foreign currency earned is converted into yen. Therefore, fluctuations in the exchange rate between the local currency and the yen have an impact on the Group's results of operations and financial position. In general, the appreciation of the yen against other currencies has a negative impact on the results of operations and financial results of the Group. In addition, foreign currency exchange rate fluctuations may also affect the comparative prices between products sold by the Group and products sold by its foreign competitors in the same market, as well as the cost of materials used in the production of such products. The Group strives to alleviate the effect of such foreign currency exchange rate fluctuations by locating its production bases globally and engaging in production locally in accordance with "local production for local consumption" principle. The Group also engages in hedging activities to reduce the effects of short-term foreign currency exchange rate fluctuations. While the use of currency hedging instruments may provide the Group with protection from adverse fluctuations in currency exchange rates, by utilising those instruments the Group potentially foregoes the benefits that might result from favourable fluctuations in currency exchange rates. Notwithstanding the Group's hedging activities, the foreign exchange markets have experienced, and continue to experience, significant volatility in recent times, in particular following the recent trend of wider differences in interest rates between Japan and the United States, with the yen weakening from ¥115.02 against the U.S. dollar as of 30 December 2021 to ¥148.61 as of 17 October 2022, strengthening back slightly to ¥133.53 as of 31 March 2023 (source: telegraphic transfer middle rate of MUFG Bank, Ltd.). Significant volatility of foreign exchange rates may have a material adverse effect on the Group's results of operations and financial condition.

### ***Fluctuations in Interest Rates***

While interest rates had remained at historically low levels in recent years, particularly in response to the COVID-19 crisis, various central banks in the world, except for Japan, have recently departed from their highly accommodative monetary policies, ceasing monetary easing activities, and raising interest rates. In particular, in the United States, the Federal Reserve Board significantly increased the federal funds rate in 2022 and has indicated that it expects continued increases in interest rates in 2023 and 2024 (although whether such increases will in fact continue is uncertain) to combat rising inflation in the United States. Even in Japan, despite the Bank of Japan's previous policy of continuing monetary easing activities, interest rates have been rising in recent periods, particularly as the Bank of Japan announced in December 2022 that it would increase the upper end of its yield target range for 10-year government bonds from 0.25 per cent. to 0.5 per cent., causing market yields to rise. Further, while the Bank of Japan had indicated that it plans to continue its policy of yield curve control, changes in the Bank of Japan's administration have led to speculation that there could be changes to the previous policy. In this context, as the Group has bonds and borrowings, which are subject to fixed or variable interest rates, it is likely that there will be an increase in the Group's interest expenses along with incentive costs related to financial leasing business, especially in the United States. The Group utilises swap contracts and other derivative instruments to mitigate the impact of fluctuations of interest rates. However, despite the Group's efforts to mitigate such risks, fluctuations in interest rates may adversely affect the Group's results of operations and financial condition. Rising interest rates could also have a dampening effect on overall economic activity and/or the financial condition of the Group's customers, either or both of which could negatively affect the Group; see "—Economic and Market Conditions" above and "—Counterparty Risks Relating to the Group" below.

### ***Stock Market Fluctuations***

The Group holds marketable securities, most of which are equity securities. Global equity markets, including the Japanese equity markets, have experienced significant volatility over the preceding years. More recently, it has seen a rapid downturn due to factors such as the global inflationary pressure, instability in the global financial and technology sectors and rising interest rates. Such volatility results in the value of Group's assets. In addition, plan assets related to the Group's retirement benefit plan may decrease due to a decline in stock market. The investment policy for plan assets is to achieve the best possible investment results under acceptable risk. In order to diversify risks, the Group balances its portfolio by carefully considering the industries, types of companies, and regions in which it invests, taking into consideration factors that affect investment returns, such as interest rate fluctuation risk, economic growth rates, and types

of currencies. However, fluctuations of market value of securities or a decrease in plan assets could have a significant impact on the Group's results of operations and financial condition.

#### ***Alliances, Mergers and Acquisitions, Joint Ventures and Collaborations***

The Group intends to use strategic alliances, mergers, and acquisitions, joint ventures and other similar opportunities to generate further growth. The success of these activities depends on factors such as business environment, the capabilities of its business counterparts, and whether the Group and its counterparts share common goals. If these activities are not successful and returns on investments are lower than expected, the Group's profitability may be lower than anticipated and could have a material adverse effect on the Group's results of operations and financial condition.

In pursuing opportunities for strategic alliances, mergers and acquisitions, joint ventures and other similar opportunities, the Group often competes with others for the same opportunities. To be successful, the Group conducts due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete complex transactions and manage post-closing matters such as the integration of acquired businesses. Further, while the Group seeks to mitigate risks and liabilities of transactions such as mergers and acquisitions through due diligence, among other things, there may be risks and liabilities that such due diligence efforts fail to discover, that are not accurately or completely disclosed to the Group or that it inadequately assesses. The Group may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation, and other liabilities. Risks associated with the Group's past or future acquisitions also include the following:

- the failure to achieve the acquisition's revenue or profit forecast;
- unforeseen difficulties may arise in integrating operations, processes and systems;
- the business culture of the acquired business may not match well with the Group's culture;
- technological and product synergies, alignment of distribution networks, economies of scale and cost reductions may not occur as expected;
- unforeseen expenses, delays or conditions may be imposed upon the acquisition, including due to required regulatory approvals or consents (especially in the case of acquisitions of companies in emerging regions, where heightened uncertainties such as political upheavals, sudden changes in laws and regulations, and changes in political and economic relationships between nations, could prevent the Group from expanding the acquired business as planned);
- the Group may acquire or assume unexpected liabilities or be subject to unexpected penalties or other enforcement actions;
- faulty assumptions may be made regarding the macroeconomic environment or the integration process;
- higher than expected investments may be required to implement necessary compliance processes and related systems, including information technology systems, accounting systems and internal controls over financial reporting;
- the failure to retain, motivate and integrate key management and other employees of the acquired business;
- higher than expected costs may arise due to unforeseen changes in tax, trade, environmental, safety, labour, or pension policies in any jurisdiction in which the acquired business conducts its operations; and
- difficulties in retaining customers and integrating customer and supplier bases.

Many of the factors mentioned above are outside of the Group's control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time

and attention. They may also delay the realisation of the benefits which the Group anticipated when entering into a transaction. Failure to implement the Group's acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on the Group's business, financial condition and results of operations.

In addition, with respect to the acquisition of EKL, the Group expects that it would need to further develop product standards by combining the respective strengths of EKL and the Company. There can be no assurance that the Group would be successful in increasing the scale of production management and productivity and streamlining the Company's and EKL's sales networks in line with the Group's plans in a timely manner or at all.

Furthermore, the Group may make strategic divestitures from time to time. In the case of divestitures, the Group may agree to indemnify acquiring parties for certain liabilities arising from its former businesses. These divestitures may also result in continued financial involvement in the divested businesses following the transaction, including through guarantees or other financial arrangements. Lower performance by those divested businesses could affect the Group's future financial results.

### ***Competition***

The Group is exposed to significant competition in each of its businesses. The Group competes on the basis of a variety of factors, including product performance and quality of goods and services, customer service, trade conditions and pricing, and research and development ("R&D"). There can be no assurance that the Group's products and services will be able to compete successfully with competitors' products and services. The Group's share of industry sales could be reduced due to factors such as aggressive pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, the Group's failure to price its products competitively, the Group's failure to produce its products at a competitive cost or an unexpected build-up in competitors' new machine or dealer-owned rental fleets, which could lead to downward pressure on machine rental rates and/or used equipment prices. Any of these factors may materially adversely affect the Group's business, results of operations and financial condition.

Lack of customer acceptance of price increases which the Group may announce from time to time, changes in customer requirements for price discounts, changes in customers' behaviour or a weak pricing environment may also have an adverse impact on the Group's business, results of operations and financial condition.

In addition, the Group's results and ability to compete may be impacted negatively by changes in the Group's geographic and product mix of sales.

### ***Ability to Develop, Produce and Market Quality Products Meeting Customer Needs***

The Group's business relies on continued global demand for its brands and products. To achieve business goals, the Group must develop and sell products that appeal to its dealers and end-user customers. This is dependent on a number of factors, including the Group's ability to maintain key dealer relationships (such dealers do not deal exclusively with Kubota products and have a right to terminate dealership agreements any time with prior notice); ability to produce products that meet the quality, performance and price expectations of the Group's customers and the ability to develop effective sales, advertising and marketing programmes. In addition, the Group's continued success in selling products that appeal to customers is dependent on leading-edge innovation, with respect to both products and services, and on the availability and effectiveness of legal protection for such innovations. Failure to continue to deliver high quality, innovative, competitive products to the marketplace, to adequately protect intellectual property rights, to supply products that meet applicable regulatory requirements (including environmental and emissions regulations requirements) or to predict market demands for, or gain market acceptance of, the Group's products, could have a negative impact on the Group's business, results of operations and financial condition.

The Group strives to maintain and improve quality of products and services through education, efforts to prevent quality issues, and internal quality audits. However, if the Group's products and services are alleged to have serious defects, the Group may incur significant costs related to liability or product recalls. If such claims are asserted, the Group's reputation and brand value may be damaged, which could cause a decline in demand for the Group's products, resulting in decreased revenues, and could have a significant impact on the Group's business, results of operations and financial condition.

### ***Environmental Laws and Regulations, and Approaches Related to Climate Change***

The Group's products and business operations are required to meet increasingly stringent environmental laws and regulations in the numerous countries in which the Group operates. In addition, measures for reducing greenhouse gas emissions have been put in place around the world as well as regulations relating to exhaust emission controls and usage restrictions for certain materials used in the Group's products. As such, the Group is investing a significant proportion of its management resources, such as R&D expenditures, to comply with environmental and other related laws and regulations and to respond to climate change issues. If the Group is required to incur additional expenses and make additional capital investments due to future revisions to environmental laws and regulations or future impacts of climate change, or if its development, production, sales and service operations are adversely affected by such revised laws and regulations, the Group may experience an unfavourable impact on its business results. In addition, in order to prevent environmental accidents, the Group has established an environmental management system and is striving to continuously improve rule-based operations and environmental conservation activities. However, despite the Group's efforts to mitigate such risks, the Group may incur significant costs and expenditures to take corrective measures or face litigation if the Group causes environmental contamination, including the emission of hazardous materials, air pollution, water pollution, and/or soil contamination. These factors may have a significant impact on the Group's business, results of operations and financial condition.

Separately, many of the environmental laws and regulations as well as climate change requirements that the Group's manufacturing operations and products are required to comply with also affect the customers that the Group serves. If environmental laws and regulations or climate change requirements were to change in such a way that significantly affects the business operations of the Group's customers, demand for the Group's products could decrease, and such change could have a material adverse effect on the Group's results of operations and financial condition.

In addition, changing worldwide demand for farm outputs, driven in part by government policies, are likely to result in fluctuating agricultural commodity prices, which affect sales of agricultural equipment, including certain equipment produced by the Group. Lower agricultural commodity prices directly affect farm incomes, which could negatively affect sales of such agricultural equipment. Furthermore, changes in governmental policies regulating bio-fuel utilisation could affect commodity demand and commodity prices, demand for the Group's products, result in higher R&D costs for the Group and have a material adverse effect on the Group's results of operations and financial condition.

Furthermore, the Group previously manufactured products containing asbestos from 1954 to 2001. The Group may be required to incur additional expenses, including payments to the individuals concerned and expenses arising from litigation of the asbestos-related health hazards. See "Business of the Group—Legal Proceedings and Other Issues—Asbestos-related Proceedings". If such expenses become substantial, they may have a material adverse effect on the Group's results of operations and financial condition. Further, in the context of increasing environmental and climate change activism, a failure by the Group to satisfy its sustainability targets could harm the Group's reputation or become the subject of criticism or claims by activist groups or other stakeholders, or the Group's strategies and activities towards its efforts to reduce environmental impact and solving social issues through business, or the content of its publications relating to environmental, social and governance ("ESG") matters, may be challenged as being inadequate or misleading. Any such circumstances may have a material adverse effect on the Group's reputation, results of operations and financial condition.

### ***Legal and Compliance Risk***

In addition to the environmental laws, the Group is subject to relevant laws, regulations and approval procedures in the countries in which it operates. If any new laws and regulations or amendments to existing laws and regulations relating to customs duties, tariffs, currency restrictions, and other legal requirements (such as laws relating to subcontracts, antitrust laws, labour laws, safety regulations or laws relating to foreign investment or repatriation of income) are implemented in the countries where the Group operates, the Group may incur expenses in order to comply with such laws and regulations or its development, production, sales and service operations may be affected adversely by them. The Group has declared its intention to conduct its corporate activities in compliance with legal regulations and ethical principles and to make efforts to ensure that all management and staff of the Group comply with various legal regulations, ethical standards, and internal regulations. However, in the event that compliance issues arise, there is a possibility that the Group may be subject to disciplinary action by governmental authorities

supervising its activities or to lawsuits, or may suffer a loss of public confidence, which may result in a material adverse effect on the Group's results of operations and financial condition. While the Group has established risk management, compliance and internal control systems and procedures, such systems and procedures tend to require constant monitoring, maintenance and continual improvements; if the Group's efforts to maintain or improve them are found to be inadequate or ineffective, the Group may become the subject of inappropriate activities such as fraudulent acts or corruptive practice, or be found not to be in full compliance with laws and regulations. Furthermore, such compliance and internal control systems, no matter how sophisticated, still contain inherent limitations caused by misjudgement or fault, or deliberate acts of misconduct or fraud. As such, there can be no assurance that the risk management, compliance and internal control systems of the Group are always adequate or effective notwithstanding the Group's efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or prosecution being taken against the Group and/or its employees, disruption to the risk management and/or compliance systems, and have a material adverse effect on the Group's reputation, results of operations and financial condition. With regard to the misappropriation of funds by a former employee of a subsidiary (currently in liquidation) of the Company, see "Business of the Group—Legal Proceedings and Other Issues—Other Legal Proceedings and Issues".

Further, embargoes and sanctions imposed by Japan, the U.S. and other governments (including those directly or indirectly relating to the Russia-Ukraine conflict) restricting or prohibiting sales to specific persons or countries or based on product classification may expose the Group to potential criminal and civil sanctions. In addition, the United States Foreign Corrupt Practices Act and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. The Group's operations, particularly in developing countries, expose it to the risk of such violations. Furthermore, such laws and regulations sometimes not only require compliance by the Group but also by parties acting on its behalf (including agents and dealers). Violations of anti-corruption laws or regulations by the Group's employees, intermediaries and other acting on the Group's behalf, or the Group's joint venture partners may result in severe criminal or civil sanctions. Violations may also disrupt the Group's business, and may result in an adverse effect on the Group's reputation, business and results of operations or financial condition.

### ***Information Security***

The Group is exposed to certain information technology ("IT") security risks, including threats to the confidentiality, availability, and integrity of its data and systems. The Group relies upon IT systems and networks, some of which are managed by third parties, in connection with a variety of business activities. Additionally, the Group collects and store sensitive information relating to its business, customers, dealers, suppliers and employees. Operating these IT systems and networks and processing and maintaining this data in a secure manner, is critical to the Group's business operations and strategy. IT security threats, from user error to cybersecurity attacks designed to gain unauthorised access to the Group's systems, networks and data, are increasing in frequency and sophistication. Cybersecurity attacks from threat actors globally range from random attempts to coordinated and targeted attacks, including sophisticated cyber-crime and advanced persistent threats. Changes in working practices, such as the increase in employees working from home in connection with the COVID-19 pandemic, may also introduce new cyber-attack vectors and risks. These threats pose a risk to the security of the Group's systems and networks and the confidentiality, availability and integrity of its data. Cybersecurity attacks could also include attacks targeting customer data or the security, integrity and/or reliability of the hardware and software installed in the Group's products. It is possible that the Group's IT systems and networks, or those managed or provided by third parties, could have vulnerabilities, which could go unnoticed for a period of time. In order to manage such risks, the Group has implemented its information security system, an integrated set of policies, processes, methodologies, teams, and technologies aimed at ensuring appropriate protection of the data. Despite such efforts, there can be no guarantee that such activities will be sufficient to protect and mitigate associated risks to the Group's systems, information or other property. If the Group's IT system and networks are disrupted or experience a security breach, the Group may suffer from an opportunity loss due to production downtime, be subject to litigation or threat of litigation for information leakage, the Group's intellectual property may be infringed, or the Group may become subject of government enforcement actions or penalties. Any of these occurrences may cause the Group to incur significant costs. If such security breaches and other disruptions occur, the Group's reputation and brand value may also be damaged, and may lead to a decline in demand for its products and revenues. As a result, there is a possibility that the Group's results

of operations and financial condition may be materially adversely affected. Due to the evolving nature of such security threats, the potential impact of any future incident cannot be predicted.

In addition, data which the Group collects, stores and processes are subject to a variety of Japanese, U.S. and international laws and regulations, such as the Act on the Protection of Personal Information of Japan, the European Union's General Data Protection Regulation that became effective in May 2018 and the California Consumer Privacy Act that became effective in January 2020, which may carry significant potential penalties for non-compliance.

#### ***Natural Disasters, Wars, Terrorism, Accidents, Epidemics and Other Unpredictable Events***

The Group conducts business activities in Japan, North America, Europe, Asia, and other regions. If unpredictable events, such as earthquakes, tsunamis, floods, landslides, typhoons, droughts, hurricanes and other forms of severe weather, pandemics, wars, terrorist attacks and deliberate acts of sabotage, fires, blackouts, industrial accidents (whether due to human or mechanical error), information system or communication network breakdowns, and power outages or shortages were to occur in countries and regions in which the Group operates, the Group's production, distribution, and sales activities may be disrupted. In particular, Japan is one of the most earthquake-prone countries in the world and can be subject to severe earthquakes or tsunamis. Natural disasters, pandemic or epidemic illness (including the COVID-19 pandemic), equipment failures, power outages or other unexpected events could result in physical damage to and complete or partial closure of one or more of the Group's manufacturing facilities or distribution centres, temporary or long-term disruption in the supply of component products from some local and international suppliers, and disruption and delay in the transport of products to dealers, end-users and distribution centres. A catastrophic event resulting in the destruction or disruption of the Group's workforce, systems, ability to produce and distribute products, any critical business or information technology systems could adversely affect ability to conduct normal business operations and operating results or cash flows. The adverse effect of any such catastrophic event would be exacerbated if experienced at the same time as another unexpected and adverse event, such as the COVID-19 pandemic. Existing insurance coverage may not provide protection for all of the costs that may arise from such events.

#### ***Human Resources and Labour Issues***

The Group's success is dependent on its ability to attract and retain highly skilled employees, including engineers and other technical personnel as well as research and development personnel with advanced knowledge and skills in the Group's business fields. The Group also requires talented management personnel with the ability to manage the Group's business competitively in world markets. Competition to hire highly skilled personnel is intense, and competition to retain such personnel is also becoming intense. There can be no assurance that the Group can successfully and consistently meet its personnel recruitment and retention goals, or that the loss of certain important personnel, or a group of them, will not adversely affect the Group's business. Further, the Group's ability to meet its labour needs, including its ability to find qualified personnel to fill positions that become vacant while controlling its personnel costs, is generally subject to numerous external factors, including the availability of a sufficient number of qualified people in the work force in the regions in which the Group's operations are located, unemployment levels within those regions, prevailing remuneration rates, changing demographics, health and other insurance costs and changes in employment legislation. If the Group is unable to locate, attract or retain suitable personnel, or if costs relating to locating, recruiting and retaining suitable employees were to increase significantly, the Group's business, results of operations and financial condition may be materially adversely affected. In addition, if the Group's employees were to leave the Group to join its competitors, the Group's know-how and technology may be leaked to such competitors even if the Group has attempted to protect such know-how and technology through confidentiality agreements. Any such incidents may adversely affect the Group's business, results of operations and financial condition.

Some of the Group's employees are represented by labour unions in a number of countries under various collective bargaining agreements with varying durations and expiration dates. There can be no assurance that any current or future issues with the Group's employees will be resolved or that we will not encounter future strikes, work stoppages or other disputes with labour unions or employees. The Group may not be able to satisfactorily renegotiate collective bargaining agreements when they expire, and if it fails to renegotiate existing collective bargaining agreements, the Group could encounter strikes or work stoppages or other disputes with labour unions. In addition, existing collective bargaining agreements may not prevent a strike or work stoppage at the Group's facilities in the future. The Group may also be subject to general country strikes or work stoppages unrelated to the Group's business or collective bargaining



agreements. A work stoppage or other limitations on production at the Group's facilities for any reason could have an adverse effect on its business, results of operations and financial condition. Currently, the Group is exposed to the risk of delay in the product delivery due to certain disagreements in pending labour-management negotiations in North America. In addition, many of the Group's customers and suppliers have unionised work forces. Strikes or work stoppages experienced by such customers or suppliers could have an adverse effect on the Group's business, results of operations and financial condition.

### ***Implementation of the Group's Strategy***

The Group's long-term vision for the year 2030, "GMB2030", is to become a "Global Major Brand" ("GMB"), expanding its business globally in accordance with local needs to solve food, water and the environmental issues around the world to achieve this goal, and the Group is pursuing its Mid-term Business Plan 2025 to serve as the foundation for GMB2030 (see "Business of the Group—Strategy"). The successful implementation of the Group's strategies and the attainment of its aims and targets are subject to various internal and external factors, including further changes to the social and regulatory environment (including as regards emission controls), general economic and market conditions in the regions in which the Group operates, developments in the competitive landscape and volatility in commodity prices, interest rates and foreign exchange rates, among other factors. In particular, the changing market environment may impact the implementation of the Group's strategies. There can be no assurance that the Group's strategies will be implemented successfully, that the implementation of such strategies will have its intended effect, that the assumptions underlying the strategies will not differ from actual figures, that targets (whether quantitative or qualitative, and whether in the long term or short term) set by the Group will be met in time or at all, or that such targets and aims will not be further revised in future by the Company's management.

### ***International Trade Policies***

Government policies on international trade and investment such as import quotas, capital controls or tariffs, whether adopted by individual governments or addressed by regional trade blocs, can affect the demand for the Group's products and services, impact the competitive position of the products or prevent the Group from being able to sell products in certain countries. The implementation of more restrictive trade policies, including more detailed inspections, higher tariffs or new barriers to entry (such as those seen recently in relation to increasing tensions between the United States and China and also as a result of the reaction of many of the world's major economies to the Russian invasion of Ukraine), in countries where the Group sells large quantities of products and services could negatively impact its business, results of operations and financial condition. For example, a government's adoption of "buy national" policies or retaliation by another government against such policies could have a negative impact on the Group's results of operations.

### ***Intellectual Property***

Intellectual property rights and manufacturing knowhow are competitive factors because of the emphasis on innovation in the markets in which the Group operates. The Group relies on the technologies and know-how which it has developed for its business, and seeks to protect such technologies and know-how through a combination of patents and other forms of intellectual property rights. However, there can be no assurance that the Group will always be successful in adequately protecting its technologies and know-how, including by securing patents or other intellectual property rights, and its ability to do so in some countries and regions may be limited.

The Group also takes steps to operate without infringing upon the patents or other intellectual property rights of others. There can be no assurance that third parties will not assert infringement claims against the Group, or that such claims will not be successful. Such infringement claims could result in payment of monetary damages, suspension of operations involving the subject technologies, necessity to develop or acquire non-infringing technologies, a significant investment of time and effort on the part of management, increased legal expenses, damage to the Group's reputation and other costs which could negatively impact the Group's results of operations.

### ***Funding***

Continuing to meet the Group's cash requirements over the long-term requires substantial liquidity and access to varied sources of funds, including capital and credit markets. Global economic conditions may cause volatility and disruptions in the capital and credit markets. Market volatility, changes in

counterparty credit risk, the impact of government intervention in financial markets and general economic conditions may also adversely impact the Group's ability to access capital and credit markets to fund operating needs. Global or regional economic downturns could cause financial markets to decrease the availability of liquidity, credit and credit capacity for certain issuers, including certain customers, dealers and suppliers. An inability to access capital and credit markets may have an adverse effect on the Group's business, results of operations, financial condition and competitive position. Furthermore, changes in global economic conditions, including material cost increases and decreases in economic activity in key markets which the Group serves, and the success of plans to manage cost increases, inventory and other important elements of the business may significantly impact the Group's ability to generate funds from operations.

In addition, demand for the Group's products generally depends on customers' ability to pay for the Group's products, which, in turn, depends on their access to funds. Changes in global economic conditions may result in customers experiencing increased difficulty in generating funds from operations. Capital and credit market volatility and uncertainty may cause financial institutions to revise their lending standards, resulting in customers' decreased access to capital. If capital and credit market volatility occurs, customers' liquidity may decline which, in turn, would reduce their ability to purchase the Group's products.

#### ***Counterparty Risks Relating to the Issuer and Other Members of the Group***

Inherent in the operation of the Issuer, and certain other members of the Group, is the credit risk associated with its customers. The creditworthiness of each customer and the rate of delinquencies, repossessions and net losses on customer obligations are directly impacted by several factors, including relevant industry and economic conditions, the availability of capital, the experience and expertise of the customer's management team, commodity prices, political events and the sustained value of the underlying collateral. Any increase in delinquencies, repossessions and net losses on customer obligations (for example, as a result of downturns in global economic conditions, see "—Economic and Market Conditions") could have a material adverse effect on the Issuer's and the Group's earnings and cash flows. The Issuer evaluates and adjusts its allowance for credit losses related to past due and non-performing receivables on a regular basis. However, adverse economic conditions or other factors that might cause deterioration of the financial health of its customers could change the timing and amount of payments received and necessitate an increase in the Issuer's estimated losses, which could also have a material adverse effect on the earnings and cash flows of the Issuer and the Group.

#### ***Residual Value of Financed Equipment***

Declines in the residual value of equipment financed by the Issuer may reduce its earnings. The residual value of leased equipment is determined based on its estimated end-of-term market value at the time of the expiration of the lease term. The Issuer estimates the residual value of leased equipment at the inception of the lease based on numerous factors, including historical wholesale market sales prices, past remarketing experience and any known significant market/product trends. If estimated end-of-term market values significantly decline due to economic factors, obsolescence or other adverse circumstances, the Issuer may not realise such residual value, which could reduce its earnings.

#### ***Financial Services Regulation***

The Issuer's operations are highly regulated by governmental authorities in the locations where it operates, which can impose significant additional costs and/or restrictions on its business. In the United States, for example, the Issuer's activities are subject to the United States Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which includes extensive provisions regulating the financial services industry. As a result, the Issuer could become subject to additional regulatory costs that could be significant and have an adverse effect on its results of operations and financial condition. Changes in regulations or additional regulations in the United States or internationally impacting the financial services industry could also add significant cost or operational constraints that might have an adverse effect on the Issuer's results of operations and financial condition.

#### **Considerations Relating to the Group's Financial Statements**

##### ***Unaudited financial statements***

This Offering Circular contains unaudited condensed interim consolidated financial statements of the Company as of and for the three-month period ended 31 March 2023 (together with comparable

information as of 31 December 2022 and for the three-month period ended 31 March 2022), which are not required to be, and have not been, audited by the Company's independent auditor. The unaudited condensed interim consolidated financial statements of the Company as of and for the three-month period ended 31 March 2023 included in this Offering Circular have been reviewed by Deloitte Touche Tohmatsu LLC in accordance with interim review standards generally accepted in Japan.

The unaudited condensed interim financial statements of the Company contained in this Offering Circular are not wholly comparable with the annual consolidated financial statements of the Company contained in this Offering Circular and should not be so compared. Certain adjustments, accruals and deferrals which are made in the annual audited consolidated financial statements of the Company have been estimated or are not made in respect of such unaudited condensed interim consolidated financial statements of the Company.

### ***Differences in GAAP***

This Offering Circular contains the Company's audited consolidated financial statements and unaudited condensed interim consolidated financial statements prepared under IFRS, and the Issuer's audited consolidated financial statements prepared under U.S. GAAP. There are differences between U.S. GAAP and IFRS, and no reconciliation of the Issuer's financial statements to IFRS are included in this Offering Circular. Given such differences, no direct comparison should be made between the Issuer's consolidated financial statements and the Company's consolidated financial statements.

### **Considerations Relating to the Bonds**

#### ***The Bonds may not be a suitable investment for all investors***

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- (iv) understands thoroughly the terms of the Bonds and is familiar with the behaviour of any financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### ***Foreign Account Tax Compliance Withholding***

The Foreign Account Tax Compliance Act ("FATCA") imposes U.S. withholding tax at a rate of 30 per cent. on payments of U.S. source interest and on payments of gross proceeds from the disposition of securities that pay U.S. source interest, in each case, if the Bondholder is not FATCA compliant, or holds its Bonds through a foreign financial institution that is not FATCA compliant. Proposed regulations eliminate the requirement of withholding on payments of gross proceeds from the sale or disposition of financial instruments. The United States Treasury Department has indicated that taxpayers may rely on these proposed regulations pending their finalisation. In order to be treated as FATCA compliant, a Bondholder must provide certain documentation (usually an IRS Form W-8BEN or W-8BEN-E) containing information about its identity, its FATCA status, and if required, its direct and indirect U.S. owners. These requirements may be modified by (i) the adoption or implementation of an intergovernmental agreement between the United States and another country or (ii) by future United States Treasury Regulations. If any taxes are required to be deducted or withheld from any payments in respect of the Bonds as a result of a beneficial owner or intermediary's failure to comply with the foregoing rules, no additional amounts will

be paid on the Bonds as a result of the deduction or withholding of such tax. See "Taxation—United States Federal Income Taxation—FATCA Withholding".

### ***Taxation***

Potential purchasers and sellers of the Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are transferred or other jurisdictions. Potential investors are advised not to rely solely upon the summary of certain tax laws contained in this Offering Circular but to obtain their own tax advisers' advice on their taxation position with respect to the acquisition, sale and redemption of the Bonds, as only such advisers are in a position to duly consider the specific situation of the potential investor. This investment consideration must be read in connection with the taxation sections of this Offering Circular.

### ***Change in ratings***

It is expected that the Bonds will be assigned a credit rating of A by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Bonds.

### ***Trading market for the Bonds***

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, even if such a market does develop, it may not be liquid or sustained.

### ***Market price of the Bonds***

Trading prices of the Bonds will be influenced by, among other things, the results of operations and financial condition of the Group, including the reporting of its financial results.

### ***Exchange rate risks and exchange controls***

The Issuer (and the Guarantor, if appropriate) will pay principal and interest on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds, and (3) the Investor's Currency-equivalent market value of the Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### ***Interest rate risks***

Investment in the Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Bonds, this will adversely affect the value of the Bonds.

### ***The insolvency laws of the United States and Japan and other local insolvency laws may differ from those of other jurisdictions***

Because the Issuer is incorporated under the laws of the United States, and because the Guarantor is incorporated under the laws of Japan, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve U.S. or Japanese insolvency laws (respectively), the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which an investor may be familiar.

### ***Modification and waivers***

The Agency Agreement (as defined in the Conditions) contains provisions for calling meetings of Bondholders (as defined in the Conditions) to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

### ***Changes in law after the issuance of the Bonds***

The Conditions are based on English law in effect as of the date of issue of the Bonds. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice, or changes to the mandatory provisions of the federal or state laws of the United States or Japanese law, in each case after the date of issue of the Bonds. Certain changes to U.S. tax law and Japanese tax law may give the Issuer the option to redeem the Bonds before their maturity, which redemption could reduce the return on investment as compared to what could have been achieved had the Bonds been redeemed at maturity.

### ***Integral Multiples of less than U.S.\$200,000***

As the Bonds have denominations consisting of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, it is possible that the Bonds may be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$200,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of Bonds of less than U.S.\$200,000 will not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to at least U.S.\$200,000.

### ***Early redemption for tax reasons***

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of the Bonds due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United States (in the case of the Issuer) or Japan (in the case of the Guarantor), or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Bonds in accordance with the Conditions.

### ***Optional redemption or purchases by the Issuer***

The Issuer may, at its option, redeem the Bonds in whole, but not in part, at any time prior to the Par Call Date, at the price determined in the manner set out in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*). The Issuer may also, at its option, redeem the Bonds in whole, but not in part, at any time on or after the Par Call Date, at their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. During any period when the Issuer may elect to redeem the Bonds, the market value of the Bonds generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The Issuer may be expected to redeem the Bonds when the Issuer's or the Guarantor's cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds and may only be able to do so at a significantly lower rate. Furthermore, the Bondholders will have no right to request the redemption of the Bonds. Any decision by the Issuer as to whether it will exercise its option to redeem the Bonds will be taken at the absolute discretion of the Issuer with regard to factors such as, but not limited to, the economic impact of exercising such option to redeem the Bonds, any tax consequences, the regulatory requirements and the prevailing market conditions. In addition, to the extent that Bonds are purchased and cancelled in part, the number of Bonds outstanding will decrease, which may result in a lessening of the liquidity of the Bonds. A lessening of the liquidity of the Bonds may cause, in turn, an increase in volatility associated with the price of the Bonds.

### ***Unsecured obligation and no restrictive covenants by the Issuer or the Guarantor***

The Issuer's obligations under the Bonds and the Guarantor's obligations under the Guarantee are unsecured and will not be protected by any collateral, lien, pledge or guarantee. Neither the Bonds nor the Deed of Guarantee contain any financial covenants or other restrictions on the Issuer's or the Guarantor's ability to securitise its assets, pay dividends on its Shares, incur unsecured indebtedness or issue new

securities, or repurchase its outstanding securities. In addition, there are only limited restrictions on the Issuer's or the Guarantor's ability to pledge assets to secure other indebtedness or to sell or otherwise dispose of its assets. These or other actions by the Issuer or the Guarantor could adversely affect its ability to pay amounts due on the Bonds or under the Deed of Guarantee. Furthermore, claims of the creditors of the Guarantor's subsidiaries (other than the Issuer) will generally have priority with respect to the assets of such subsidiaries over the claims of holders of the Bonds. Accordingly, the Bonds will be effectively subordinated to the obligations of the Guarantor's subsidiaries (other than the Issuer). In addition, the Bonds do not contain any covenants or other provisions that prevent a change in control or require the Issuer or the Guarantor to repurchase the Bonds in the event of a change in control.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Bonds are legal investments for it, (ii) Bonds can be used as collateral for various types of borrowing, and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

**Forward-looking Statements**

Statements in this Offering Circular with respect to the Group's plans, strategies, projected financial results and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. These statements are based on assumptions and beliefs derived from information currently available to the Group, and as such actual results may differ, in some cases significantly, from these forward-looking statements. The Group does not undertake to release the results of any revision of forward-looking statements which may be made to reflect future events or circumstances. Important factors that could cause actual results to differ materially from such statements include, but are not limited to, economic and market conditions, governmental policies, raw material, supply and logistics conditions, the competitive landscape, labour conditions, changes to laws and regulations (including approaches relating to climate change), and effects of natural disasters, military conflict, pandemics and other uncontrollable events. The Issuer and the Guarantor caution prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Group or persons acting on the Group's behalf are qualified in their entirety by these cautionary statements.

## TERMS AND CONDITIONS OF THE BONDS

*The following Conditions (as defined herein) will, subject to completion and amendment, and, save for the paragraphs in italics, be endorsed on the Certificates (as defined herein):*

The U.S.\$500,000,000 4.958 per cent. Guaranteed Bonds due 2026 (the "Bonds", which expression includes any further bonds issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Kubota Credit Corporation, U.S.A. (the "Issuer") are constituted by a deed of covenant dated 31 May 2023 (as amended or supplemented from time to time, the "Deed of Covenant") entered into by the Issuer, and are the subject of a deed of guarantee dated 31 May 2023 (as amended or supplemented from time to time, the "Deed of Guarantee") entered into by Kubota Corporation (the "Guarantor"). The Bonds are the subject of a fiscal agency agreement dated 31 May 2023 (as amended or supplemented from time to time, the "Agency Agreement") among the Issuer, the Guarantor, Citicorp International Limited as fiscal agent (the "Fiscal Agent", which expression includes any successor fiscal agent appointed from time to time in connection with the Bonds) and Citibank, N.A., London Branch as paying agent (together with the Fiscal Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds), as transfer agent (the "Transfer Agent", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds), and as registrar (the "Registrar", which expression includes any successor registrar appointed from time to time in connection with the Bonds). References herein to the "Agents" are to the Fiscal Agent, the Paying Agents, the Transfer Agent and the Registrar and any reference to an "Agent" is to any one of them.

Certain provisions of these terms and conditions of the Bonds (the "Conditions") are summaries of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee and subject to their detailed provisions. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee applicable to them. Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection by Bondholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

### 1. **Form, Denomination, Title, Status, Registration and Transfers of Bonds**

#### 1.1 ***Form and Denomination***

The Bonds are issued in registered form in the denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an "Authorised Denomination") and are not exchangeable for bonds in bearer form.

A bond certificate (each, a "Certificate") will be issued to each Bondholder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the "Register") of Holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1 (*The Register*).

#### 1.2 ***Title***

Title to the Bonds will pass only by transfer and registration of title in the Register. The Holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder.

In these Conditions, a "Bondholder" and (in relation to a Bond) a "Holder" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

*Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.*

*The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.*

### 1.3 **Status of the Bonds**

The Bonds are direct, general, unconditional, unsubordinated and (subject to the provisions of Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 3 (*Negative Pledge*) and with the exception of obligations in respect of obligations required to be preferred by law, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.

### 1.4 **Transfers of Bonds**

1.4.1 *The Register:* The Issuer will cause to be kept at the Specified Office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemptions in respect of the Bonds.

Each Bondholder shall be entitled to receive one Certificate in respect of the Bonds held by such Holder.

1.4.2 *Transfers:* A Bond may be transferred upon the surrender (at the Specified Office of any Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and signed and any other evidence as the relevant Agent or the Registrar (as the case may be) may reasonably require; *provided, however, that* a Bond may not be transferred which would result in the principal amount of Bonds held by a Holder and in respect of which a Certificate is to be issued being less than U.S.\$200,000. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. Where not all of the Bonds evidenced by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Bonds will be issued to the transferor. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar. A copy of the current regulations will be made available (free of charge) during normal business hours by the Registrar to any Bondholder upon prior written request.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".*

1.4.3 *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 1.4.2 (*Transfers*) shall be available for delivery within five Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange and any other evidence as the relevant Agent may reasonably require. Delivery of the new Certificate(s) shall be made at the Specified Office of any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address so



specified (at the Issuer's expense) unless such Holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery as agreed between such Holder and the relevant Agent and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the Specified Office of the relevant Agent.

- 1.4.4 *Formalities Free of Charge*: Registration of a transfer of Bonds and issuance of new Certificates shall be effected without charge by or on behalf of the Issuer or the Agents, but subject to (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the relevant Agent may require); (ii) the Registrar being satisfied in its absolute discretion with the documents of title and/or the identity of the person making the application; and (iii) the Issuer and the relevant Agent being satisfied that the regulations concerning transfer of Bonds having been satisfied.
- 1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered (i) during the period commencing on (and including) any Record Date (as defined in Condition 7.7 (*Record Date*)) and ending on the immediately following due date for any payment of principal or interest in respect of the Bonds or (ii) after a notice of redemption has been given pursuant to Condition 6.2 (*Redemption for Taxation Reasons*), Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*) or Condition 6.4 (*Redemption at the Option of the Issuer (Par Call)*).

## 2. **Guarantee**

The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds. This guarantee of the Bonds (the "Guarantee") constitutes direct, general, unconditional, unsubordinated and unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor (other than subordinated obligations, if any), with the exception of obligations in respect of national and local taxes and certain other statutory exceptions.

## 3. **Negative Pledge**

So long as any of the Bonds remains outstanding (as defined in the Agency Agreement), each of the Issuer and the Guarantor will not, and will procure that none of the Guarantor's Principal Subsidiaries (as defined in Condition 4.1 (*Definitions*)) will, create or permit to subsist any Security Interest (as defined below) other than a Permitted Security Interest (as defined below), for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Issuer's, the Guarantor's or such Principal Subsidiary's property or assets, present or future, to secure:

- (i) payment of any sum due in respect of any Relevant Debt;
- (ii) any payment under any guarantee of any Relevant Debt; or
- (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt,

without in any such case at the same time, or prior thereto, according or procuring to be accorded to the Bonds:

- (a) as shall be approved by an Extraordinary Resolution (as defined in Condition 4.1 (*Definitions*)), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation; or
- (b) such other security or guarantee as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 3 (*Negative Pledge*):

"Permitted Security Interest" means any Security Interest created in connection with, or pursuant to, a limited-recourse financing, securitisation or other like arrangement where the payment obligations in respect of the indebtedness secured by the relevant Security Interest are to be discharged from the revenues generated by assets over which such Security Interest is created (including, without limitation, receivables);

"Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

- (A) either:
  - (1) are by their terms payable, or confer a right to receive payment, in any currency other than U.S. dollar or Japanese yen; or
  - (2) are denominated in:
    - (x) U.S. dollar and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside the United States by or with the authorisation of the Issuer, the Guarantor, the relevant Principal Subsidiary or (as the case may be) other person being the principal debtor in respect thereof; or
    - (y) Japanese yen and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Issuer, the Guarantor, the relevant Principal Subsidiary or (as the case may be) other person being the principal debtor in respect thereof; and
- (B) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market; and

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

#### 4. **Definitions and Construction of References**

##### 4.1 ***Definitions***

In these Conditions (unless the context otherwise requires):

"Additional Amounts" means the Issuer Additional Amounts or the Guarantor Additional Amounts, as appropriate;

"Authorised Denomination" has the meaning provided in Condition 1.1 (*Form and Denomination*);

"Authorised Officer of the Guarantor" means any one of the directors or officers of the Guarantor or any other person whom the Guarantor shall have identified as being duly authorised to sign any document or certificate on behalf of the Guarantor;

"Bankruptcy Act" means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

"Bondholder" and "Holder" have the meaning provided in Condition 1.2 (*Title*);

"Calculation Amount" has the meaning provided in Condition 5 (*Interest*);

"Calculation Period" has the meaning provided in Condition 5 (*Interest*);

"Certificate" has the meaning provided in Condition 1.1 (*Form and Denomination*);

"Civil Rehabilitation Act" means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

"Code" has the meaning provided in Condition 7.3 (*Payments Subject to Fiscal Laws*);

"Companies Act" means the Companies Act of Japan (Act No. 86 of 2005, as amended);

"Comparable Treasury Issue" has the meaning provided in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*);

"Comparable Treasury Price" has the meaning provided in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*);

"Consolidated Financial Statements" means, in relation to any Fiscal Period of the Guarantor, the unaudited consolidated financial statements of the Guarantor prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Guarantor prepared as aforesaid;

"Consolidated Subsidiary" means, in relation to a Fiscal Period of the Guarantor, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

"Corporate Reorganisation Act" means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

"Day Count Fraction" has the meaning provided in Condition 5 (*Interest*);

"Due Date" has the meaning provided in Condition 8.3 (*Definitions and References Relating to Taxation*);

"Extraordinary Resolution" means a resolution passed at a meeting of the Bondholders duly convened (including the satisfaction of the quorum requirements set out in the Agency Agreement) and held in accordance with the provisions contained in the Agency Agreement by a majority consisting of not less than three-quarters of the votes cast thereon;

"FATCA withholding" has the meaning provided in Condition 8.4 (*FATCA*);

"Financial Instruments and Exchange Act" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

"first currency" has the meaning provided in Condition 14 (*Currency Indemnity*);

"Fiscal Period" means, as the context may require, (i) a period commencing on 1 January and ending on 31 December of the same year; or (ii) three month periods each commencing on 1 January, 1 April, 1 July and 1 October; provided that, if the Guarantor shall change its financial year so as to end on a date other than 31 December, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Guarantor to the Bondholders;

"Guarantee" has the meaning provided in Condition 2 (*Guarantee*);

"Guarantor Additional Amounts" has the meaning provided in Condition 8.2 (*Taxation in Respect of the Guarantor*);

"Independent Investment Banker" has the meaning provided in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*);

"Interest Payment Date" has the meaning provided in Condition 5 (*Interest*);

"Issuer Additional Amounts" has the meaning provided in Condition 8.1 (*Taxation in Respect of the Issuer*);

"Japanese Taxes" has the meaning provided in Condition 8.2 (*Taxation in Respect of the Guarantor*);

"Maturity Date" has the meaning provided in Condition 6.1 (*Final Maturity*);

"Non-U.S. Person" has the meaning provided in Condition 8.1 (*Taxation in Respect of the Issuer*);

"Par Call Date" has the meaning provided in Condition 6.4 (*Redemption at the Option of the Issuer (Par Call)*);

"Payment Business Day" has the meaning provided in Condition 7.5 (*Payments on Payment Business Days*);

"Permitted Security Interest" has the meaning provided in Condition 3 (*Negative Pledge*);

"Primary Treasury Dealer" has the meaning provided in Condition 6.3;

"Principal Subsidiary" means any Consolidated Subsidiary of the Guarantor, (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent. or more of the net sales of the Guarantor and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent. or more of the total assets of the Guarantor and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Guarantor that in the Guarantor's opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Proceedings" has the meaning provided in Condition 17.2 (*Jurisdiction*);

"Rate of Interest" has the meaning provided in Condition 5 (*Interest*);

"Reference Treasury Dealer" has the meaning provided in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*);

"Reference Treasury Dealer Quotation" has the meaning provided in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*);

"Register" has the meaning provided in Condition 1.1 (*Form and Denomination*);

"Relevant Debt" has the meaning provided in Condition 3 (*Negative Pledge*);

"Relevant GAAP" means the accounting principles which are adopted by the Guarantor for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of International Financial Reporting Standards (as issued by the International Accounting Standards Board (or any successor thereto) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or any successor thereto)), accounting principles generally accepted in Japan, or accounting principles generally accepted in the United States;

"Representative Director" means a director of the Guarantor who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Guarantor within the meaning of the Companies Act;

"second currency" has the meaning provided in Condition 14 (*Currency Indemnity*);

"Security Interest" has the meaning provided in Condition 3 (*Negative Pledge*);

"Subsidiary" means a company, more than 50 per cent. of the outstanding shareholders' voting rights of which is at any given time owned by the Guarantor, by one or more other Subsidiaries or by the Guarantor and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Guarantor under the Relevant GAAP (and, for this purpose, "voting rights" means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

"Tax Redemption Date" has the meaning provided in Condition 6.2 (*Redemption for Taxation Reasons*);

"Tax Redemption Notice" has the meaning provided in Condition 6.2 (*Redemption for Taxation Reasons*);

"Transfer Business Day" has the meaning provided in Condition 1.4.3 (*Delivery of New Certificates*);

"Treasury Rate" has the meaning provided in Condition 6.3 (*Redemption at the Option of the Issuer (Make-Whole Call)*);

"United States" means the United States of America, or, when used in Condition 8.1 (*Taxation in Respect of the Issuer*), has the meaning provided in Condition 8.1 (*Taxation in Respect of the Issuer*); and

"U.S. Person" has the meaning provided in Condition 8.1 (*Taxation in Respect of the Issuer*).

#### **4.2 Construction of Certain References**

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

### **5. Interest**

The Bonds bear interest from and including 31 May 2023 at the rate of 4.958 per cent. per annum, (the "Rate of Interest") payable semi-annually in arrear on 31 May and 30 November in each year commencing on 30 November 2023 (each, an "Interest Payment Date"), subject as provided in Condition 7 (*Payments*). Interest in respect of any Bond shall be calculated per U.S.\$1,000 in principal amount of the Bond (the "Calculation Amount").

*So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, the calculation of interest will be made in respect of the total aggregate principal amount of the Bonds evidenced by the Global Certificate.*

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (ii) the day which is seven days after the Fiscal Agent has notified the Bondholders that it has received all sums due in respect of all the Bonds up to but excluding such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.\$24.79 in respect of each Calculation Amount. If interest is required to be paid in respect of a Bond on any other date, such amount payable per Calculation Amount shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

"Calculation Period" means the relevant period for which interest is to be calculated from (and including) the first day in such period to (but excluding) the last day in such period; and

"Day Count Fraction" means, in respect of any period, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30.

## 6. **Redemption, Purchase and Cancellation**

### 6.1 ***Final Maturity***

Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, the Issuer will redeem the Bonds at 100 per cent. of their principal amount on 31 May 2026 (the "Maturity Date"), subject as provided in Condition 7 (*Payments*). The Bonds may not be redeemed at the option of the Issuer other than as set out in these Conditions.

### 6.2 ***Redemption for Taxation Reasons***

The Issuer may, but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Bondholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if at any time prior to the Maturity Date:

- (i) (a) the Issuer has or will become obliged to pay Issuer Additional Amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 23 May 2023, and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

- (ii) (a) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Guarantor Additional Amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 23 May 2023, and (b) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it,

*provided, however, that* no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due or (as the case may be) a demand under the Guarantee were then made.

Prior to the giving of any Tax Redemption Notice, the Guarantor shall deliver to the Fiscal Agent:

- (a) a certificate signed by a Representative Director or an Authorised Officer of the Guarantor, stating that the circumstances referred to in (i) or (ii) above (as the case may be) prevail and setting out details of such circumstances; and
- (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or the Guarantor (as the case may be) has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

Upon the giving of the Tax Redemption Notice to the Bondholders, the Issuer shall be bound to redeem the Bonds then outstanding at 100 per cent. of their principal amount on the Tax Redemption Date.

### 6.3 ***Redemption at the Option of the Issuer (Make-Whole Call)***

The Issuer may, but shall not be bound to, redeem the Bonds in whole, but not in part, at any time prior to 30 April 2026 (the "Par Call Date"), upon giving not less than 30 nor more than 60 days' prior notice of redemption to the Bondholders (which notice shall be irrevocable), at a redemption price equal to the greater of:

- (a) 100 per cent. of the principal amount of the Bonds being redeemed; or
- (b) the sum of the present values of the principal and the remaining scheduled payments of interest on the Bonds being redeemed (exclusive of interest accrued to the date of redemption) that would be due if the Bonds were redeemed on the Par Call Date, discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of 12 months of 30 days each) at the Treasury Rate plus 15 basis points,

plus, in each case, accrued and unpaid interest on the principal amount of the Bonds being redeemed to, but excluding, the date of redemption.

For the purposes of this Condition 6.3:

"Comparable Treasury Issue" means the United States Treasury security or securities selected by the Independent Investment Banker as having an actual or interpolated maturity comparable to the term from the relevant redemption date to the Par Call Date that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of maturity comparable to the term from the relevant redemption date to the Par Call Date;

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of four Reference Treasury Dealer Quotations for such redemption date or (2) if the

Independent Investment Banker is unable to obtain four Reference Treasury Dealer Quotations for such redemption date, the average of all quotations obtained;

"Independent Investment Banker" means an independent investment banking or commercial banking institution of national standing in the United States appointed by the Guarantor;

"Reference Treasury Dealer" means each of Morgan Stanley & Co. LLC, BofA Securities, Inc., Nomura Securities International, Inc. and Barclays Capital Inc., or their respective affiliates that are primary U.S. government securities dealers in New York City, and three other primary U.S. government securities dealers in New York City (each, a "Primary Treasury Dealer") selected by the Guarantor, and their respective successors; provided, however, that if any of the foregoing is not a Primary Treasury Dealer, the Guarantor shall substitute therefor another Primary Treasury Dealer;

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any date of redemption, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 3:30 p.m., New York City time, on the third New York business day (a day on which commercial banks and foreign exchange markets are open for business in New York City) preceding the date of redemption; and

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated (on a day count basis) maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

#### 6.4 ***Redemption at the Option of the Issuer (Par Call)***

The Issuer may, but shall not be bound to, redeem the Bonds in whole, but not in part, at any time on or after the Par Call Date but prior to the Maturity Date, upon giving not less than 30 nor more than 60 days' prior notice of redemption to Bondholders (which notice shall be irrevocable), at their principal amount plus accrued and unpaid interest on the principal amount of the Bonds being redeemed to, but excluding, the date of redemption.

#### 6.5 ***Purchase***

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Issuer, the Guarantor and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Issuer, the Guarantor or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for the purposes of these Conditions. Bonds that have been purchased by the Issuer may, at the option of the Issuer, be cancelled. Bonds that have been purchased by the Guarantor or any Subsidiary may, at the option of the Guarantor or such Subsidiary, be delivered to the Issuer for cancellation.

#### 6.6 ***Cancellation***

All Bonds which are redeemed shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 6.5 (*Purchase*) shall be forwarded to the Fiscal Agent for cancellation.



## **6.7      *Calculations***

None of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Bondholders or any other person for not doing so.

## **7.      *Payments***

### **7.1      *Payment of Principal***

Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Bond to the Specified Office of a Paying Agent not later than the fifteenth day before the due date for any such payment by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

### **7.2      *Payments of Interest***

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Bond to the Specified Office of a Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

### **7.3      *Payments Subject to Fiscal Laws***

All payments in respect of the Bonds will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the United States Internal Revenue Code of 1986, as amended (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any laws, rules or regulations implementing an intergovernmental approach thereto. No commissions or expenses (other than any U.S. taxes as set out in (ii) above) shall be charged to the Bondholders in respect of such payments.

### **7.4      *Agents***

The initial Agents and their initial Specified Offices are listed at the end of these Conditions. The Issuer and the Guarantor each reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or fiscal agent and additional or successor paying agents and transfer agents; provided, however, that the Issuer and the Guarantor shall at all times maintain a fiscal agent and a registrar. In acting under the Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Issuer and the Guarantor, and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders.

### **7.5      *Payments on Payment Business Days***

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the relevant Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment.

A Holder of a Bond shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail.

In these Conditions, "Payment Business Day" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, U.S.A. and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

*As of the date of this Offering Circular, the place of surrender or endorsement would be London (being the Specified Office of the Paying Agent).*

#### **7.6 *Partial Payments***

If a Paying Agent makes a partial payment in respect of any Bond, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.

#### **7.7 *Record Date***

Each payment in respect of a Bond will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "Record Date"). Where payment in respect of a Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

### **8. *Taxation***

#### **8.1 *Taxation in Respect of the Issuer***

The Issuer will, subject to the exceptions and limitations set forth below, pay as additional interest on the Bonds such additional amounts (the "Issuer Additional Amounts") as are necessary in order that the net payment by the Issuer or any Paying Agent of the principal of and interest on a Bond to a holder who is a Non-U.S. Person (as such term is defined below), after deduction for any present or future tax, duty, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Bond to be then due and payable; provided, however, that the foregoing obligation to pay Issuer Additional Amounts shall not apply to:

- (i) any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:
  - (a) being or having been present or engaged in a trade or business in the United States or having or having had a permanent establishment therein;
  - (b) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof;

- (c) being or having been a "controlled foreign corporation" as defined in the Code, a "passive foreign investment company" as defined in the Code, a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organisation; or
  - (d) an actual or a constructive "10 per cent. shareholder" of the Issuer as defined in Section 871(h)(3) of the Code or a bank that is described in Section 881(c)(3)(A) of the Code;
- (ii) any holder who is a fiduciary or partnership or other than the sole beneficial owner of the Bond, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Bond would not have been entitled to the payment of an additional amount had such beneficiary, settlor, member or beneficial owner been the holder of such Bond;
- (iii) any tax, duty, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder, if required, to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Bond, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (iv) any tax, assessment or other governmental charge that would not have been imposed but for a failure by the holder or beneficial owner of the Bonds (or any financial institution through which the holder or beneficial owner holds the Bonds or through which payment on the Bonds is made) to enter into or comply with any applicable certification, documentation, information or other reporting requirement or agreement concerning United States accounts maintained by the holder or beneficial owner (or any such financial institution), including by reason of holding the Bonds, or concerning United States ownership of the holder or beneficial owner (or any such financial institution), or any substantially similar requirement or agreement, if entering into or complying with such requirement or agreement is required by statute or regulation of the United States as a precondition to relief or exemption from such tax, assessment or other governmental charge;
- (v) any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, duty, assessment or governmental charge;
- (vi) any tax, duty, assessment or governmental charge that is payable otherwise than by withholding by the Issuer or a Paying Agent from the payment of the principal of or interest on such Bond;
- (vii) any tax, duty, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Bond, if such payment can be made without such withholding by any other Paying Agent; or
- (viii) any combination of items (i), (ii), (iii), (iv), (v), (vi) and (vii) above;

*provided, further,* that no such Issuer Additional Amount shall be payable with respect to any Certificate in respect of any Bond presented for payment more than 30 days after the Due Date (as defined below) except to the extent that the Holder of such Bond would have been entitled to such Issuer Additional Amount on presenting the same for payment on the last day of such 30-day period assuming that day to have been a Payment Business Day.

As used in this Condition 8.1:

"Non-U.S. Person" means a person other than a U.S. Person;

"United States" means the United States of America (including the States and the District of Columbia), Puerto Rico and each possession of the United States of America and place subject to its jurisdiction; and

"U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States, any state of the United States or the District of Columbia, other than a partnership that is not treated as a United States person under any applicable Treasury regulation, or an estate the income of which is subject to U.S. federal income tax regardless of its source of income, or a trust if a court within the United States is able to exercise primary supervision of the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, certain trusts in existence on 20 August 1996 and treated as U.S. Persons prior to such date that elect to continue to be treated as U.S. Persons shall be considered U.S. Persons as well.

## **8.2 *Taxation in Respect of the Guarantor***

All payments of principal and interest by the Guarantor in respect of the Bonds will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax ("Japanese Taxes"), unless the withholding or deduction of such Japanese Taxes is required by law. If such withholding or deduction is so required, the Guarantor will pay such additional amounts ("Guarantor Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Guarantor Additional Amounts shall be payable with respect to any Bond:

- (i) held by or on behalf of a Holder who is subject to such Japanese Taxes by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or enforcement of rights thereunder or the receipt of payment in respect of any Bond; or
- (ii) held by or on behalf of a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the jurisdiction imposing the relevant tax,

*provided, further,* that no such Guarantor Additional Amount shall be payable with respect to any Certificate in respect of any Bond presented for payment more than 30 days after the Due Date (as defined below) except to the extent that the Holder of such Bond would have been entitled to such Guarantor Additional Amounts on presenting the same for payment on the last day of such 30-day period assuming that day to have been a Payment Business Day.

## **8.3 *Definitions and References Relating to Taxation***

In these Conditions, the "Due Date" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been duly received by the Fiscal Agent or the Registrar on or prior to such due date, the date on which (the full amount having been so received) notice to that effect shall have been duly given to the Bondholders in accordance with Condition 15 (*Notices*).

Any reference in these Conditions to principal or interest in respect of the Bonds shall be deemed to include any Additional Amounts which may be payable under this Condition 8 (*Taxation*).

If the Guarantor becomes subject at any time to any taxing jurisdiction other than Japan, references in these Conditions to Japan shall be construed as references to Japan and/or such other jurisdiction.

#### 8.4 ***FATCA***

No additional amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the United States Internal Revenue Service ("FATCA withholding"). Further, neither the Issuer nor the Guarantor will have any obligation to otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Issuer, the Guarantor, the Agents or any other party that is not an agent of the Issuer or the Guarantor.

### 9. **Events of Default**

If any of the following events occur:

#### 9.1 ***Non-payment of Interest***

Default is made for more than 14 days in the payment of interest due in respect of the Bonds when and as the same ought to be paid in accordance with these Conditions; or

#### 9.2 ***Breach of Obligations***

The Issuer or the Guarantor defaults in the performance or observance of any covenant, condition or provision contained in the Bonds, the Deed of Covenant or the Deed of Guarantee and on its part to be performed or observed (other than the covenant to pay the principal or interest in respect of any of the Bonds) and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer or the Guarantor, as the case may be, by any Bondholder, has been delivered to the Issuer or the Guarantor, as the case may be, or to the Specified Office of the Fiscal Agent; or

#### 9.3 ***Cross Default on Indebtedness***

The obligation to repay any indebtedness for money borrowed by the Issuer, the Guarantor or any Principal Subsidiary and having an aggregate outstanding principal amount of at least U.S.\$50,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 9 (*Events of Default*)) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least U.S.\$50,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 9 (*Events of Default*)) is not paid when due (whether on demand (if applicable) or at the expiration of any grace period as originally provided (if applicable)); or

#### 9.4 ***Cross Default on Guarantee/Indemnity***

The Issuer, the Guarantor or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least U.S.\$50,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 9 (*Events of Default*)); or

9.5 ***Initiation of Insolvency Proceedings***

Proceedings shall have been initiated against the Issuer, the Guarantor or any Principal Subsidiary seeking with respect to the Issuer, the Guarantor or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

9.6 ***Decree of Insolvency/Dissolution***

A final decree or order is made or issued by a court of competent jurisdiction adjudicating the Issuer, the Guarantor or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Issuer, the Guarantor or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer, the Guarantor or any Principal Subsidiary or of all or substantially all of the property of any of them, or for the winding-up, dissolution or liquidation of the Issuer, the Guarantor or any Principal Subsidiary in its bankruptcy or insolvency; or

9.7 ***Resolution for Dissolution***

A resolution is passed for the winding-up, dissolution or liquidation of the Issuer, the Guarantor or any Principal Subsidiary, except:

9.7.1 in the case of the Issuer, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Issuer becoming, or becoming a subsidiary of, a holding company) upon which the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Issuer under the Bonds, the Deed of Covenant and the Agency Agreement;

9.7.2 in the case of the Guarantor, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Guarantor becoming, or becoming a subsidiary of, a holding company) upon which the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Guarantor under the Bonds, the Deed of Guarantee and the Agency Agreement;

9.7.3 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Guarantor or any other Subsidiary of the Guarantor or its holding company pursuant to Condition 9.7.2, in any such case, in proportion to the ownership interest held by the Guarantor, its holding company pursuant to Condition 9.7.2 or such other Subsidiary (as the case may be) in the relevant Principal Subsidiary; or

9.7.4 in any case, where the terms have previously been approved by an Extraordinary Resolution; or

9.8 ***Institution of Insolvency Proceedings***

The Issuer, the Guarantor or any Principal Subsidiary institutes proceedings seeking with respect to itself adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of

Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its property, or makes a general assignment for the benefit of its creditors; or

9.9 ***Stop Payment***

The Issuer, the Guarantor or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

9.10 ***Cessation of Business***

The Issuer, the Guarantor or any Principal Subsidiary ceases, or through an official action of its board of directors threatens to cease to carry on business, except:

9.10.1 in the case of the Issuer, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Issuer becoming, or becoming a subsidiary of, a holding company) upon which the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Issuer under the Bonds, the Deed of Covenant and the Agency Agreement;

9.10.2 in the case of the Guarantor, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Guarantor becoming, or becoming a subsidiary of, a holding company) upon which the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Guarantor under the Bonds, the Deed of Guarantee and the Agency Agreement;

9.10.3 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Guarantor or any other Subsidiary of the Guarantor or its holding company pursuant to Condition 9.10.2, in any such case, in proportion to the ownership interest held by the Guarantor or its holding company pursuant to Condition 9.10.2 or such other Subsidiary (as the case may be) in the relevant Principal Subsidiary; or

9.10.4 in any case, where the terms have previously been approved by an Extraordinary Resolution; or

9.11 ***Encumbrancer***

Any encumbrancer takes possession of the whole or substantially all of the assets or undertakings of the Issuer, the Guarantor or any Principal Subsidiary, or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or substantially all of the assets of the Issuer, the Guarantor or any Principal Subsidiary and is not removed, discharged or paid out within 60 days,

then any Bond may, by written notice addressed by the Holder thereof to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality.

For the purposes of Conditions 9.3 (*Cross Default on Indebtedness*) and 9.4 (*Cross Default on Guarantee/Indemnity*), any indebtedness which is in a currency other than U.S. dollars may be translated into U.S. dollars at the spot rate for the sale of the relevant currency against the purchase of the U.S. dollar as quoted by the Fiscal Agent on the calendar day in London corresponding to the calendar day on which such premature repayment becomes due or, as the case may be, such default occurs (or, if for any reason such a rate is not available on that day, on the earliest possible date thereafter).

10. **Prescription**

Each Bond will become void unless presented for payment within the period of 10 years in the case of principal and 5 years in the case of interest from the Due Date for the payment thereof.

11. **Replacement of Certificates**

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor or an Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. **Meetings of Bondholders and Modification**

12.1 ***Meetings of Bondholders***

The Agency Agreement contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together), and shall be convened by them upon the request in writing of Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; provided, however, that certain proposals (including any proposal to modify the date of maturity of the Bonds, to change any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, to change the currency of payments under the Bonds, to amend the terms of the Guarantee in respect of the Bonds, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "Reserved Matter")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 50 per cent. of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

In addition, a resolution in writing signed by or on behalf the Holders of not less than 75 per cent. of the aggregate principal amount of the Bonds who for the time being are entitled to receive notice of a meeting of Bondholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

12.2 ***Modification***

The Bonds, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer and the Guarantor shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Bondholders.



13. **Further Issues**

The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds.

14. **Currency Indemnity**

If any sum due from the Issuer or the Guarantor in respect of the Bonds (including the Guarantee) or any order or judgment given or made in relation thereto has to be converted from the currency (the "first currency") in which the same is payable under these Conditions or such order or judgment into another currency (the "second currency") for the purpose of (a) making or filing a claim or proof against the Issuer or the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Bonds, the Issuer and the Guarantor shall (jointly and severally) indemnify each Bondholder, on the written demand of such Bondholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and the Guarantor and shall give rise to a separate and independent cause of action.

15. **Notices**

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). If publication in any of such newspapers is not (in the opinion of the Issuer or the Guarantor) practicable, notices will be given in such other newspaper or newspapers as the Issuer or the Guarantor shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

*So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.*

16. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17. **Governing Law and Submission to Jurisdiction**

17.1 ***Governing Law***

The Bonds, the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

17.2 ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and the Guarantee (including any non-contractual obligation arising out of or in connection with the Bonds or the Guarantee) and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Guarantee (including any non-contractual obligation arising out of or in connection with the Bonds or the Guarantee) ("Proceedings") may be brought in such courts. The

Issuer and the Guarantor each submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

17.3 ***Agent for Service of Process***

The Issuer and the Guarantor has irrevocably appointed Law Debenture Corporate Services Limited, whose office is at present at 8th Floor, 100 Bishopsgate, London, EC2N 4AG, United Kingdom, as their respective agent in England to receive service of process in any Proceedings in England. If for any reason Law Debenture Corporate Services Limited ceases to be able to act as such or no longer has an address in England, the Issuer and the Guarantor each irrevocably agrees to appoint a substitute process agent in England and shall promptly notify the Bondholders of such appointment. Nothing in this paragraph shall affect the right to serve process in any other manner permitted by law.

17.4 ***Waiver of Trial by Jury***

WITHOUT PREJUDICE TO CONDITION 17.2 AND TO THE EXTENT PERMITTED BY LAW, THE ISSUER AND THE GUARANTOR WAIVE ANY RIGHT THEY MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION IN CONNECTION WITH THE BONDS OR THE GUARANTEE. THESE CONDITIONS MAY BE FILED AS A WRITTEN CONSENT TO A BENCH TRIAL.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions and certain other information:*

### Registration and Exchange

The Bonds will be evidenced by a Global Certificate which will be registered in the name of Citivic Nominees Limited as the nominee for the Common Depositary for Euroclear and Clearstream, Luxembourg.

The Global Certificate will become exchangeable in whole, but not in part, for definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (b) any of the circumstances described in Condition 9 (*Events of Default*) occurs.

Whenever the Global Certificate is to be exchanged for definitive Certificates, such definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such definitive Certificates (including, without limitation, the names and addresses of the persons in whose names the definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Definitive Certificates have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Certificate; or
- (b) any of the Bonds evidenced by the Global Certificate has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred,

and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Certificate on the due date for payment in accordance with the terms of the Global Certificate, then the Global Certificate (including the obligation to deliver definitive Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to interests in the Bonds will acquire directly against the Company all those rights to which they would have been entitled if, immediately before the Global Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

### Transfers

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of Euroclear and Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System") and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

## Payments

In relation to payments made in respect of the Global Certificate, so long as the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, the definition for "Payment Business Day" in Condition 7.5 (*Payments on Payment Business Days*) shall be amended and shall be any day which is a day on which banks are open for general business (including dealings in foreign currencies) in New York City.

Each payment made in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment where "Clearing System Business Day" means a day on which each clearing system for which the Global Certificate is being held is open for business.

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is held on behalf of a clearing system, the Issuer will pay interest in respect of such Bonds in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation of interest will be made in respect of the total aggregate principal amount of the Bonds evidenced by the Global Certificate (rather than per Calculation Amount (as defined in the Conditions)).

## Notices

Notwithstanding Condition 15 (*Notices*), so long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, notices to Holders of Bonds evidenced by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System. Such notices shall be deemed to have been given in accordance with the Conditions on the date of delivery to the relevant clearing system.

## Meetings

So long as at least the Relevant Fraction (as defined below) of the aggregate principal amount of the outstanding Bonds is evidenced by the Global Certificate, a single voter appointed in relation thereto or being the Holder of the Bonds evidenced thereby shall be deemed to be two voters for the purpose of forming a quorum of meetings of Bondholders.

"Relevant Fraction" means:

- (a) for all business other than voting on an Extraordinary Resolution, one tenth;
- (b) for voting on any Extraordinary Resolution other than one relating to a Reserved Matter, not less than 50 per cent.; and
- (c) for voting on any Extraordinary Resolution relating to a Reserved Matter, not less than 75 per cent.,

provided, however, that, in the case of a meeting which has resumed after adjournment for want of a quorum it means:

- (i) for all business other than voting on an Extraordinary Resolution relating to a Reserved Matter, the fraction of the aggregate principal amount of the outstanding Bonds evidenced or held by the voters actually present at the meeting; and
- (ii) for voting on any Extraordinary Resolution relating to a Reserved Matter, not less than 50 per cent.

## Electronic Consent

While the Bonds evidenced by the Global Certificate is registered in the name of any nominee for, or a nominee for any common depositary for, Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be), then (a) approval of a resolution proposed by the Company or the Fiscal Agent (as the case may be) given by way of electronic consents communicated through the electronic

communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Bonds then outstanding (an "Electronic Consent" as defined in the Agency Agreement) shall, for all purposes (including in relation to Reserved Matters), take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Agency Agreement) has been validly passed, subject to certain requirements set out in the Agency Agreement, the Company and the Fiscal Agent shall be entitled to rely on consent or instructions given in writing directly to the Company and/or the Fiscal Agent, as the case may be, by accountholders in the relevant clearing system with entitlements to Bonds evidenced by this Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is held.

## DESCRIPTION OF THE GUARANTEE

*The following sets out a summary of the Deed of Guarantee to be executed by the Guarantor in respect of the Bonds:*

Pursuant to the Deed of Guarantee, the Guarantor unconditionally and irrevocably guarantees to the holder of each Bond the due and punctual payment of all sums from time to time payable by the Issuer in respect of each such Bond as and when the same become due and payable in accordance with the Conditions and accordingly undertakes to pay to such Bondholder, in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Bonds, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Bond and which the Issuer has failed to pay.

The Guarantor also irrevocably and unconditionally agrees as a primary obligation to indemnify each Bondholder from time to time from and against any loss incurred by such Bondholder as a result of any of the obligations of the Issuer under or pursuant to any Bond, the Deed of Covenant or any provision thereof, being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to such Bondholder or any other person, the amount of such loss being the amount which such Bondholder would otherwise have been entitled to recover from the Issuer. Any amount payable pursuant to this indemnity shall be payable in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Bonds. This indemnity constitutes a separate and independent obligation from the other obligations under the Deed of Guarantee and shall give rise to a separate and independent cause of action.

The Guarantor covenants in favour of each Bondholder that it will duly perform and comply with the obligations expressed to be undertaken by it in the Conditions in respect of the Bonds.

The obligations of the Guarantor under the Deed of Guarantee shall be deemed to be undertaken as principal obligor and not merely as surety. The obligations of the Guarantor contained in the Deed of Guarantee shall constitute and be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under or in respect of any Bond or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Bonds and under the Deed of Covenant have been paid, and all other actual or contingent obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

Neither the obligations of the Guarantor contained in the Deed of Guarantee nor the rights, powers and remedies conferred upon the Bondholders by the Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

- the winding up, dissolution, administration, re-organisation or moratorium of the Issuer or any change in its status, function, control or ownership;
- any of the obligations of the Issuer under or in respect of the Bonds or the Deed of Covenant being or becoming illegal, invalid, unenforceable or ineffective in any respect;
- time or other indulgence (including, for the avoidance of doubt, any composition) being granted or agreed to be granted to the Issuer in respect of any of its obligations under or in respect of the Bonds or the Deed of Covenant;
- any amendment, novation, supplement, extension (whether of maturity or otherwise) or restatement (in each case, however fundamental and of whatsoever nature) or replacement, waiver or release of, any obligation of the Issuer under or in respect of the Bonds or the Deed of Covenant or any security or other guarantee or indemnity in respect thereof including without limitation any change in the purposes for which the proceeds of the issue of any Bond are to be applied and any extension of or any increase of the obligations of the Issuer in respect of any Bond or the addition of any new obligations for the Issuer under the Deed of Covenant; or
- any other act, event or omission which, but for this sub-paragraph, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the

Guarantor in the Deed of Guarantee or any of the rights, powers or remedies conferred upon the Bondholders or any of them by the Deed of Guarantee or by law.

Further and without limitation, with respect to its obligations under the Deed of Guarantee, the Guarantor waives all rights of set-off, counterclaim or other claims which it may have against any Bondholder, whether in connection with the Bonds or any unrelated transactions.

Any settlement or discharge between the Guarantor and the Bondholders or any of them shall be conditional upon no payment to the Bondholders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any laws relating to bankruptcy, insolvency, liquidation or similar laws of general application for the time being in force and, in the event of any such payment being so avoided or reduced, the Bondholders shall be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

No Bondholder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by the Deed of Guarantee or by law:

- to make any demand of the Issuer, save for the presentation of the relevant Bond;
- to take any action or obtain judgment in any court against the Issuer; or
- to make or file any claim or proof in a winding up or dissolution of the Issuer,

and (save as aforesaid) the Guarantor expressly waives presentment, demand, protest and notice of dishonour in respect of each Bond.

The Guarantor agrees that, so long as any sums are or may be owed by the Issuer in respect of the Bonds or under the Deed of Covenant or the Issuer is under any other actual or contingent obligation thereunder or in respect thereof, the Guarantor will not exercise any right which the Guarantor may at any time have by reason of the performance by the Guarantor of its obligations under the Deed of Guarantee:

- to be indemnified by the Issuer;
- to claim any contribution from any other guarantor of the Issuer's obligations under or in respect of the Bonds or the Deed of Covenant;
- to take the benefit (in whole or in part) of any security enjoyed in connection with the Bonds or the Deed of Covenant by any Bondholder; or
- to be subrogated to the rights of any Bondholder against the Issuer in respect of amounts paid by the Guarantor under the Deed of Guarantee.

The Guarantor undertakes that its obligations under the Deed of Guarantee will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor (other than subordinated obligations, if any), with the exception of obligations in respect of national and local taxes and certain other statutory exceptions.

The Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by, and construed in accordance with, English law.

### **USE OF PROCEEDS**

The net proceeds from the issue of the Bonds are estimated to amount to approximately U.S.\$496 million, and the Issuer expects to apply such net proceeds for general corporate purposes.



## **KUBOTA CREDIT CORPORATION, U.S.A.**

### **Overview**

KCC is the retail financing arm for customers of products such as tractors, outdoor power equipment, construction machinery and implements distributed by Kubota Tractor Corporation ("KTC") in the United States. KTC was formed in California by the Company in 1972 to distribute farm and industrial machinery to the U.S. market, which is one of the important markets outside of Japan for the Group.

KCC provides a wide range of financing alternatives for Kubota products, offering competitive interest rates, flexible down payments and monthly and seasonal payment terms. The broad Kubota dealer network in the United States can tailor a variety of finance and lease programmes together with KCC, to meet the specific requirements of their customers.

KCC was incorporated under the laws of the State of California in 1982, and having commenced operations in California, moved its headquarters to Texas in 2017. By moving the headquarters function from California to Texas, KCC has gained easier access to the Midwest region—the centre of the upland agricultural market—and the rest of the United States; the move has also facilitated strengthened collaboration with inland bases of the Group's operations (including agricultural implement manufacturer Great Plains Manufacturing, Inc. ("Great Plains Manufacturing"), which the Company acquired in 2016), enabling KCC to strongly support the expansion of the Group's North American business.

KCC's head office is located at 1000 Kubota Drive, Grapevine, TX 76051, United States of America.

### **Business**

#### ***General***

KCC purchases retail instalment contracts from authorised Kubota machinery and equipment dealers throughout the United States. KCC currently funds these purchases primarily through a combination of intercompany lines of credit, equity capital, asset-backed securities, asset-backed loans and asset-backed commercial paper conduit securitisation transactions.

KCC sources its business entirely through relationships with authorised machinery and equipment dealers. KCC solicits business indirectly through the Kubota dealer network and also through Kubota websites, and joint marketing efforts with KTC (which consist primarily of website advertisements, newspaper and magazine advertisements, direct mailings and radio or television advertisements).

KCC finances, or may in the future finance, various types of equipment, including the following:

- *Agricultural equipment*, including tractors, utility vehicles, combines, mowing equipment and other related equipment; and
- *Construction equipment*, including excavators, backhoes, skid steer loaders, compact track loaders, wheel loaders and other related equipment.

KCC purchases retail instalment contracts from dealers pursuant to retail finance agreements. The retail instalment contracts generally arise from the retail sale of Kubota products, used equipment accepted in trade by the dealers, and from retail sales of equipment of unrelated manufacturers. KCC primarily offers a monthly payment schedule to customers; however, some retail instalment contracts provide for quarterly, semi-annual or annual payments, and seasonal payments are sometimes available to certain businesses with seasonal income, such as farming, ranching and tree farms. KCC's retail instalment contracts are secured by perfected security interests in the agricultural or construction equipment financed under laws such as state statutes implementing the Uniform Commercial Code ("UCC"), certain federal statutes and certain state motor vehicle statutes of the United States.

#### ***Pricing***

KCC offers financing options to customers with different interest rates for types of products and durations of loans. The pricing provided by KCC to customers is heavily influenced by the promotional interests of Kubota Tractor Corporation, which subsidises KCC's rates, enabling KCC to offer low rates to

end customers. As such, a large proportion of KCC's finance income is in the form of intercompany income from affiliates. See Note 2 to KCC's most recent audited financial statements for the fiscal year ended 31 December 2022.

### ***Credit Approval Process***

KCC requires each prospective customer to complete a credit application that, in the case of a consumer receivable, includes the applicant's personal and employment/income information, identification documentation and personal references. Commercial applications generally require a minimum time in business of three years, as well as other documentation including financial statements or tax returns and good standing certificates. KCC obtains a credit bureau report on the applicant from an independent credit bureau, as appropriate, or checks credit references provided by the applicant, which are typically banks, finance companies or credit unions that have provided credit to the applicant. This information is obtained by a dealer and submitted to KCC through a web-based financing application used by KCC for dealers to create retail instalment sales documents and submit credit applications electronically.

As part of the credit review process, KCC analyses data regarding the applicant and additional information using a proprietary credit evaluation model based on written underwriting guidelines that consist of criteria established by its management. The model is based on KCC's collection experience using variables that historically have been predictive of future performance. The credit score by itself is not determinative. KCC also maintains at least a five-year payment history on past and present customers it reviews.

Under KCC's credit approval process, credit applications for retail instalment contracts are electronically evaluated by KCC's Automated Credit Decision ("ACD") programme when received. Such applications are either automatically approved or sent for further review by a KCC credit underwriter. ACD uses criteria which include applicant credit quality, transaction terms, equipment type and similarity to prior approved contracts to select contracts for automatic approval. Where ACD does not apply, the final credit decision is a subjective determination made by a KCC credit underwriter with appropriate authority based on all of the information gathered and in accordance with KCC's written underwriting guidelines. Failure to be approved by the ACD program does not mean that a retail instalment contract does not meet KCC's written underwriting guidelines; the ACD programme is merely an electronic tool designed to review such a retail instalment contract credit application in an expedited manner using logic that seeks to replicate the judgmental evaluation that would be applied by an experienced underwriter based on various combinations of the factors mentioned above that in KCC's experience has resulted in underwriter approval or the need for further manual review. If further review is required, the underwriter will manually evaluate the credit information, requested terms and any additional information relating to the submitted credit application. The underwriter will then make a decision based on underwriting guidelines resulting in approval, conditional approval, review by an underwriter with higher approval authority or denial based on the submitted information and any additional information that may have been obtained by the underwriter. Approvals in respect of applications that do not meet underwriting guidelines may be granted in certain cases, including mitigating factors, matching competitor approvals, new market penetration and high visibility customers.

Credit applications may be declined for a variety of reasons including, for example, insufficient income for the amount of credit requested, bankruptcy history, repossession and charge-off experience, garnishment, attachment or foreclosure experience, poor credit history with KCC, limited credit experience and/or insufficient or no credit file, excessive obligations in relation to income, lawsuits, collection actions or judgments and delinquency experience with respect to past or current credit obligations, unfavourable financial information, limited time in business without a personal guarantor, no financial information and risk of fraud.

The current underwriting guidelines that determine the amount that KCC will finance under a retail instalment contract varies based on the customer's credit history, the type of equipment financed, whether the equipment is new or used, the payment schedule and the payment period for the receivable. The amount financed may also include the cost of insurance including extended warranties, which contribute to maintaining the value of the equipment, closing and documentation fees, as well as taxes. With such additional fees and costs, the amount of a retail instalment contract may exceed the total purchase price of the equipment, including actual taxes incurred and the value of insurance and extended warranties. The amount financed is based upon the dealer's representation of the actual sales price of the equipment (new or used) to the customer. KCC may compare the dealer's sales price of new Kubota equipment to the

underlying invoice cost of such equipment. KCC's underwriters may determine on a case-by-case basis whether the value of underlying equipment is appropriate for the amount financed, as equipment securing a receivable depreciates in value over time. Delinquency rates of KCC's loan portfolio are very low (see Note 3 to KCC's most recent audited financial statements for the fiscal year ended 31 December 2022).

### ***Servicing***

The servicing process includes the routine collection and processing of payments, responding to customer inquiries, initiating contact with customers who are delinquent in payment of a scheduled payment, and repossessing and selling collateral when necessary. KCC utilises automated collection tools including in some circumstances auto diallers to support its servicing and collection activities.

Customers may make payments with respect to retail instalment contracts via coupons from a coupon book, wired funds, MoneyGram transactions, electronic payments indicated by the customer's bank and Automated Clearing House ("ACH") payment transactions generated through KCC, including automated phone payments, phone payments via representative, website payments and scheduled recurring payments. Customer payments are remitted through one or more designated lockbox accounts maintained by a national lockbox bank.

Receivables are considered past due when a scheduled payment, including principal and interest, has not been received either in full or by the contractual due date. At 10-15 days past due, receivables are entered into an automated collection system that utilises automated work assignments (calls and letters) and scheduling and generates collection activity statistics for reporting and evaluation purposes. Where legally permitted, KCC utilises a predictive dialling system to make phone calls to customers whose payments are past due. In other instances, customers are dialled directly by collectors. The predictive dialler is a computer-controlled telephone dialler system that simultaneously dials phone numbers of multiple customers from a file of records extracted from KCC's information database. Once a customer responds to the automated dialler's call, the system automatically transfers the call to a collector and the relevant account information to the collector's computer. The dialler reduces the amount of time spent trying to reach customers and enables a single collector to speak with a larger number of customers on a daily and weekly basis.

KCC sends past due notices and make collection calls at various stages of a customer's payment delinquency. When a receivable reaches a certain threshold of days past due, KCC's advanced collection employees determine if the receivable should be referred to a third-party licensed collection and repossession company. Generally, for payoff amounts greater than U.S.\$500, the account will be referred to a third-party collection agency unless the customer has made a promise to bring the account current via ACH or MoneyGram payment, an insurance claim is in process, the customer was the victim of a natural disaster or a collections or portfolio risk manager determines to withhold referral to a collection agency based on the customer's individual circumstance.

Levels of repossessions of retail instalment contracts serviced by KCC are low. KCC utilises a collections system to track repossession of assets and the disposal of repossessed assets. Once collection efforts to receive up-to-date funds or full balance payment have failed, the third-party collection agency hired by KCC assigns a licensed company to repossess the asset(s). When the equipment is located, the collection agency contacts a local Kubota dealer to inform them of the repossession and that the equipment will be dropped off for storage until sale. The dealer is required to keep repossessed equipment secure until the winning auction bidder picks up the equipment. An equipment auction company inspects the equipment and suggests a target price based on the conditions of the equipment and historical sales data (the amount of the unpaid customer account balance is not taken into consideration for this purpose). KCC seeks to receive the highest possible amount from the sale of the asset. If this is more than the amount owed by the customer, including any fees owing by the customer, the overage is sent to the customer. The time period and other conditions surrounding repossessed assets are governed by individual state law.

### ***Competition***

KCC operates in a highly competitive environment, with financing for purchasers of Kubota equipment available through a variety of sources, principally commercial banks and finance and leasing companies. In addition, many of the manufacturers that compete with the Group also own financial subsidiaries, which utilise many below-market interest rate programmes (funded by the manufacturer) to support machine sales.

KCC provides financing only when certain criteria are met. Credit decisions are based on a variety of credit quality factors, including prior payment experience, customer financial information, credit ratings, loan-to-value ratios and other internal metrics. KCC typically maintains a security interest in retail-financed equipment and require physical damage insurance coverage on financed equipment. KCC finances a significant portion of Kubota dealers' sales in the United States. KCC's competitive position is improved by marketing programmes offered by KTC, which subsidises KCC's financing operations (see "—Business—Pricing" above).

## **Recent Business**

KCC's most recent audited financial statements for the fiscal years ended 31 December 2021 and 2022 are set out in pages I-4 to I-24 (both inclusive) of this Offering Circular.

KCC issued asset backed notes of U.S.\$699,270,000 through its trust in the United States on 31 March 2023 (the principal amount of such notes is amortised on a monthly basis).

## **Shareholding and Subsidiaries**

KCC is a wholly-owned subsidiary of the Company, with 90 per cent. of its issued shares owned by Kubota North America Corporation, a wholly-owned subsidiary of the Company, and 10 per cent. of its issued shares owned directly by the Company.

KCC has formed a number of wholly-owned subsidiaries for the purpose of selling finance receivables or obtaining financing backed by collections from the sale of such finance receivables.

## **Management**

KCC's board of directors is currently comprised of the following:

<b>Name</b>	<b>Title</b>	<b>Other functions</b>
David Sutton	Director	Director and President, Kubota Insurance Corporation and Kubota Tractor Acceptance Corporation
Yujiro Okada	Director	Vice President, Kubota North America Corporation
Shingo Hanada	Director	Director and President, Kubota North America and Kubota Tractor Corporation

The business address of the persons listed above is 1000 Kubota Drive, Grapevine, TX 76051, United States of America.

## **Regulation**

In certain instances, KCC's operations are subject to supervision and regulation by state, federal and governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions which, among other things, (i) regulate credit granting activities and the administration of loans, (ii) establish maximum interest rates, finance charges and other charges, (iii) require disclosures to customers and investors, (iv) govern secured transactions, (v) set collection, foreclosure, repossession and other trade practices, and (vi) regulate the use and reporting of information related to a borrower's credit experience. KCC's ability to comply with these and other governmental and legal requirements and restrictions affects its operations.

## **Legal Proceedings**

KCC is routinely involved in litigation and other legal proceedings in connection with its ordinary course business activities. KCC is not currently involved in any litigation or other legal proceedings that, if determined adversely to KCC, would individually or in the aggregate be expected to have a material adverse effect on KCC's business, results of operations or financial condition.

## KUBOTA CORPORATION

### Overview

The Group is a leading agricultural and construction machinery manufacturer in the world, offering a broad line-up of agricultural machines for rice farming and dry-field farming around the world. In addition to farm equipment and agricultural-related products, the Group's Farm & Industrial Machinery business offers a variety of construction machinery as well as compact, lightweight and powerful diesel engines. The Group is also engaged in the Water & Environment business, offering water-treatment technologies which have been refined over the course of more than 130 years. North America, Japan and Asia outside Japan are the Group's main markets, with revenues from external customers accounting for 41.1 per cent., 22.5 per cent. and 19.9 per cent., respectively, of the Group's total consolidated revenue from external customers for the fiscal year ended 31 December 2022, followed by Europe.

The reportable segments of the Group represent the Group's organisational structure, which is principally based on the nature of products and services. The Group's business is categorised into the following three segments:

- *Farm & Industrial Machinery.* This segment mainly engages in manufacturing and sales of farm equipment, agricultural-related products, engines, and construction machinery. For the fiscal year ended 31 December 2022 and the three-month period ended 31 March 2023, revenue from external customers in this segment amounted to ¥2,328.0 billion and ¥685.0 billion, respectively, representing 86.9 per cent. and 87.6 per cent., respectively, of total consolidated revenue for the respective periods.
- *Water & Environment.* This segment mainly engages in manufacturing and sales of pipe system-related products (ductile iron pipes, plastic pipes and other products), materials and urban infrastructure-related products (reformer and cracking tubes, spiral welded steel pipes, air-conditioning equipment and other products) and environment-related products (environmental control plants, pumps and other products). For the fiscal year ended 31 December 2022 and the three-month period ended 31 March 2023, revenue from external customers in this segment amounted to ¥327.6 billion and ¥91.0 billion, respectively, representing 12.2 per cent. and 11.6 per cent., respectively, of total consolidated revenue for the respective periods.
- *Other.* This segment offers a variety of services. For the fiscal year ended 31 December 2022 and the three-month period ended 31 March 2023, revenue from external customers in this segment amounted to ¥23.2 billion and ¥5.6 billion, respectively, representing 0.9 per cent. and 0.7 per cent., respectively, of total consolidated revenue for the respective periods.

As of 31 March 2023, the Company had 199 consolidated subsidiaries (of which 154 were overseas consolidated subsidiaries) and 20 associates accounted for using the equity method. For the fiscal year ended 31 December 2022, the Group's revenue, operating profit, profit before income taxes and profit attributable to owners of parent amounted to ¥2,678.8 billion, ¥218.9 billion, ¥233.9 billion and ¥156.2 billion, respectively. For the three-month period ended 31 March 2023, the Group's revenue, operating profit, profit before income taxes and profit attributable to owners of parent amounted to ¥781.6 billion, ¥103.2 billion, ¥105.5 billion and ¥69.1 billion, respectively.

The Company's registered head office is located at 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan.

### Selected Consolidated Financial Information and Other Data

The following selected consolidated financial information and other data should be read in conjunction with the Company's audited annual consolidated financial statements and related notes, the Company's unaudited condensed interim consolidated financial statements and related notes, and "Recent Business of the Group" included elsewhere in this Offering Circular. The consolidated statements of profit or loss data and cash flow data for the fiscal years ended 31 December 2020, 2021 and 2022 and the consolidated statement of financial position data as of 31 December 2020, 2021 and 2022 have been extracted without material adjustment from the audited annual consolidated financial statements of the

Company included elsewhere in this Offering Circular. The condensed interim consolidated statement of profit or loss data for the three-month periods ended 31 March 2022 and 2023 and the condensed interim consolidated statement of financial position data as of 31 March 2023 have been extracted without material adjustment from the unaudited condensed interim consolidated financial statements of the Company included elsewhere in this Offering Circular.

The Company acquired EKL in April 2022. As the Company had not completed measurements of the associated fair value of the assets acquired, liabilities assumed, non-controlling interests and goodwill as of 31 December 2022, the Company recorded provisional values in the consolidated financial statements as of and for the fiscal year ended 31 December 2022. Upon subsequent completion of the relevant final measurements, the Company has retrospectively applied adjustments of the provisional amounts associated with the completion of the initial accounting for business combination to the figures previously recorded for the fiscal year ended 31 December 2022 presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023. Such retrospective adjustments have not been reflected in the audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022.

Statement of financial position data and related data as of 31 March 2022 have not been included in the below table. Further, data relating to Financial Services business ("Financial Services") have not been calculated in respect of the three-month periods ended 31 March 2022 and 2023.

The Company's consolidated financial statements have been prepared and presented in accordance with IFRS. Historical results are not necessarily indicative of results to be expected for future periods.

	As of and for the Fiscal Year Ended 31 December			As of and for the Three-Month Period Ended 31 March	
	2020	2021	2022	2022	2023
(Millions of yen, except per share data and financial indicators (where indicated))					
<b>Statement of Profit or Loss Data</b>					
Revenue .....	¥1,853,234	¥2,196,766	¥2,678,772	¥592,792	¥781,563
Operating profit .....	175,284	244,565	218,942	66,779	103,248
Profit before income taxes .....	185,899	250,917	233,927	74,837	105,495
Profit attributable to owners of the parent .....	128,524	174,765	156,182	50,571	69,100
<b>Statement of Financial Position Data</b>					
Total current assets .....	1,638,542	1,867,415	2,305,325	—	2,401,121
Total assets .....	3,189,317	3,773,656	4,731,273	—	4,916,820
Total current liabilities .....	1,026,426	1,313,739	1,594,530	—	1,597,265
Total liabilities .....	1,615,132	1,988,547	2,653,943	—	2,734,195
Total equity attributable to owners of the parent .....	1,476,039	1,678,035	1,883,321	—	1,943,414
Bonds and borrowings .....	874,436	1,094,509	1,611,105	—	1,760,683
<b>Cash Flow Data</b>					
Net cash (used in) provided by operating activities .....	142,919	92,511	(7,680)	(84,260)	(105,047)
Net cash used in investing activities .....	(47,133)	(127,370)	(318,499)	(73,899)	(47,171)
Net cash provided by (used in) financing activities .....	(68,354)	60,586	282,557	196,781	105,777
Cash and cash equivalents at end of the period .....	222,919	258,639	225,799	305,924	181,097
<b>Per Share Data (in yen)</b>					
Earnings per share attributable to owners of the parent (EPS) <sup>(1)</sup> .....	¥105.85	¥144.80	¥130.82	¥42.15	¥58.11
Book-value per share (BPS) <sup>(2)</sup> .....	1,221.30	1,398.07	1,581.28	—	—
Cash dividend for the period .....	36.00	42.00	44.00	—	—
<b>Financial Indicators</b>					
Operating margin <sup>(3)</sup> (per cent.) .....	9.5%	11.1%	8.2%	11.3%	13.2%
Return on assets (ROA) <sup>(4)</sup> (per cent.) .....	5.9%	7.3%	5.5%	—	8.7%
Return on equity (ROE) <sup>(5)</sup> (per cent.) .....	8.8%	11.1%	8.8%	—	14.5%
Ratio of equity attributable to owners of the parent to total assets (per cent.) .....	46.3%	44.5%	39.8%	—	39.5%
Shareholder return ratio <sup>(6)</sup> (per cent.) .....	49.4%	40.6%	46.6%	—	—
EBITDA <sup>(7)</sup> (millions of yen) .....	¥242,620	¥316,266	¥304,155	—	—
EBITDA margin <sup>(8)</sup> (per cent.) .....	13.1%	14.4%	11.4%	—	—
Net interest-bearing debt <sup>(9)</sup> (millions of yen) .....	¥651,517	¥835,870	¥1,385,306	1,078,780	¥1,579,586
Net interest-bearing debt excluding Financial Services' net debt <sup>(10)</sup> (millions of yen) .....	¥(379,973)	¥(435,407)	¥(136,420)	—	—

	As of and for the Fiscal Year Ended 31 December			As of and for the Three-Month Period Ended 31 March	
	2020	2021	2022	2022	2023
Net debt equity (net D/E) ratio <sup>(11)</sup> (times) .....	0.44×	0.50×	0.74×	0.61	0.81×
Net interest-bearing debt excluding Financial Services' net debt/EBITDA <sup>(12)</sup> (times) .....	(1.57)×	(1.38)×	(0.45)×	—	—
Free cash flow <sup>(13)</sup> (millions of yen) .....	¥95,786	¥(34,859)	¥(326,179)	¥(158,159)	¥(152,218)
Operating cash flow excluding change in Financial Services' finance receivables <sup>(14)</sup> (millions of yen) .....	¥274,714	¥378,044	¥266,335	—	—
Free cash flow excluding change in Financial Services' finance receivables <sup>(15)</sup> (millions of yen) .....	¥227,581	¥250,674	¥(52,164)	—	—

Notes:

- (1) EPS is calculated based on profit attributable to common shareholders of the parent by the weighted-average number of issued shares of common stock during the period.
- (2) BPS is calculated as equity attributable to owners of the parent divided by the number of shares of common stock outstanding at the end of the period.
- (3) Operating margin is operating profit as a percentage of revenue.
- (4) ROA represents Profit before income taxes ÷ Total assets (average of beginning and end of period) × 100.
- (5) ROE represents Profit attributable to owners of the parent ÷ Equity attributable to owners of the parent (average of beginning and end of period) × 100.
- (6) Shareholder return ratio represents (Annual cash dividend + Retirement of treasury shares) ÷ Profit attributable to owners of the parent × 100.
- (7) EBITDA = Operating profit + Depreciation and amortisation (before deduction of Financial Services business).  
Reconciliation of EBITDA is as follows:

	For the Fiscal Year Ended 31 December		
	2020	2021	2022
	(Millions of yen)		
Operating profit .....	¥175,284	¥244,565	¥218,942
Depreciation and amortisation (before deduction of Financial Services business) ...	67,336	71,701	85,213
EBITDA .....	¥242,620	¥316,266	¥304,155

- (8) EBITDA margin represents EBITDA as a percentage of revenue.
- (9) Net interest-bearing debt = Bonds and borrowings – Cash and cash equivalents.
- (10) Financial Services' net debt = Bonds and borrowings in Financial Services – Cash and cash equivalents in Financial Services.  
Net interest-bearing debt excluding Financial Services' net debt = Net interest-bearing debt – Financial Services' net debt.  
Reconciliation of Net interest-bearing debt excluding Financial Services' net debt is as follows:

	As of 31 December		
	2020	2021	2022
	(Millions of yen)		
Bonds and borrowings .....	¥874,436	¥1,094,509	¥1,611,105
Cash and cash equivalents .....	(222,919)	(258,639)	(225,799)
Financial Services' net debt .....	(1,031,490)	(1,271,277)	(1,521,726)
Net interest-bearing debt excluding Financial Services net debt .....	¥(379,973)	¥(435,407)	¥(136,420)

- (11) Net debt equity ratio = Net interest-bearing debt ÷ Equity attributable to owners of the parent.
- (12) Net interest-bearing debt excluding financial services net debt ÷ EBITDA.
- (13) Free cash flow = cash flow from operating activities + cash flow from investing activities.
- (14) Reconciliation of Operating cash flow excluding change in Financial Services' finance receivables is as follows:

	For the fiscal year ended 31 December		
	2020	2021	2022
	(Millions of yen)		
Net cash used in operating activities .....	¥142,919	¥92,511	¥(7,680)
Change in Financial Services' finance receivables .....	(131,795)	(285,533)	(274,015)
Operating cash flow excluding change in Financial Services' finance receivables ...	¥274,714	¥378,044	¥266,335

- (15) Free cash flow excluding change in Financial Services' finance receivables = Operating cash flow excluding change in Financial Services' finance receivables + cash flow from investing activities.

## RECENT BUSINESS OF THE GROUP

*The following discussion and analysis of the Group's results of operations and financial condition should be read in conjunction with "KUBOTA CORPORATION—Selected Consolidated Financial Information and Other Data" and the Company's audited consolidated financial statements as of and for the fiscal years ended 31 December 2022 and 2021 in pages F-6 to F-58 and F-64 to F-112, and the Company's unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023 included in pages Q-6 to Q-26, as well as the notes to such consolidated financial statements appearing elsewhere in this Offering Circular. The audited consolidated financial statements and the unaudited condensed interim consolidated financial statements have been prepared and presented in accordance with IFRS.*

### Overview

The Group is a leading agricultural and construction machinery manufacturer in the world, offering a broad line-up of agricultural machines for rice farming and dry-field farming around the world. In addition to farm equipment and agricultural-related products, the Group's Farm & Industrial Machinery business offers a variety of construction machinery as well as compact, lightweight and powerful diesel engines. The Group is also engaged in the Water & Environment business, offering water-treatment technologies which have been refined over the course of more than 130 years. North America, Japan and Asia outside Japan are the Group's main markets, with revenues from external customers accounting for 41.1 per cent., 22.5 per cent. and 19.9 per cent., respectively, of the Group's total consolidated revenue from external customers for the fiscal year ended 31 December 2022, followed by Europe.

The reportable segments of the Group represent the Group's organisational structure, which is principally based on the nature of products and services. The Group's business is categorised into the following three segments:

- *Farm & Industrial Machinery.* This segment mainly engages in manufacturing and sales of farm equipment, agricultural-related products, engines, and construction machinery.
- *Water & Environment.* This segment mainly engages in manufacturing and sales of pipe system-related products (ductile iron pipes, plastic pipes and other products), materials and urban infrastructure-related products (reformer and cracking tubes, spiral welded steel pipes, air-conditioning equipment and other products) and environment-related products (environmental control plants, pumps and other products).
- *Other.* This segment mainly engages in offering a variety of services.

### Significant Accounting Estimates and Assumptions

The Company prepares its consolidated financial statements in accordance with IFRS, which requires the application of accounting policies and the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those accounting estimates and assumptions. Estimates and assumptions are continually reviewed. The effects of a change in accounting estimates, if any, are recognised in the reporting period in which the change is made and in the future periods.

Effective from the beginning of the fiscal year ending 31 December 2023, the Company and its subsidiaries have adopted IFRS 17 "Insurance Contracts". The Company has retrospectively applied IFRS 17 with a transition date of 1 January 2022. The retrospective adjustment has been applied to corresponding figures for the fiscal year ended 31 December 2022 presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. See "Note 3. MATERIAL ACCOUNTING POLICIES — Changes in Accounting Policy" of the Notes to the Company's unaudited condensed interim consolidated financial statements for the three-month period ended 31 March 2023 included elsewhere in this Offering Circular.



In addition, the provisional accounting for the business combination of EKL, which the Company acquired in April 2022, has been finalised during the three-month period ended 31 March 2023 (see "— Acquisition of EKL" below).

The Company has previously evaluated and recognised an allowance for doubtful accounts for lease receivables based on lifetime expected credit losses. Effective from the fiscal year ended 31 December 2022, an allowance for doubtful accounts of which credit risk has not increased significantly since initial recognition is recognised for the 12-month expected credit losses, and an allowance for doubtful accounts of which credit risk has increased significantly since initial recognition is recognised for lifetime expected credit losses. The Company made this change since the Company had, by the fiscal year ended 31 December 2022, accumulated sufficient data to enable a more detailed evaluation of expected credit losses for the finance lease business offered mainly in Thailand. In this Offering Circular, two separate sets of audited annual consolidated financial statements as of and for the fiscal years ended 31 December 2021 and 31 December 2022, and as of and for the fiscal years ended 31 December 2020 and 31 December 2021, are included. The change in the accounting policy has been applied retrospectively to the comparative information for the fiscal year ended 31 December 2021 contained in the Company's audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022 included elsewhere in this Offering Circular. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal years ended 31 December 2020 and 31 December 2021 included elsewhere in this Offering Circular. See "Note 3. SIGNIFICANT ACCOUNTING POLICIES — Changes in Accounting Policies" of the Notes to the Company's audited annual consolidated financial statements for the fiscal year ended 31 December 2022 included elsewhere in this Offering Circular.

With regard to significant accounting estimates and assumptions for the fiscal year ended 31 December 2022, see "Note 2. BASIS OF FINANCIAL STATEMENTS — Significant Accounting Judgements, Estimates, and Assumptions" and "Note 3. SIGNIFICANT ACCOUNTING POLICIES" of the Notes to the Company's audited consolidated financial statements for the fiscal year ended 31 December 2022 included elsewhere in this Offering Circular. With regard to significant accounting estimates and assumptions for the three-month period ended 31 March 2023, see "Note 2. BASIS OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS" and "Note 3. MATERIAL ACCOUNTING POLICIES" of the Notes to the Company's unaudited condensed consolidated financial statements for the three-month period ended 31 March 2023 included elsewhere in this Offering Circular.

#### **New Accounting Standards and Interpretations Not Yet Adopted**

See "Note 3. SIGNIFICANT ACCOUNTING POLICIES — New Accounting Standards and Interpretations Not Yet Adopted" of the Notes to the Company's audited consolidated financial statements for the fiscal year ended 31 December 2022 included elsewhere in this Offering Circular for accounting standards newly issued but which have not been applied in the fiscal year ended 31 December 2022 since application was not mandatory.

#### **Recent Developments**

##### ***Absorption-type demerger between the Company and KUBOTA Environmental Engineering Corporation***

On 1 April 2023, the Company concluded an absorption-type demerger to take over the waste incineration, melting, crushing and recycling business operations of its wholly owned subsidiary KUBOTA Environmental Engineering Corporation ("KKE"). No shares, cash or other assets were allocated or delivered as consideration for the demerger.

The strategic rationale for the demerger is to strengthen collaboration between the two companies by defining their respective roles and responsibilities more clearly. The new arrangement, under which the Company has taken over some of the business previously handled by KKE, aims to consolidate dispersed resources and to help build a more competitive environmental plant business, while at the same time allowing KKE to focus more on its operation and maintenance contracting business.

Since the demerger is a reorganisation of the Company and one of its wholly-owned subsidiaries, the impact on the Company's consolidated financial results is immaterial.

## Acquisition of EKL

In February 2022, the Company acquired shares of EKL (a major tractor manufacturer in India with a revenue of ¥111.8 billion and net profit of ¥11.0 billion (converted to yen at the rate of 1 Indian Rupee to 1.50 Japanese yen) for the fiscal year ended 31 March 2022) additional to what it already held by way of third-party preferential primary share allotment following the approval from EKL's shareholders in a general meeting of shareholders, and authorisations from the relevant regulatory authorities. Further, the Company proceeded with an open offer bid for EKL's shares and completed the settlement of such offer in April 2022. Upon completion of the third-party allotment and the open offer, the Company owned 44.8 per cent. of the outstanding shares of EKL, and EKL became a consolidated subsidiary of the Company due to the effective control by the Company of EKL through such shareholding and its appointment of a director of EKL.

The strategic rationale for the acquisition include the following: (i) increasing market share in the rapidly growing Indian market, (ii) addressing growing basic tractor (highly durable tractors with limited functions at reasonable prices) needs in emerging countries, (iii) achieving R&D synergy through combining EKL's cost-cutting philosophy with the Group's technology, and (iv) achieving manufacturing synergy by introducing KPS (Kubota Production System, the fundamental concept of the Group's manufacturing, based on "just-in-time", "*jidoka* (automation)" and elimination of waste).

EKL is currently planning to commence capital reduction, and two joint ventures between the Company and EKL (Kubota Agricultural Machinery India Private Ltd., a joint sales company and Escorts Kubota India Private Limited, a joint manufacturing company, both of which are subsidiaries of the Company) are planned to be merged with and absorbed by EKL (such merger is currently awaiting the approval of relevant authorities). Following the completion of the capital reduction and merger, the Company's shareholding ratio in EKL is expected to rise to 54.07 per cent.

With respect to the acquisition of EKL, as the Company had not completed measurements of the associated fair value of the assets acquired, liabilities assumed, non-controlling interests and goodwill as of 31 December 2022, the Company recorded provisional values in the consolidated financial statements as of and for the fiscal year ended 31 December 2022. The provisional accounting for the business combination of EKL was finalised during the three-month period ended 31 March 2023, and the Company has retrospectively applied adjustments of the provisional amounts associated with the completion of the initial accounting for business combination to the figures previously recorded for the fiscal year ended 31 December 2022 presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. See "Note 5. BUSINESS COMBINATION" of the Notes to the Company's unaudited condensed interim consolidated financial statements for the three-month period ended 31 March 2023 included elsewhere in this Offering Circular.

## Consolidated Results for the Fiscal Year Ended 31 December 2022 Compared to the Fiscal Year Ended 31 December 2021

### Overview

In the fiscal year ended 31 December 2022, the market environment changed significantly due to geopolitical events and accelerating inflation, including increases in energy prices, in addition to continued shortages and disruptions in supply chains that continued from the fiscal year ended 31 December 2021.

In this environment, the Group has focused on achieving its Mid-Term Business Plan 2025 to serve as the foundation for GMB2030.

### Results of Operations

#### Revenue

Revenue for the fiscal year ended 31 December 2022 amounted to ¥2,678.8 billion, an increase of ¥482.0 billion, or 21.9 per cent., compared to the previous fiscal year. This principally reflected an increase in overseas revenue, particularly in North America and Asia outside Japan, reflecting factors such as sales price increases.

### *Cost of Sales*

Cost of sales for the fiscal year ended 31 December 2022 amounted to ¥1,982.2 billion, an increase of ¥417.3 billion, or 26.7 per cent., compared to the previous fiscal year. This principally reflected an increase in sales as well as increases in raw materials prices (particularly prices of steel and third-party parts) and shipping and logistics expense, as well as a change in sales incentive ratio in the United States.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses for the fiscal year ended 31 December 2022 amounted to ¥485.6 billion, an increase of ¥93.6 billion, or 23.9 per cent., compared to the previous fiscal year. This principally reflected an increase in research and development costs.

### *Other Income/Expenses*

Other income for the fiscal year ended 31 December 2022 amounted to ¥15.5 billion, an increase of ¥4.9 billion, or 45.6 per cent., compared to the previous fiscal year. This principally reflected increases in foreign exchange gains and profit from disposal of property, plant and equipment and intangible assets, set off to a certain extent by a decrease in royalty income and insurance proceeds.

Other expenses for the fiscal year ended 31 December 2022 amounted to ¥7.4 billion, an increase of ¥1.6 billion, or 28.3 per cent., compared to the previous fiscal year. This principally reflected increases in loss from disposal of property, plant, and equipment and intangible assets and impairment loss of property, plant, and equipment and intangible assets.

### *Operating Profit*

As a result of the above, operating profit for the fiscal year ended 31 December 2022 amounted to ¥218.9 billion, a decrease of ¥25.6 billion, or 10.5 per cent., compared to the previous fiscal year.

### *Finance Income/Costs*

Finance income for the fiscal year ended 31 December 2022 amounted to ¥17.0 billion, an increase of ¥7.6 billion, or 81.8 per cent., compared to the previous fiscal year, principally reflecting an increase in interest income. Finance costs for the fiscal year ended 31 December 2022 amounted to ¥2.0 billion, a decrease of ¥1.0 billion, or 33.2 per cent., compared to the previous fiscal year.

### *Profit Before Income Taxes*

As a result of the above, profit before income taxes for the fiscal year ended 31 December 2022 amounted to ¥233.9 billion, a decrease of ¥17.0 billion, or 6.8 per cent., compared to the previous fiscal year.

### *Income Tax Expenses*

Income tax expenses for the fiscal year ended 31 December 2022 amounted to ¥59.1 billion, a decrease of ¥5.6 billion, or 8.7 per cent., compared to the previous fiscal year. This principally reflected an increase in deferred tax expenses.

### *Share of Profits of Investments Accounted for Using the Equity Method*

Share of profits of investments accounted for using the equity method for the fiscal year ended 31 December 2022 amounted to ¥1.6 billion, a decrease of ¥1.4 billion, or 46.0 per cent., compared to the previous fiscal year.

### *Profit for the Year / Profit Attributable to Owners of the Parent*

As a result of the above, profit for the fiscal year ended 31 December 2022 amounted to ¥176.4 billion, a decrease of ¥12.8 billion, or 6.8 per cent., compared to the previous fiscal year, while profit attributable to owners of the parent for the fiscal year ended 31 December 2022 amounted to ¥156.2 billion, a decrease of ¥18.6 billion, or 10.6 per cent., compared to the previous fiscal year.

## ***Results by Reporting Segment***

In this section, figures for revenue per segment represent revenue from external customers, while operating profit per segment represents the total operating profit for such segment, without taking into account any inter-segment adjustments.

### ***Farm & Industrial Machinery***

Revenue in this segment increased by ¥463.2 billion, or 24.8 per cent., from the previous fiscal year to ¥2,328.0 billion for the fiscal year ended 31 December 2022.

Domestic revenue in the fiscal year ended 31 December 2022 decreased by 2.5 per cent. from the previous fiscal year, to ¥302.6 billion. Sales of farm equipment and agricultural-related products decreased due to stagnant rice prices and termination of subsidies for business continuation of farmers.

Overseas revenue increased by 30.3 per cent. from the previous fiscal year to ¥2,025.4 billion for the fiscal year ended 31 December 2022. In North America, shipment of tractors increased as inventories were restocked although the residential market showed a decline. In addition, sales of construction machinery and engines increased due to demand for infrastructure development by the government. In Europe, sales of construction machinery and engines increased, supported by demand for construction, while sales of tractors struggled due to inventory shortage in the first half of the fiscal year and a decline in investment appetite caused by inflation and a rise in interest rates. In Asia outside Japan, sales for rice farming products in Thailand decreased due to a government project in the fiscal year ended 31 December 2021 which was implemented to improve agricultural productivity in response to COVID-19 which provided support for the purchase of agricultural machinery including tractors, combine harvesters, rice transplanters and drones, which was not extended in the fiscal year ended 31 December 2022, while sales for dryland farming products remained solid. In India, sales increased as EKL was consolidated into the Group during the first half of the fiscal year ended 31 December 2022; on a product basis, sales for dryland farming products were strong due to a good yield, while sales for rice farming products decreased mainly due to flooding. In China, sales of tractors increased due to increased demand prior to changes in the emission regulation though this was outweighed by decreased sales, mainly of rice transplanters, caused by a lockdown in the first half of the fiscal year ended 31 December 2022. In Other areas, sales were firm mainly in Australia, where demand was solid.

Operating profit in this segment decreased by ¥11.7 billion, or 4.7 per cent., from the previous fiscal year to ¥237.1 billion for the fiscal year ended 31 December 2022, due primarily to a rise in material prices and logistics expenses, set off to a certain extent by a favourable impact of foreign exchange rates.

### ***Water & Environment***

Revenue in this segment increased by ¥22.2 billion, or 7.3 per cent., from the previous fiscal year to ¥327.6 billion for the fiscal year ended 31 December 2022.

Domestic revenue increased by 4.1 per cent. from the previous fiscal year, to ¥276.6 billion for the fiscal year ended 31 December 2022. Revenue from pipe system-related products increased due to sales price increases and increased sales of plastic pipes to apartment buildings, although with respect to the ductile iron pipes business, there was a tendency to delay with respect to construction works, due to staff shortages at construction sites. Revenue from materials and urban infrastructure-related products increased due to increased sales of products such as air-conditioning equipment to factories in Japan, as there was a trend towards re-shoring factories to Japan through the review of supply chains. Revenue in environment-related products decreased in comparison to unusually high demand for drainage pump vehicles in the prior year.

Overseas revenue increased by 28.6 per cent. from the previous fiscal year, to ¥51.0 billion for the fiscal year ended 31 December 2022, due to increased sales of materials such as reformer and cracking tubes. In relation to environment-related products, sales of water supply and sewage facilities increased, such as operating and maintenance services and public-private partnership projects.

Operating profit in this segment decreased by ¥5.0 billion, or 22.5 per cent., from the previous fiscal year to ¥17.3 billion for the fiscal year ended 31 December 2022, principally due to increased expenses caused by inflation which have been set off to a certain extent by sales price increases.

### *Other*

Revenue in this segment decreased by ¥3.4 billion, or 12.8 per cent., from the previous fiscal year to ¥23.2 billion for the fiscal year ended 31 December 2022. Operating profit in this segment decreased by ¥0.6 billion, or 16.5 per cent., from the previous fiscal year to ¥3.1 billion for the fiscal year ended 31 December 2022.

### ***Results by Geographical Location***

In this section, revenues by geographical location represent revenue from external customers by geographical location.

Domestic revenue decreased by ¥0.4 billion, or 0.1 per cent., from the previous fiscal year to ¥602.4 billion for the fiscal year ended 31 December 2022, due to decreased revenue in the Farm & Industrial Machinery segment, mainly due to decreased sales of farm equipment, and the Other segment, set off to an extent by increased revenue in the Water & Environment segment.

Overseas revenue increased by ¥482.4 billion, or 30.3 per cent., from the previous fiscal year to ¥2,076.4 billion for the fiscal year ended 31 December 2022, because of increased revenue in both the Farm & Industrial Machinery and Water & Environment segments. Revenues from external customers in North America, Europe, Asia outside Japan and Other areas in the fiscal year ended 31 December 2022 amounted to ¥1,102.0 billion, ¥338.0 billion, ¥533.0 billion and ¥103.4 billion, respectively, representing increases of 34.4 per cent., 18.3 per cent., 31.0 per cent. and 26.7 per cent., respectively, from the previous fiscal year. As a result, overseas revenue accounted for 77.5 per cent. of the consolidated revenue in the fiscal year ended 31 December 2022, which increased by 5.0 percentage points from the previous fiscal year.

### **Consolidated Results for the Three-Month Period Ended 31 March 2023 Compared to the Three-Month Period Ended 31 March 2022**

#### *Revenue*

Revenue for the three-month period ended 31 March 2023 amounted to ¥781.6 billion, an increase of ¥188.8 billion, or 31.8 per cent., compared to the same period in the previous fiscal year. This principally reflected increases in the Farm & Industrial Machinery and Water & Environment segments and overseas revenue.

#### *Cost of Sales*

Cost of sales for the three-month period ended 31 March 2023 amounted to ¥551.4 billion, an increase of ¥118.1 billion, or 27.2 per cent., compared to the same period in the previous fiscal year. This principally reflected an increase in sales as well as increases in raw materials prices and sales incentive costs (caused by a rise in interest rates).

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses for the three-month period ended 31 March 2023 amounted to ¥126.8 billion, an increase of ¥26.2 billion, or 26.0 per cent., compared to the same period in the previous fiscal year. This principally reflected increases in various expenses mainly due to inflation, as well as in research and development costs.

#### *Other Income/Expenses*

Other income for the three-month period ended 31 March 2023 amounted to ¥1.1 billion, a decrease of ¥7.6 billion, or 87.8 per cent., compared to the same period in the previous fiscal year. This principally reflected decreases in foreign exchange gains.

Other expenses for the three-month period ended 31 March 2023 amounted to ¥1.2 billion, an increase of ¥0.5 billion, or 63.2 per cent., compared to the same period in the previous fiscal year. This principally reflected foreign exchange losses.

### *Operating Profit*

As a result of the above, operating profit for the three-month period ended 31 March 2023 amounted to ¥103.2 billion, an increase of ¥36.5 billion, or 54.6 per cent., compared to the same period in the previous fiscal year.

### *Finance Income/Costs*

Finance income for the three-month period ended 31 March 2023 amounted to ¥3.3 billion, a decrease of ¥4.9 billion, or 59.8 per cent., compared to the same period in the previous fiscal year, principally reflecting decreases in gains on settlement of forward exchange contracts. Finance costs for the three-month period ended 31 March 2023 amounted to ¥1.0 billion, an increase of ¥0.9 billion, or 730.2 per cent., compared to the same period in the previous fiscal year.

### *Profit Before Income Taxes*

As a result of the above, profit before income taxes for the three-month period ended 31 March 2023 amounted to ¥105.5 billion, an increase of ¥30.7 billion, or 41.0 per cent., compared to the same period in the previous fiscal year, principally reflecting increased operating profit.

### *Income Tax Expenses*

Income tax expenses for the three-month period ended 31 March 2023 amounted to ¥30.3 billion, an increase of ¥10.4 billion, or 52.4 per cent., compared to the same period in the previous fiscal year. This principally reflected an increase in current taxable income.

### *Share of Profits of Investments Accounted for Using the Equity Method*

Share of profits of investments accounted for using the equity method for the three-month period ended 31 March 2023 amounted to ¥0.1 billion, a decrease of ¥0.4 billion, or 78.3 per cent., compared to the same period in the previous fiscal year.

### *Profit for the Year / Profit Attributable to Owners of the Parent*

As a result of the above, profit for the three-month period ended 31 March 2023 amounted to ¥75.3 billion, an increase of ¥19.8 billion, or 35.7 per cent., compared to the same period in the previous fiscal year, while profit attributable to owners of the parent for the three-month period ended 31 March 2023 amounted to ¥69.1 billion, an increase of ¥18.5 billion, or 36.6 per cent., compared to the same period in the previous fiscal year.

### **Results by Reporting Segment**

In this section, figures for revenue per segment represent revenue from external customers, while operating profit per segment represents the total operating profit for such segment, without taking into account any inter-segment adjustments.

#### *Farm & Industrial Machinery*

Revenue in this segment for the three-month period ended 31 March 2023 increased by ¥185.7 billion, or 37.2 per cent., from the same period in the previous fiscal year, to ¥685.0 billion.

Domestic revenue for the three-month period ended 31 March 2023 increased by 9.3 per cent. from the same period in the previous fiscal year, to ¥79.5 billion, mainly due to increased sales of farm equipment and agricultural-related products.

Overseas revenue for the three-month period ended 31 March 2023 increased by 41.9 per cent. from the same period in the previous fiscal year, to ¥605.5 billion. In North America, sales increased due to significant progress of replenishment of dealer inventory due to improvement of logistics congestion. In addition, sales of construction machinery increased thanks to backorders of home construction and demand for infrastructure construction by the government. In Europe, sales of construction machinery and engines were solid, supported by construction demand. Sales of tractors also increased thanks to improvement of inventory shortage. With respect to Asia outside Japan, in Thailand, sales of farm equipment for dryland

farming were firm. On the other hand, the Group struggled with sales for rice farming due to delay of market recovery. Sales in India increased due to consolidation of EKL since the second quarter of the prior fiscal year.

Operating profit in this segment for the three-month period ended 31 March 2023 increased by ¥48.2 billion, or 80.8 per cent., from the same period in the previous fiscal year, to ¥107.8 billion, due primarily to some favourable impacts of foreign exchange rates, sales price increase, and sales increase, although there were some negative effects from an increase in sales incentive cost caused by a rise in interest rates, a rise in material prices, and an increase in various expenses caused principally by inflation.

#### *Water & Environment*

Revenue in this segment for the three-month period ended 31 March 2023 increased by ¥3.4 billion, or 3.9 per cent., from the same period in the previous fiscal year, to ¥91.0 billion.

Domestic revenue for the three-month period ended 31 March 2023 increased by 0.4 per cent. from the same period in the previous fiscal year, to ¥78.5 billion. Sales of pipe system business increased due to firm sales of plastic pipes for apartment building and non-residential market. Sales of environment business decreased mainly due to decreased sales of pumps while sales of operation and maintenance increased steadily.

Overseas revenue for the three-month period ended 31 March 2023 increased by 33.8 per cent. from the same period in the previous fiscal year, to ¥12.5 billion, mainly due to firm sales of industrial products business, such as cracking tubes, supported by demand for overseas factory construction.

Operating profit in this segment for the three-month period ended 31 March 2023 decreased by ¥0.5 billion, or 5.5 per cent., from the same period in the previous fiscal year to ¥9.0 billion, principally due to a rise in various expenses caused by inflation, although sales price increase could compensate some negative effects from a rise in material prices.

#### *Other*

Revenue in this segment for the three-month period ended 31 March 2023 decreased by ¥0.4 billion, or 6.3 per cent., from the previous fiscal year to ¥5.6 billion. Operating profit in this segment decreased by ¥0.5 billion, or 39.7 per cent., from the same period in the previous fiscal year, to ¥0.7 billion.

### **Results by Geographical Location**

In this section, revenues by geographical location represent revenue from external customers by geographical location.

Domestic revenue for the three-month period ended 31 March 2023 increased by ¥6.7 billion, or 4.3 per cent., from the same period in the previous fiscal year to ¥163.6 billion, principally due to increased revenue in the Farm & Industrial Machinery segment and the Water & Environment segment.

Overseas revenue for the three-month period ended 31 March 2023 increased by ¥182.1 billion, or 41.8 per cent., from the same period in the previous fiscal year to ¥618.0 billion, because of increased revenue in both the Farm & Industrial Machinery and Water & Environment segments.

Revenues from external customers in North America, Europe, Asia outside Japan and Other areas in the three-month period ended 31 March 2023 amounted to ¥321.9 billion, ¥109.1 billion, ¥159.2 billion and ¥27.7 billion, respectively, representing increases of 48.6 per cent., 41.3 per cent., 32.8 per cent. and 25.1 per cent., respectively, from the same period in the previous fiscal year. As a result, overseas revenue accounted for 79.1 per cent. of the consolidated revenue in the three-month period ended 31 March 2023, which increased by 5.5 percentage points from the same period in the previous fiscal year.

## Financial Condition

### ***Consolidated Balance Sheet as of 31 December 2022 Compared to Consolidated Balance Sheet as of 31 December 2021***

Figures in respect of the Group's financial position as of 31 December 2022 in the analysis below have been derived from the Company's audited consolidated financial statements for the fiscal year ended 31 December 2022 included elsewhere in this Offering Circular, and may differ from the corresponding figures presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023 included in this Offering Circular (see "—Acquisition of EKL").

#### *Assets*

Current assets as of 31 December 2022 amounted to ¥2,305.3 billion, an increase of ¥437.9 billion, or 23.5 per cent., from 31 December 2021. Non-current assets as of 31 December 2022 amounted to ¥2,425.9 billion, an increase of ¥519.7 billion, or 27.3 per cent., from 31 December 2021. Trade receivables increased due to increased revenue in North America. Inventories increased mainly due to an increase in inventories in transit. In addition, goodwill increased following the consolidation of EKL, and property, plant, and equipment increased mainly due to establishment of Kubota Global Institute of Technology. As a result of the above, total assets as of 31 December 2022 amounted to ¥4,731.3 billion, an increase of ¥957.6 billion, or 25.4 per cent., from 31 December 2021.

#### *Liabilities*

Current liabilities as of 31 December 2022 amounted to ¥1,594.5 billion, an increase of ¥280.8 billion, or 21.4 per cent., from 31 December 2021. Non-current liabilities as of 31 December 2022 amounted to ¥1,059.4 billion, an increase of ¥384.6 billion, or 57.0 per cent., from 31 December 2021. These principally reflected increases in bonds and borrowings due to an increase in finance receivables and the acquisition of the shares of EKL. As a result of the above, total liabilities as of 31 December 2022 amounted to ¥2,653.9 billion, an increase of ¥665.4 billion, or 33.5 per cent., from 31 December 2021.

#### *Equity*

Equity as of 31 December 2022 amounted to ¥2,077.3 billion, an increase of ¥292.2 billion, or 16.4 per cent., from 31 December 2021. This principally reflected the accumulation of retained earnings and an improvement in other components of equity along with fluctuations mainly in foreign exchange rates. The ratio of equity attributable to owners of the parent to total assets as of 31 December 2022 stood at 39.8 per cent., 4.7 percentage points lower than as of 31 December 2021.

### ***Consolidated Balance Sheet as of 31 March 2023 Compared to Consolidated Balance Sheet as of 31 December 2022***

Figures in respect of the Group's financial position as of 31 December 2022 in the analysis below have been derived from the figures presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023 included in this Offering Circular (see "—Acquisition of EKL").

#### *Assets*

Current assets as of 31 March 2023 amounted to ¥2,401.1 billion, an increase of ¥113.3 billion, or 5.0 per cent., from ¥2,287.8 billion as of 31 December 2022. Non-current assets as of 31 March 2023 amounted to ¥2,515.7 billion, an increase of ¥38.4 billion, or 1.6 per cent., from ¥2,477.3 billion as of 31 December 2022. Trade receivables principally increased due to increased revenue in North America and Europe. As a result of the above, total assets as of 31 March 2023 amounted to ¥4,916.8 billion, an increase of ¥151.8 billion, or 3.2 per cent., from ¥4,765.1 billion as of 31 December 2022.

#### *Liabilities*

Current liabilities as of 31 March 2023 amounted to ¥1,597.3 billion, an increase of ¥13.7 billion, or 0.9 per cent., from ¥1,583.6 billion as of 31 December 2022. Non-current liabilities as of 31 March 2023 amounted to ¥1,136.9 billion, an increase of ¥57.9 billion, or 5.4 per cent., from ¥1,079.0 billion as of 31



December 2022. These principally reflected an increase in bonds and borrowings due to an increase in working capital mainly along with a change of payment terms with business partners. As a result of the above, total liabilities as of 31 March 2023 amounted to ¥2,734.2 billion, an increase of ¥71.6 billion, or 2.7 per cent., from ¥2,662.6 billion as of 31 December 2022.

#### *Equity*

Equity as of 31 March 2023 amounted to ¥2,182.6 billion, an increase of ¥80.1 billion, or 3.8 per cent., from ¥2,102.5 billion as of 31 December 2022. This principally reflected the accumulation of retained earnings and an improvement in other components of equity along with fluctuations mainly in foreign exchange rates. The ratio of equity attributable to owners of the parent to total assets as of 31 March 2023 stood at 39.5 per cent., 0.2 percentage points higher than 39.3 per cent. as of 31 December 2022.

#### **Liquidity and Capital Resources**

The Company's financial policy is to ensure adequate financing and liquidity for its operations and to strengthen the health of its consolidated statements of financial position. Through efficient management of working capital, the Company intends to optimise the efficiency of capital utilisation throughout the Group's business operations. The Company seeks to improve its group cash management by centralising cash management among the Company and its overseas financing subsidiaries. The Company's internal sources of funds include cash flows generated by operating activities and cash and cash equivalents. In addition, the Company raises funds by borrowings from financial institutions, financing by securitisation of receivables, and issuance of bonds and commercial paper in capital markets, if necessary. The Company's policy is to finance working capital and capital expenditures primarily by internally generated funds and, to a lesser extent, by funds raised through borrowings from financial institutions and others.

Bonds and borrowings were primarily used in sales financing, consolidation of EKL and capital investments such as the establishment of R&D hubs in Japan and North America in the fiscal year ended 31 December 2022. See "Note 15. BONDS AND BORROWINGS" to the audited consolidated financial statements of the Company for the fiscal year ended 31 December 2022, appearing elsewhere in this Offering Circular.

#### ***Cash Flows for the Fiscal Year Ended 31 December 2022 Compared to the Fiscal Year Ended 31 December 2021***

Net cash used in operating activities during the fiscal year ended 31 December 2022 was ¥7.7 billion, compared to net cash provided by operating activities of ¥92.5 billion recorded in the previous fiscal year. This principally reflected an increase in trade receivables.

Net cash used in investing activities during the fiscal year ended 31 December 2022 was ¥318.5 billion, an increase of ¥191.1 billion in net cash outflow compared with the previous fiscal year. This increase was mainly due to an increase in cash outflow related to acquisition of subsidiaries and property, plant, and equipment.

Net cash provided by financing activities during the fiscal year ended 31 December 2022 was ¥282.6 billion, an increase of ¥222.0 billion in net cash inflow compared with the previous fiscal year. This principally reflected an increase in funding from bonds and long-term borrowings.

After taking into account the effects from exchange rate changes, cash and cash equivalents as of 31 December 2022 amounted to ¥225.8 billion, a decrease of ¥32.8 billion from ¥258.6 billion as of 31 December 2021.

#### ***Cash Flows for the Three-month Period Ended 31 March 2023 Compared to the Three-month Period Ended 31 March 2022***

Net cash used in operating activities during the three-month period ended 31 March 2023 was ¥105.0 billion, an increase of ¥20.8 billion in net cash outflow compared with the same period in the previous fiscal year. This principally reflected an increase in trade receivables and a decrease in trade payables mainly resulting from the change in payment terms with suppliers.

Net cash used in investing activities during the three-month period ended 31 March 2023 was ¥47.2 billion, a decrease of ¥26.7 billion in net cash outflow compared with the same period in the previous fiscal

year. This decrease was mainly due to a decrease in cash outflow related to purchase of investments accounted for using the equity method, although payments for acquisition of property, plant, and equipment in cash outflow increased.

Net cash provided by financing activities during the three-month period ended 31 March 2023 was ¥105.8 billion, a decrease of ¥91.0 billion in net cash inflow compared with the same period in the previous fiscal year. This principally reflected a decrease in funding through short-term borrowings, and an increase in redemptions of bonds and repayments of long-term borrowings.

After taking into account the effects from exchange rate changes, cash and cash equivalents as of 31 March 2023 amounted to ¥181.1 billion, a decrease of ¥44.7 billion from ¥225.8 billion as of 31 December 2022.

### Capital Investment

The Group's capital investment focuses on investments to strengthen R&D capabilities for business expansion, IT investment to promote digital transformation ("DX"), investment to increase production to meet increasing demand, and rationalisation investment to strengthen competitiveness. The Group also makes investments in environmental conservation, safety and health and Business Continuity Plan ("BCP") measures.

The following table sets out a breakdown of the Group's capital expenditures for the periods indicated. The amounts in the table below do not include consumption taxes.

	For the Fiscal Year Ended 31 December		
	2020	2021	2022
	(Millions of yen)		
Reporting Segments:			
Farm & Industrial Machinery .....	¥64,322	¥92,196	¥124,043
Water & Environment.....	7,610	10,395	11,066
Other .....	1,024	539	567
Corporate.....	14,245	18,229	33,748
Total capital expenditures .....	¥87,201	¥121,359	¥169,424

The details of major investments for the fiscal year ended 31 December 2022 were as follows:

- In the Farm & Industrial Machinery segment, investments were made to establish new R&D bases in Japan and North America to increase manufacturing capacity.
- In the Water & Environment segment, investments were made to renew obsolete facilities.
- Corporate investments were made to establish a new R&D base in Japan and to strengthen the IT infrastructure.

## CAPITALISATION AND INDEBTEDNESS OF THE GROUP

The following table shows the consolidated capitalisation and indebtedness of the Group as of 31 March 2023 which has been extracted without material adjustment from the Group's unaudited condensed interim consolidated financial statement as of the same date, and as adjusted to give effect to the issue of the Bonds:

	As of 31 March 2023	
	Actual	As adjusted
	(Millions of yen)	
<b>Short-term debt:</b>		
Bonds and borrowings (current portion) <sup>(2)</sup> .....	¥ 733,192	¥ 733,192
<b>Long-term debt:</b>		
Bonds and borrowings (noncurrent portion) <sup>(2)(3)</sup> .....	1,027,491	1,027,491
The Bonds now being issued <sup>(4)</sup> .....	—	67,000
Subtotal .....	1,027,491	1,094,491
<b>Equity:</b>		
Share capital:		
Authorised: 1,874,700,000 Shares		
Issued: 1,191,006,846 Shares <sup>(6)</sup> .....	84,130	84,130
Share premium .....	79,629	79,629
Retained earnings .....	1,572,177	1,572,177
Other components of equity .....	211,036	211,036
Treasury shares <sup>(7)</sup> (1,838,317 Shares) .....	(3,558)	(3,558)
Total equity attributable to owners of the parent .....	1,943,414	1,943,414
Noncontrolling interests .....	239,211	239,211
Total equity .....	2,182,625	2,182,625
Total capitalisation and indebtedness <sup>(8)</sup> .....	¥ 3,943,308	¥ 4,010,308

### Notes:

- (1) The above table should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Group contained herein.
- (2) Bonds and borrowings consist of borrowings from financial institutions and bonds. As of 31 March 2023, ¥391,128 million of the Group's bonds and borrowings (including the current portion) was secured, and none of the Group's bonds and borrowings (including the current portion) was guaranteed by third parties.
- (3) On 20 April 2023, the Company issued unsecured bonds in a principal amount of ¥120,000 million.
- (4) For the purposes of this table, the yen equivalent of the Bonds has been translated at the rate of U.S.\$1.00 = ¥134.00, the approximate rate of exchange prevailing as of 31 March 2023. This rate of exchange bears no relationship to the rate(s) at which amounts relating to the Bonds will be converted into yen for accounting purposes.
- (5) The Company is contingently liable as guarantor of the indebtedness of distributors, including associates and customers, for their borrowings from financial institutions. These guarantees obligate the Company to make payments in the event of default by the distributor, including associates and customers. The maximum potential amounts of undiscounted future payments of these financial guarantees were ¥3,400 million as of 31 March 2023.
- (6) All of the issued Shares are fully paid and non-assessable.
- (7) On 19 April 2023, the Company passed a resolution to acquire treasury shares up to a maximum purchase amount of ¥20,000 million during the period from 20 April 2023 to 18 December 2023.
- (8) Total capitalisation and indebtedness is the total of total short-term debt, total long-term debt and total equity.
- (9) Other than as stated above, there has been no material change in the Group's consolidated capitalisation, indebtedness, contingent liabilities, security and guarantees since 31 March 2023.

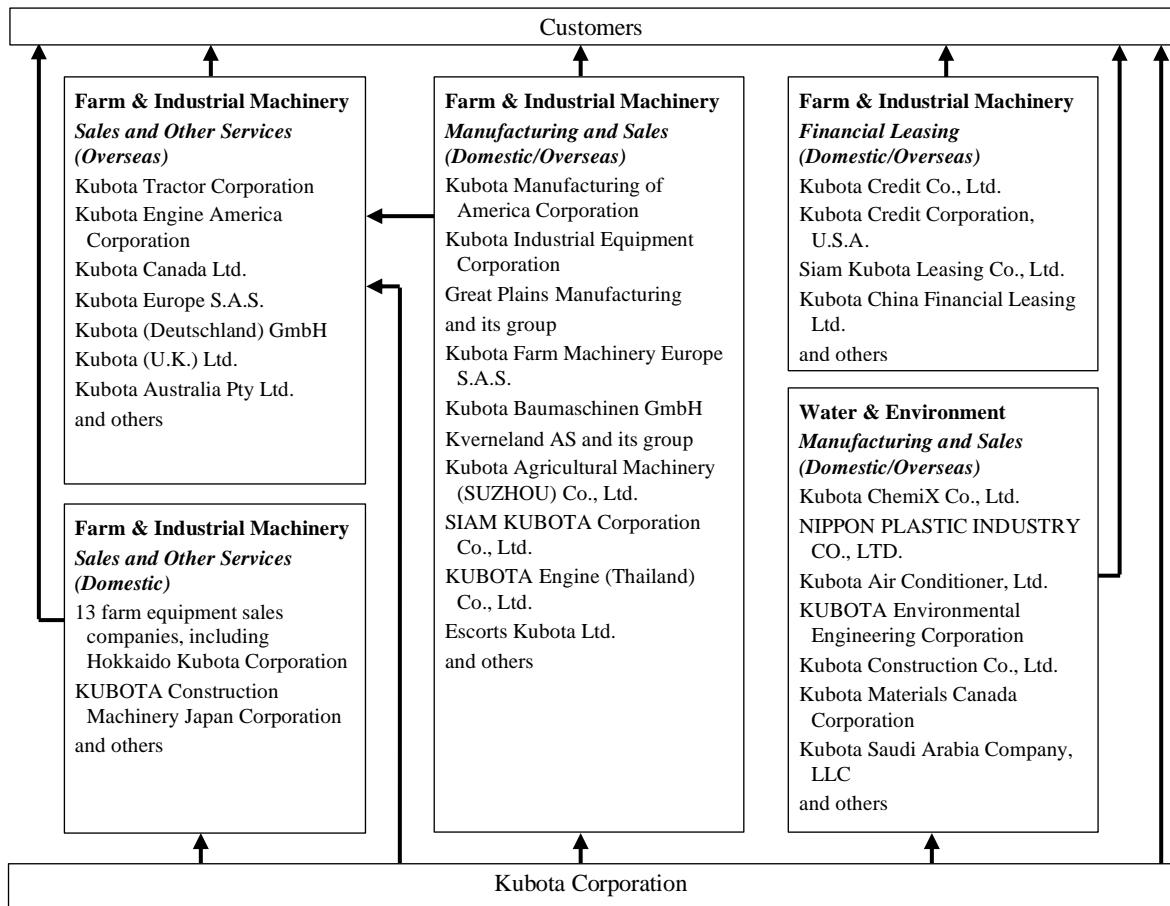
## BUSINESS OF THE GROUP

### Overview

The Group is a leading agricultural and construction machinery manufacturer in the world, offering a broad line-up of agricultural machines for rice farming and dry-field farming around the world. In addition to farm equipment and agricultural-related products, the Group's Farm & Industrial Machinery business offers a variety of construction machinery as well as compact, lightweight and powerful diesel engines. The Group is also engaged in the Water & Environment business, offering water-treatment technologies which have been refined over the course of more than 130 years. North America, Japan and Asia outside Japan are the Group's main markets, with revenues from external customers accounting for 41.1 per cent., 22.5 per cent. and 19.9 per cent., respectively, of the Group's total consolidated revenue from external customers for the fiscal year ended 31 December 2022, followed by Europe.

As of 31 March 2023, the Company had 199 consolidated subsidiaries (of which 154 were overseas consolidated subsidiaries) and 20 associates accounted for using the equity method. EKL, a major Indian tractor manufacturer, became the Company's equity method associate in the first quarter for the year ended 31 December 2022, and the Company's subsidiary in the second quarter for the year ended 31 December 2022. See "Recent Business of the Group—Recent Developments—Acquisition of EKL".

The following diagram sets out the relationships between the principal companies within the Group and the Group's customers as of 31 March 2023:



The Company's registered head office is located at 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka 556-8601 Japan.

The Shares are listed on the Prime Market of the Tokyo Stock Exchange.

## History

The predecessor to the Company was founded in Osaka by Gonshiro Kubota in 1890, when he started his metal casting business at the age of 19. Having commenced production of cast iron pipes for water supply in 1893, the business went on to initiate the mass production of the first cast iron pipes for water supply in Japan in 1904. In 1922 the business commenced production of compact engines for agro-industrial purposes, and started mass production of such engines in 1937. After incorporating as a company in 1930, the Company listed its shares on the Tokyo Stock Exchange and the Osaka Securities Exchange (integrated with the Tokyo Stock Exchange in 2013) in 1949.

Having developed the cultivator, a pioneering piece of equipment in the mechanisation of agriculture, in 1947, the Company went on to develop a tractor to support farming villages suffering from labour shortages in 1960, and in 1968 started manufacturing the original model of the modern rice transplanter, completing a mass-production system of rice transplanters and reaper binders in 1969.

In 1961, the Company established the Water Treatment Division for full-scale entry into the environmental improvement business, to tackle the emerging water pollution problem. In 1974, the Company started manufacturing mini excavators, supporting small-scale urban construction. Having entered the housing materials business in 1967, the Company separated the business off and Kubota Matsushitadenko Exterior Works, Ltd. (currently KMEW Co., Ltd.) took over such business. In 2005, the Company integrated the business of plastic pipe production with C.I. Kasei Co., Ltd. and established Kubota-C.I. Co., Ltd. (currently Kubota ChemiX Co., Ltd.).

The Group commenced its overseas expansion in 1972, with the establishment of Kubota Tractor Corporation in the United States for strengthening the selling system of tractors in North America, and forming Kubota Tractor Europe S.A. (currently Kubota Europe S.A.S.) in France to strengthen the selling system for farm equipment in Europe. In 2004, Company acquired additional shares of The Siam Kubota Industry Co., Ltd. (currently SIAM KUBOTA Corporation Co., Ltd.), which had been an associate of the Company in Thailand, to make it a consolidated subsidiary and strengthen development, manufacturing and sales of farm equipment in South-East Asia. The Group went on to establish subsidiaries in Thailand and France in 2007 and 2013, respectively, to set up manufacturing bases for tractors, and in 2009 established Kubota Saudi Arabia Company, LLC as a hub for the steel casting business in Saudi Arabia. In 2012, the Company acquired ownership interest in Kverneland ASA (currently Kverneland AS ("Kverneland")), a manufacturer of upland farming implements in Norway, and made it a consolidated subsidiary; and in 2016, the Company acquired ownership interest in Great Plains Manufacturing, a manufacturer of implements in the United States, and made it a consolidated subsidiary. In addition, with an aim to enter the expanding Indian tractor market, the Company set up a joint venture with EKL in 2019. Following third-party allotments of EKL shares to the Company in 2020 and 2022 and an open offer bid completed in April 2022, EKL became a consolidated subsidiary of the Company in the second quarter for the fiscal year ended 31 December 2022. In September 2022, Kubota Global Institute of Technology was established with the aim of promoting cooperation between research and development bases worldwide and strengthening the Group's research and development network.

## Strengths

The Company believes the following to be the Group's principal strengths:

### *Competitive strength in the machinery business*

The Group's localised dealer network enables strong sales promotion and after-sales service. As of 31 December 2022, the Group's global dealer network had over 1,100 dealers in the United States, up to 650 and 100 dealers in Europe and Thailand, respectively, and up to 1,600 dealers in India (including the dealers of EKL). The Group has also successfully developed dealer network and earned their loyalty and trust, by growing together and sharing a common goal through continuous dialogue and training, as well as by expanding product portfolio to meet local needs and entering new markets ahead of competitors.

The Group has also established a global R&D network mainly operated by local teams to satisfy diverse local needs. The Group is strengthening its R&D network and operates this network from six regions: Japan, the United States, Thailand, Europe, China and India. Activities at certain of those regions include the following:

- *Japan:* R&D functions in Japan have been consolidated to deal with increased number of models and larger tractors.
- *United States:* A full-scale R&D localisation facility for mowers, utility vehicles and implements has been opened in 2022.
- *Thailand:* The R&D facility in Thailand develops region-specific machinery and implements for ASEAN countries, such as the localised cassava planter/harvester which it has developed.
- *Europe:* An R&D facility in France engages in the development of large-sized agricultural machinery for the European market.

Further, the Group's in-house engines, utilising casting technology accumulated ever since the Company's foundation, enable highly reliable machineries to be offered. The Group's in-house engines are installed in diverse internal and external machinery, including the Group's agricultural machinery and construction machinery, as well as external applications such as generators and refrigeration units. The Group develops highly competitive engines by reflecting feedback from various applications, which further enhances machineries' performance. The Group offers a broad product line-up covering a wide range of size, applications and compatibility with emissions regulations, with engine displacement ranges from 0.479L to 3.124L, with high compatibility for various applications and emissions regulations. The compact but high-power engines offer low vibration and noise, leveraging in-house casting technology, offering high reliability through thorough quality control and inspection systems to ensure high durability, quality and performance. The reliable brand image established in respect of its engines has been leading to expansion of businesses with external customers as well.

### ***Solid market position***

The Group has established solid market position in various fields, as set forth below:

- In the small and medium-sized tractor market in North America, the Group has established a broad and competitive dealer network. Following the Group's entry into the U.S. market in 1972, it had initially struggled due to the different needs of farmers focused on dry field crops; however, the Group successfully created a new compact category for home lawn mowing and gardening for wealthy homeowners in suburban areas. The Group has fostered long-term relationships with highly motivated and trusted dealers who are willing to invest in shops and employees for superior products and services, especially in suburban areas, which created market entry barriers; strong dealership enables the Group to promote new products and promptly gather feedback for further product development. In addition, to meet local needs further and provide comprehensive implements line-up, the Group acquired the agricultural implements manufacturers Kverneland in 2012 and Great Plains Manufacturing in 2016.
- In the compact construction machinery market in North America and Europe, key differentiating factors are the quality and durability of products, broad product portfolio, strong relationship with dealers, and in-house attachment manufacturing capability. Compact and high performance in-house engines enable excellent operability and durability, while the Group's broad product portfolio includes three product types for various market needs such as a standard model that has high stability, tight tail swing compact excavator, and ultra-compact swing excavators that have operability in small space. The Group has fostered strong relationship with dealers by providing both agricultural and construction machineries, and having acquired Great Plains Manufacturing in the United States in 2016, Great Plains Manufacturing has started offering wide-variety, small-lot production of attachments in 2019.
- In the agricultural machinery market in South-East Asia, the Group has successfully built a strong brand, extensive sales network and captive-finance know-how in Thailand as the first-mover, as well as local R&D and procurement capabilities. Having established The Siam Kubota Industry Co., Ltd. (currently SIAM KUBOTA Corporation Co., Ltd.), a joint venture with the Siam Cement Group back in 1978, the Group has accumulated credit analysis know-how for unstable-income farmers and built a distinctive business model

with diverse leasing programmes since establishing a finance subsidiary. The Group's local R&D hub in Thailand, Kubota Research & Development Asia established in 2016, works to satisfy local customer needs in ASEAN countries, while regarding production, by utilising core components from local group companies, the Group has localised its one-stop production system and currently procure approximately 90 per cent. of parts locally. For its distribution network, the Group has been selecting prominent dealers based on their sales force and financial condition. Further, the Group established Siam Kubota Technical Academy in 2007 to educate local employees and improve after-sales service quality.

- To increase the Group's market share in the rapidly growing Indian and other emerging regions' markets and address growing basic tractor (highly durable tractors with limited functions at reasonable prices) needs in emerging countries, the Company has increased its shareholding in Escorts, an Indian tractor manufacturer and Escorts (currently, EKL) has become a consolidated subsidiary. In doing so, the Group aims to achieve increased sales synergy by cross-selling through the Group's and Escorts' dealer networks. The Group also aims to introduce the KPS (Kubota Production System) to Escorts, utilise the procurement networks of Escorts for the Group, and leverage the Company and Escorts' R&D resources.
- In the Water & Environment business, the Group has successfully built a track record in the public-private partnership (PPP) business, leveraging its one-stop solution capability, in contrast to competitors who tend to focus on single product category, and achieved steady sales growth in its operation and maintenance (O&M) oriented and solution-oriented business, with a growing backlog of orders that have been placed by customers.

### ***Industry-leading stable profit generation***

Macro indicators driving demand for key products in the U.S., Europe, and South-East Asia do not necessarily follow the same cyclical movement, which leads to the Group's highly stable profitability. In North America, the Group's revenue derives from various markets, including the agricultural market and the commercial market, such as professional mowers and utility vehicles. As such, the Group's business does not necessarily depend on these indicators. Housing starts affect the small tractor/construction machinery business, and non-residential construction investment affects the construction machinery business, while in Europe, non-residential construction investment has an effect on the construction machinery business and milk price has an effect on the small tractor business. In Thailand, tractor, combine harvester and rice transplanter business are driven by crop producer prices such as rice, cassava, sugar cane, and maize.

Against a background of such diversity of cyclicity, the Group has continuously achieved stable profitability, backed by its competitive strengths in major businesses and its diverse product portfolio. In the fiscal year ended 31 December 2022, the Group recorded an EBITDA of ¥304 billion, which declined from ¥316 billion recorded in the fiscal year ended 31 December 2021 due to supply chain disruptions as well as material and logistics cost inflation, which was partially offset by the increases in the prices of the Group's products since 2021. These increases have been widely accepted by the Group's dealers, are expected to begin fully impacting the Group's results in 2023 and are then intended to offset increases in material and logistics costs that have taken place in recent years. Notwithstanding the foregoing, the Group believes that its EBITDA volatility is significantly lower than that of its global major competitors.

The Group has also been striving to further expand after-sales service business which generally enjoys higher profitability and stability compared to machinery sales, leveraging abundant installed base. The Group is expanding after-sale service parts line-up through alliances with after-sale service companies in Japan and Europe, and has initiated demonstration experiment of operational data collection, utilising construction machinery telematics in Japan. The Group can also leverage on its global supply network with parts centres in North America, Europe and Japan and has launched a second brand, K3R, which provides repair parts in respect of which dealers can provide repair services at a reasonable price.

### ***Sound cash allocation based on disciplined financial policy***

The Group has managed to generate positive free cash flow throughout the demand cycle, excluding the change in financial services' finance receivables. Even following the Company's acquisition of Great Plains Manufacturing in 2016, the Group's adjusted free cash flow remained positive, other than

in the fiscal year ended 31 December 2022 as a result of one-time factors, such as the Group's acquisition of Escorts, the Group's investment in Kubota Global Institute of Technology, and trade receivables increase due to the increase of dealer inventory in the United States (see "Kubota Corporation—Selected Consolidated Financial Information and Other Data").

The Group has a disciplined financial policy, which includes maintaining (i) a debt-free non-financial business, (ii) a 40 per cent. shareholders' equity ratio and (iii) the current level of net D/E ratio. As of 31 December 2022, the Group's net interest-bearing debt, excluding financial services business' debt, was ¥(136) billion, shareholders' equity ratio was 39.8 per cent. and net D/E ratio was 0.7 times.

## **Strategy**

The Company has set its long-term vision "GMB2030" as becoming a "Global Major Brand" (GMB), meaning "a company that can make the greatest contribution to society by earning the trust of the greatest number of customers", which it considers to be its ideal role. Within the vision, the Group aspires to become an "Essentials Innovator for Supporting Life", committed to a prosperous society and cycle of nature.

The Company positions the five years in its Mid-Term Business Plan 2025 (covering the five years ending 31 December 2025) as the period in which to complete the establishment of its foundation for GMB2030, and the entire Group will work together on the five main themes set out below. Further, in addition to the main themes, the Group will promote DX across all themes and proceed with specific efforts towards achieving the Mid-Term Business Plan 2025.

## ***Promotion of ESG management***

The Group will promote ESG management using the Company's own approach to advance initiatives that are more ESG aware than ever. As a company that engages in reducing environmental impacts and solving social issues through business, "K-ESG" Management Strategy Meeting and "K-ESG" Promotion Department are established under the direct control of the President in order to promote its own unique ESG initiatives in addition to general initiatives. ESG Management Strategy Meeting is a management committee and investment council, consisting of management members including the Company's President. It deliberates and makes decision on the Group's issues and strategies from an ESG perspective and the discussion covers medium- and long-term targets and key strategic measures. Aiming to achieve carbon neutrality by 2050, the Group is working to finish drawing up its "blueprint" for such goal.

The Group has defined four areas and 12 materiality in its ESG management as follows:

- *Area:* Solving environmental and social problems through business.
  - *Materiality:*
    - Enhancing the productivity and safety of food.
    - Promoting the circulation of water resources and waste.
    - Improving urban and living environments.
    - Mitigation of and adaption to climate change (common to, and a prerequisite of, the three points above).
- *Area:* Accelerating innovation to solve problems.
  - *Materiality:*
    - Business operations based on diverse values.
    - Strengthening of R&D and partnerships.



- *Area:* Gaining empathy and participation of stakeholders.
  - *Materiality:*
    - Improvement of employee growth and job satisfaction.
    - Customer satisfaction and safety.
    - Enhancement of transparency and dialogue.
- *Area:* Building governance that increases sustainability.
  - *Materiality:*
    - Strengthening of corporate governance.
    - Penetration and practice of K-ESG management.
    - Strengthening of risk management.

### ***Establishment of the foundation for realising GMB2030***

The Group intends to secure multiple themes that will lead to revenue and profit in and after 2026, and these themes should be progressed towards commercialisation.

### ***Expansion of revenue in existing businesses***

Each division within the Group should establish scenarios for enhancement and growth towards 2030 and implement measures. The following businesses are positioned as growth drivers during the period covered by the Mid-Term Business Plan 2025:

- *North America/Construction Machinery Business:* Aiming for a significant increase in market share by expanding product line-up and locally integrated operations of development, production, and sales.
- *ASEAN/Farm & Industrial Machinery Business:* Aiming for a further increase in sales of farm equipment and construction machinery along with urbanisation.
- *Farm & Industrial Machinery/After-market Business:* Aiming to expand "after-sales business" by utilising abundant operating machineries on a global level.
- *Water & Environment/Solution Business:* Aiming to shift from equipment sales-oriented business to operation and maintenance (O&M) oriented and solution-oriented business by utilising IoT and other technologies.
- *Machinery/Expansion of India Machinery business and entry into the basic tractor market:* Aiming to expand global business by increasing market share in tractor, the world's largest market, and exporting basic tractors.

### ***Improvement of profit margin and profitability***

To improve its profitability and respond to material and logistics cost inflation, the Group increased the prices of its products since 2021. These increases have been accepted by the Group's dealers and are intended to offset increases in material and logistics costs that have taken place in recent years.

The Group also plans to normalise its plant operations following the COVID-19 pandemic, and in so doing, optimise its production network to maintain a stable supply of products, and is targeting an around 50 per cent. overseas production in the long-term. Furthermore, to address geopolitical risks which have arisen in recent years, the Group is alternating its suppliers to diversify its supplier base, in particular, expanding its procurement network in India, increasing engine production in Thailand and engaging in parallel production of sub-compact tractors and increasing construction machinery production in Japan and the United States.

In addition, as part of its mid-term business plan, the Group intends to improve its profit margin by (i) expanding its repairs part business and operation and maintenance (O&M) business, (ii) reducing material, logistics, and fixed costs, realising investment effects and (iii) improving productivity by fundamentally reforming its operations through the implementation of DX and other methods.

Sustainable growth requires proactive resource investment, as well as investments to prepare for various risks such as disasters, improvements to the working environment and other purposes in the ESG field. The Group intends to realise steady growth in profitable businesses, establishment of a profitable structure and thorough streamlining of operations to generate investment resources for measures such as upfront investment (including R&D) and investment in the ESG field without causing profit margins to decline.

### ***Development of infrastructure that supports sustainable growth***

The Group will work to establish a management control system in response to the current globalisation trends; further, it will work to secure human resources who ensure sustainable growth and realise diverse values and work styles. The Group will also consolidate appropriate risk management systems within its infrastructure with a view to developing countermeasures more actively in response to various risks.

## **Operations**

The Group is a leading agricultural and construction machinery manufacturer in the world, offering a broad line-up of agricultural machines for rice farming and dry-field farming around the world.

The reportable segments of the Group represent the Group's organisational structure, which is principally based on the nature of products and services. The Group's business is categorised into the following three segments: Farm & Industrial Machinery, Water & Environment, and Other.

The following tables set out the Group's revenue from external customers by reporting segment, together with the percentages of such revenue as a proportion of consolidated revenue for the periods indicated. See "Presentation of Financial and Other Information—Retrospective Adjustments" with respect to certain retrospective adjustments made (or, as the case may be, not made) to the financial data presented below.

	<b>For the Fiscal Year Ended 31 December</b>					
	<b>2020</b>		<b>2021</b>		<b>2022</b>	
	<b>Revenue</b> (Millions of yen)	<b>Proportion</b> (Per cent.)	<b>Revenue</b> (Millions of yen)	<b>Proportion</b> (Per cent.)	<b>Revenue</b> (Millions of yen)	<b>Proportion</b> (Per cent.)
<b>Revenue from External Customers</b>						
Farm & Industrial Machinery.....	¥1,509,089	81.4%	¥1,864,803	84.9%	¥2,327,990	86.9%
Water & Environment.....	315,774	17.1	305,380	13.9	327,602	12.2
Other .....	28,371	1.5	26,583	1.2	23,180	0.9
Total consolidated revenue.....	<u>¥1,853,234</u>	<u>100.0%</u>	<u>¥2,196,766</u>	<u>100.0%</u>	<u>¥2,678,772</u>	<u>100.0%</u>

	<b>For the Three-month Period Ended 31 March</b>			
	<b>2022</b>		<b>2023</b>	
	<b>Revenue</b> (Millions of yen)	<b>Proportion</b> (Per cent.)	<b>Revenue</b> (Millions of yen)	<b>Proportion</b> (Per cent.)
<b>Revenue from External Customers</b>				
Farm & Industrial Machinery.....	¥499,303	84.2%	¥684,999	87.7%
Water & Environment.....	87,508	14.8	90,957	11.6
Other .....	5,981	1.0	5,607	0.7
Total consolidated revenue.....	<u>¥592,792</u>	<u>100.0%</u>	<u>¥781,563</u>	<u>100.0%</u>

The following table sets out the Group's domestic and overseas revenue from external customers by segment:

	For the Fiscal Year Ended 31 December			For the Three-month Period Ended 31 March	
	2020	2021	2022	2022	2023
	(Millions of yen)				
Farm & Industrial Machinery.....	¥1,509,089	¥1,864,803	¥2,327,990	¥499,303	¥684,999
Of which: Domestic.....	292,889	310,503	302,604	72,743	79,531
Of which: Overseas.....	1,216,200	1,554,300	2,025,386	426,560	605,468
Water & Environment.....	315,774	305,380	327,602	87,508	90,957
Of which: Domestic.....	273,956	265,729	276,618	78,181	78,481
Of which: Overseas.....	41,818	39,651	50,984	9,327	12,476
Other.....	28,371	26,583	23,180	5,981	5,607
Of which: Domestic.....	28,343	26,551	23,154	5,968	5,581
Of which: Overseas.....	28	32	26	13	26
Total consolidated revenue.....	¥1,853,234	¥2,196,766	¥2,678,772	¥592,792	¥781,563

The following table sets out the Group's operating profit per reporting segment for the periods indicated.

	For the Fiscal Year Ended 31 December			For the Three-month Period Ended 31 March	
	2020	2021	2022	2022	2023
	(Millions of yen)				
<b>Operating Profit</b>					
Farm & Industrial Machinery.....	¥180,008	¥248,793	¥237,134	¥59,587	¥107,750
Water & Environment.....	25,920	22,270	17,250	9,537	9,017
Other.....	3,461	3,700	3,089	1,190	718
Adjustments.....	(34,105)	(30,198)	(38,531)	(3,535)	(14,237)
Total consolidated operating profit.....	¥175,284	¥244,565	¥218,942	¥66,779	¥103,248

Note:

- (1) Adjustments include items, such as the elimination of intersegment transfers and corporate expenses, which are not allocated to any particular reportable segment. Intersegment transfers are recorded at values that approximate market prices.

The following table sets out the Group's revenue from external customers by product group for the periods indicated.

	For the Fiscal Year Ended 31 December			For the Three-month Period Ended 31 March	
	2020	2021	2022	2022	2023
	(Millions of yen)				
<b>Revenue from External Customers</b>					
<b>Farm &amp; Industrial Machinery:</b>					
Farm equipment and engines.....	¥1,219,168	¥1,474,428	¥1,821,532	¥396,939	¥529,348
Construction machinery.....	289,921	390,375	506,458	102,364	155,651
Subtotal.....	1,509,089	1,864,803	2,327,990	499,303	684,999
<b>Water &amp; Environment:</b>					
Pipe system-related products.....	193,090	126,580	134,628	29,150	31,364
Materials and urban infrastructure-related products.....	—	58,004	68,958	14,296	18,387
Environment-related products.....	122,684	120,796	124,016	44,062	41,206
Subtotal.....	315,774	305,380	327,602	87,508	90,957
Other.....	28,371	26,583	23,180	5,981	5,607
Total consolidated revenue.....	¥1,853,234	¥2,196,766	¥2,678,772	¥592,792	¥781,563

Note:

- (1) From the fiscal year ended 31 December 2022, in conformity with the change in the business reporting structure of the Company, the amounts formerly reported in "Pipe and infrastructure-related products" have been classified as "Pipe system-related products" and "Materials and urban infrastructure-related products". The product group data for the fiscal year ended 31 December 2020 has not been adjusted retroactively, and the figure for "Pipe system-related products" for the fiscal year ended 31 December 2020 relates to the figure for "Pipe and infrastructure-related products".

The following tables set out the Group's revenue from external customers by geographic location, together with the percentages of such sales as a proportion of total consolidated revenue:

	For the Fiscal Year Ended 31 December					
	2020		2021		2022	
	Revenue	Proportion	Revenue	Proportion	Revenue	Proportion
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
<b>Revenue from External Customers</b>						
Japan .....	¥595,188	32.1%	¥602,783	27.5%	¥602,376	22.5%
North America.....	647,158	34.9	819,813	37.3	1,101,960	41.1
Europe.....	217,720	11.8	285,651	13.0	337,976	12.6
Asia outside Japan.....	334,186	18.0	406,884	18.5	532,989	19.9
Other areas.....	58,982	3.2	81,635	3.7	103,471	3.9
Total consolidated revenue	¥1,853,234	100.0%	¥2,196,766	100.0%	¥2,678,772	100.0%

Notes:

- (1) Revenue from North America includes that from the United States of ¥586,705 million, ¥721,398 million and ¥971,475 million for the fiscal years ended 31 December 2020, 2021 and 2022, respectively.
- (2) There was no single customer the revenue from whom exceeded 10 per cent. of total consolidated revenue of the Company in the periods indicated in the above table.

	For the Three-month Period Ended 31 March			
	2022		2023	
	Revenue	Proportion	Revenue	Proportion
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
<b>Revenue from External Customers</b>				
Japan .....	¥156,892	26.5%	¥163,593	20.9%
North America.....	216,600	36.5	321,936	41.2
Europe.....	77,175	13.0	109,052	14.0
Asia outside Japan.....	119,957	20.2	159,243	20.4
Other areas.....	22,168	3.7	27,739	3.5
Total consolidated revenue.....	¥592,792	100.0%	¥781,563	100.0%

Notes:

- (1) Revenue from North America includes that from the United States of ¥190,902 million and ¥287,322 million for the three-month periods ended 31 March 2022 and 2023, respectively.
- (2) There was no single customer the revenue from whom exceeded 10 per cent. of total consolidated revenue of the Company in the periods indicated in the above table.

## Farm & Industrial Machinery

The Group's Farm & Industrial Machinery segment mainly engages in manufacturing and sales of farm equipment and agriculture-related products that contribute to stable food production across many countries and regions, as well as engines and construction machinery.

The Group is one of the few agricultural machinery manufacturers in the world involved in both rice farming and dry-field farming. The Group strives to support agriculture throughout the world by working closely with farmers and developing agricultural machinery that meets their needs in the field. In recent years, the Group's focus has been smart agriculture, a new approach to farming that combines the Group's exclusive data utilisation methods and automation. The Group intends to continue to address food shortages, which are becoming a serious problem due to population growth around the world, by improving agricultural productivity to ensure a prosperous future for people and food.

The following table sets out the principal products and services covered by this segment:

Type of Product	Products
Farm equipment and agricultural-related products	Tractors (38 per cent.)
	Combine harvesters and Rice transplanters (5 per cent.)

Type of Product	Products
Other (21 per cent.)	Power tillers, Turf equipment, Utility vehicles, Other agricultural machineries, Implements, Attachments, Post-harvest machineries, Vegetable production equipment, Other equipment for agricultural use, Cooperative drying facilities, Rice seedling facilities, Rice mill plants, Gardening facilities, Scales, Weighing and measuring control systems, and Air purifier with humidification function
Engines (9 per cent.)	Engines for farm equipment, construction machinery, industrial machinery, and generators
Construction machinery (22 per cent.)	Mini excavators, Wheel loaders, Compact track loaders (CTLs), Skid steer loaders, and Other construction machinery-related products

Notes:

- (1) Figures in parentheses denote percentage of the Group's revenue in Farm & Industrial Machinery segment for the fiscal year ended 31 December 2022.
- (2) Financial leasing contributed 3 per cent. of the Group's revenue in Farm & Industrial Machinery segment for the fiscal year ended 31 December 2022.

For the fiscal year ended 31 December 2022, of tractors (which contributed 38 per cent. of the Group's revenue in Farm & Industrial Machinery segment), 2 per cent. was contributed by Japan, 20 per cent. was contributed by North America, 11 per cent. was contributed by Asia outside Japan, 3 per cent. was contributed by Europe and 2 per cent. was contributed by other areas, respectively; of Combine harvesters and Rice transplanters (which contributed 5 per cent. of the Group's revenue in Farm & Industrial Machinery segment), 2 per cent. was contributed by Japan and 4 per cent. was contributed by Asia outside Japan, respectively; of engines (which contributed 9 per cent. of the Group's revenue in Farm & Industrial Machinery segment), 1 per cent. was contributed by Japan, 3 per cent. was contributed by North America, 2 per cent. was contributed by Asia outside Japan and 2 per cent. was contributed by Europe, respectively; of construction machinery (which contributed 22 per cent. of the Group's revenue in Farm & Industrial Machinery segment), 2 per cent. was contributed by Japan, 13 per cent. was contributed by North America, 1 per cent. was contributed by Asia outside Japan, 5 per cent. was contributed by Europe and 1 per cent. was contributed by other areas, respectively.

For the fiscal year ended 31 December 2022, in the Group's revenue in Farm & Industrial Machinery segment, revenues from customers in Japan, North America, Asia outside Japan, Europe and other areas amounted to 13 per cent., 47 per cent., 22 per cent. 14 per cent. and 4 per cent., respectively.

The following table sets out the principal companies within the Group engaged in the Farm & Industrial Machinery business:

Type of Activities	Domestic/ Overseas	Companies
Manufacturing and Sales	Domestic	Kubota Corporation
	Overseas	Kubota Manufacturing of America Corporation Kubota Industrial Equipment Corporation Great Plains Manufacturing, Inc. and its 18 subsidiaries (the "Great Plains Manufacturing Group") Kubota Farm Machinery Europe S.A.S. Kubota Baumaschinen GmbH Kverneland AS and its 36 associates (the "Kverneland Group") Kubota Agricultural Machinery (SUZHOU) Co., Ltd. SIAM KUBOTA Corporation Co., Ltd. KUBOTA Engine (Thailand) Co., Ltd. Escorts Kubota Ltd. and its 7 associates

<b>Type of Activities</b>	<b>Domestic/ Overseas</b>	<b>Companies</b>
Sales and Other Services	Domestic	13 farm equipment sales companies, including Hokkaido Kubota Corporation KUBOTA Construction Machinery Japan Corporation
	Overseas	Kubota North America Corporation Kubota Tractor Corporation Kubota Engine America Corporation Kubota Canada Ltd. Kubota Holdings Europe B.V. Kubota Europe S.A.S. Kubota (Deutschland) GmbH Kubota (U.K.) Ltd. Kubota Australia Pty Ltd.
Financial Leasing	Domestic	Kubota Credit Co., Ltd.
	Overseas	Kubota Credit Corporation, U.S.A. Siam Kubota Leasing Co., Ltd. Kubota China Financial Leasing Ltd.

### *Farm equipment and agricultural-related products*

#### *Tractors*

Kubota tractors are used mainly in agricultural operations, including tillage, levelling and transportation. The Group offers a wide selection of products from small to large-sized tractors for diverse applications and scales. Moreover, the Group's tractor-mounted implements are designed for ploughing, harrowing and many other tasks. The high levels of performance and reliability of the Group's tractors have helped the Group establish a strong reputation in the world. The Group is also planning to introduce larger tractors, starting with the new M7 series for large-scale commercial farming.

Requirements for tractors differ in each market. For European markets, they are used for farming, and for countries such as Japan, they are used on rice paddies. The Group is focused on developing products based on local needs.

The Group's tractors offer a wide variety of transmissions with a broad range of horsepower allowing for more efficient performance, including Mechanical Transmission, HST (Hydro Static Transmission), GST (Glide Shift Transmission), Powershift Transmission, and CVT (Continuously Variable Transmission), among others.

The Kverneland Group, representing the brands Kverneland and Vicon, and the Great Plains Manufacturing Group, are the manufacturers of implements (tools that can be connected to tractors to enable a wide variety of tasks such as ploughing, seeding, spraying and hay foraging and baling) within the Group. Both groups have global track records and reputations. They are also involved in innovative projects including development of implements compatible with ISOBUS, an international standard that enables the exchange of data between tractors and implements. The Company serves as a core member of the Agricultural Industry Electronics Foundation (AEF), which promotes the diffusion of this standard, contributing to progress in agricultural machinery and the growth of farming worldwide.

#### *Combine Harvesters and Rice Transplanters*

The Group has been manufacturing combine harvesters and rice transplanters for over 50 years. In Japan, the Group's combine harvesters and rice transplanters have helped the mechanisation of rice transplanting and harvesting, the most labour-intensive processes in rice farming, thereby reducing labour and increasing efficiency. With rice farming in Asia rapidly mechanising, the Group is applying its refined rice farming machinery technologies to develop solutions for customers outside Japan.

Kubota combine harvesters are used for simultaneous harvesting and threshing of crops such as rice, wheat, corn, barley and pulses; the lightweight and compact design offered by the Kubota combine

harvesters allow them to have excellent manoeuvrability and high fuel efficiency even in the small Asian farm fields. Kubota rice transplanters are used to transplant rice seedlings to rice paddies; they deliver high performance even in disadvantageous conditions such as poorly drained paddy fields. The duration of use (10-100 days), soil composition (amount of sand, clay or gravel) and characteristics of crop (difficulty of threshing and so on) largely differ by country. The Group continues to strive to develop products taking into consideration these various factors.

### *Engines*

The Group is one of the world's leading manufacturers of compact diesel engines, also renowned for being the first manufacturer to pass the California Air Resources Board (CARB) Utility and Lawn and Garden Equipment Engine (ULGE) emission regulations engines under 19kW (25 HP). To meet the needs required for a wide variety of industrial engines, the Group offers an assortment of products up to 86.4kW, running on various fuels as such diesel and gasoline, liquefied petroleum gas (LPG) and natural gas on the same platform. Further, the Group has extended its product range up to 157.3kW with the Kubota 09 Series to meet customers diversified needs.

As the awareness for the conservation of the global environment has increased, emission standards for industrial engines have become more stringent. All industrial equipment manufacturers are now required to use emission certified engines. In this circumstance, as a leading industrial engine manufacturer, the Group has developed engines which meet emission regulations across the world. The Group also offers a comprehensive line-up of compact diesel engines from 56kW to 86.4kW which meet EPA/CARB Tier 4 (including Tier 4 Final) and EU Stage IV standards.

### *Construction Machinery*

The Group's construction machinery, including mini excavators, wheel loaders, and compact track loaders, have gained high reputation in Europe, North America, Japan, and other Asian countries.

Kubota mini excavators (which are used in civil engineering and other operations, and which are especially useful in narrow work areas such as city streets) are renowned for their advanced features and amenities. They also meet European safety standards, which are considered among the most rigorous standards in the world. Kubota wheel loaders and compact track loaders are used mainly for transporting and stacking tasks (at construction sites, farms and so on).

### *Kubota Smart Agriculture*

In order to resolve the increasingly serious problems faced by agriculture on a global scale, including the aging of farmers and shortages of workers, the Group is promoting smart agriculture that realizes ultra-labour saving, high-quality, and high-efficiency cultivation by utilising robotics technology and ICT. The Group's precision farming system KSAS (Kubota Smart Agri System), which collects and utilises farm information in the cloud to support farming, and its smart agriculture, which makes use of automated farm machines to enable unmanned operations, is aimed to realise more efficient and profitable farm management. In Asia, the Group is helping to spread the latest agricultural machinery, while in Europe, where precision agriculture use is growing, the Group is developing automated farming machines that work with local precision agricultural systems. These are some of the ways in which the Group works to contribute to the realisation of smart agriculture around the world by providing products tailored to local needs.

#### *Kubota Smart Agri System ("KSAS")*

KSAS is a service that enables more efficient implementation of high-value-added production by storing various types of data from farm machinery and agricultural work in the cloud. Work information from agricultural machinery and ICT is stored in the cloud and linked with field maps and agricultural machinery data for more efficient cultivation management and stable production of high-quality crops. KSAS integrates agricultural machinery and ICT to achieve the visualisation of various data such as information on fields, farm work and harvest performance. This service also helps to effectively utilise data gathered through this system on the operational status of the harvesting machinery for diagnosis or other services. As of 31 December 2022, approximately 21,735 customers were using this service.

### *Farm Pilot series of GPS-mounted machinery*

In addition to KSAS, with a view to further saving labour and improving the efficiency of farm operations, the Group has brought various products to market in the Farm Pilot series of GPS-mounted machinery. The series includes a rice transplanter with a straight-line keeping function; a tractor equipped with a straight-line assist function; a tractor with autosteering; the high-functionality Agri Robo tractor which performs unmanned, remotely monitored tillage, soil puddling, and other operations; the unmanned, remotely monitored Agri Robo rice transplanter; and the Agri Robo combine harvester which enables automated rice and barley harvesting with the operator on board. This line-up of automated machinery makes possible an integrated rice growing system.

Agri Robo is the Group's autonomous agricultural machinery, which is capable of unmanned, automatic operation in order to realise higher efficiency, greater precision and further labour-saving. Farmers can start or stop operate Agri Robo machinery through remote control instructions, and its advanced GPS and automatic driving technology can perform highly accurate cultivating and puddling.

### **Water & Environment**

The Group's Water & Environment segment mainly engages in manufacturing and sales of pipe system-related products (ductile iron pipes, plastic pipes and other products), materials and urban infrastructure-related products (reformer and cracking tubes, spiral welded steel pipes, air-conditioning equipment and other products), and environment-related products (environmental control plants, pumps, and other products).

The Group's water business began with the production of iron pipes for waterworks. Its technologies, which have been refined over the course of more than 130 years, have played active roles in solutions for every aspect of the water cycle, contributing to the upkeep of Japan's water infrastructure. The Group does more than simply supply products; it provides integrated water infrastructure design, procurement, construction, and maintenance. The Group's operations have expanded from Japan to the world. With technologies and products cultivated in Japan, a country blessed with abundant water resources, the Group serves as water treatment specialists to help protect limited natural resources and deliver safe water around the world.

The following table sets out the principal products covered by this segment:

<b>Type of Product</b>	<b>Products</b>
Pipe system-related products (41 per cent.)	Ductile iron pipes, Plastic pipes, Valves for public sector, Single stack drain fittings and Design and construction of construction works
Materials and urban infrastructure-related products (21 per cent.)	Reformer and cracking tubes, Hearth rolls, TXAX <sup>(1)</sup> (friction materials), Spiral welded steel pipes (steel pipe piles, steel pipe sheet piles) and Air-conditioning equipment
Environment-related products (38 per cent.)	Wastewater treatment equipment and plants, Pumps and plants, Membrane solutions, Water purification plants, Night-soil treatment plants, Waste incinerating and melting plants, Waste shredding and sorting plants, Flue gas desulphurisation apparatus, Membrane methane fermentation plants, Wastewater treatment plant ( <i>johkasou</i> ), and Valves for the private sector

#### Notes:

- (1) TXAX, being potassium hexatitanium, is a highly functional ceramic material supplied in the form of plate-like large-diameter long fibres which are different from whiskers (needle-like single crystal fibres). TXAX was developed and commercialised by the Group based on the results of a collaborative research project with the National Institute for Research in Inorganic Materials (NIRIM), then affiliated with the former Science and Technology Agency.
- (2) Figures in parentheses denote percentage of the Group's revenue in Water & Environment segment for the year ended 31 December 2022.



For the fiscal year ended 31 December 2022, regional shares in the Group's revenue in Water & Environment segment by Japan, North America, Asia outside Japan, Europe and other areas were 84 per cent., 4 per cent., 6 per cent. 1 per cent. and 5 per cent., respectively.

The following table sets out the principal companies within the Group engaged in the Water & Environment business:

<b>Type of Activities</b>	<b>Domestic/ Overseas</b>	<b>Companies</b>
Manufacturing and Sales	Domestic	Kubota Corporation Kubota ChemiX Co., Ltd. NIPPON PLASTIC INDUSTRY CO., LTD. Kubota Air Conditioner, Ltd.
	Overseas	Kubota Materials Canada Corporation Kubota Saudi Arabia Company, LLC
Maintenance and Repair	Domestic	KUBOTA Environmental Engineering Corporation
Design and Construction	Domestic	Kubota Construction Co., Ltd.

#### *Pipe system-related Products*

The origin of the Group's ductile iron pipes goes back to 1890's. Since then, the Group's long technical experience have helped to realise ductile iron pipes with excellent strength, durability and corrosion resistance, which have become the key components of water supply infrastructure.

The Group makes use of its proprietary casting technologies, rooted in more than a century of experience, in offering an extensive line-up of products: ductile iron pipes of diverse nominal diameters (80 centimetres to 260 centimetres), and highly functional joints such as earthquake resistant joints and restrained joints. The Group's centrifugal casting technology has led to the success of providing high quality large scale ductile iron pipes and their stable production. These pipes were exported outside of Japan early on, to contribute to stable water supply. The Group has exported iron pipes to more than 70 countries in the world. Further, by taking advantage of the experience and expertise acquired in Japan, the Group actively works not just only as the supplier of the pipes but also as the designer of pipelines. Kubota ductile iron pipes are used in infrastructure, including water, sewage and agricultural water pipelines.

The Group manufactures and sells a variety of valves used to control the flow of fluids. The Group offers valves for public sector use in a broad spectrum of fields, including water supply and sewerage and farm water.

#### *Materials and Urban Infrastructure-related Products*

The Group manufactures and sells pumps used to pump water for water supply, sewerage, rainwater drainage, power generation and steel production, among others. The Group's pumps play an active role from upstream, such as water purification plant, to downstream, such as wastewater treatment plant. The Group has developed its pump business inside and outside Japan, including South-East Asia and Middle East. In South-East Asia, it is utilising its production centres in China to provide products stably and corresponding to rapidly growing demand for infrastructure. Meanwhile, in the Middle East, the Group offers a wide range of pumps for seawater desalination and sewerage plants, from seawater intake pumps to long-distance water transfer pumps and high-pressure pumps for reverse osmosis (RO). The Group intends to further enhance its after-sale services such as maintenance of pumps, in addition to the provision of products.

#### *Environment-related Products*

The Group has been researching and developing water treatment technologies since the 1950s and has contributed to the treatment of public sewage and wastewater from businesses for many years. The Group also provides a wide range of water treatment solutions tailored to a diverse array of needs, including septic tanks (*johkasou*) developed in Japan that serve areas not covered by public sewage, and systems

using the Group's exclusive Submerged Membrane technology, which offers advanced and stable treatment of sewage so that it can be reused.

The Group's waste incinerator plants and ash and melting furnace plants are used to incinerate and reduce the volume of municipal waste, as well as to contribute to the decarbonisation of society by using the large quantity of waste heat to generate electricity.

The Group manufactures and sells a variety of valves used to control the flow of fluids. The Group offers valves for private sector for use in a broad spectrum of fields, including energy, steel, petrochemical, petroleum, and town gas.

#### *Monitoring Water and Environment Infrastructure with Internet of Things ("IoT") and Artificial Intelligence ("AI")*

The water and environment infrastructure that underpins both social life and agriculture in Japan is facing challenges, such as a lack of financial and personnel resources due to the country's population decline, aging facilities, and the need to respond to frequent natural disasters. National and local governments are turning to information and communication technologies and to the private sector to realise more efficient management, maintenance, and inspection for this infrastructure.

The Group has been addressing this issue since 2003, providing IoT-based remote monitoring services for infrastructure facilities and equipment, and has newly sought to improve its services for waterworks through the Kubota Smart Infrastructure System ("KSIS"), including adding real-time and wide-area monitoring functions. The system has been installed in infrastructure facilities in areas such as water and sewage, river management, and farm irrigation.

Furthermore, under a tie-up with the NTT Group, the Group is working to develop AI-based diagnostics and optimal operation control technologies for a range of facilities and equipment. In the agriculture field, through joint research with the National Agriculture and Food Research Organization (NARO), the Group launched the "WATARAS" farm water management system. This system, which automatically controls water supply and drainage in paddy fields, is being used by numerous farm operators, and allows the user to remotely and automatically control water flowing in and out of rice paddies while monitoring water levels on a smartphone or personal computer. WATARAS helps automate the entire irrigation process, using water level data to automatically calculate how much water to send to the paddy field and automatically control the pump, which also leads to reductions in both pump power consumption and overall water use.

#### ***Other***

The Other segment is mainly engaged in the offering of a variety of other services such as logistics as well as roofing and siding materials. Principal Group companies engaged are KMEW Co., Ltd., KUBOTA LOGISTICS Corporation, and Kubota China Holdings Co., Ltd.

#### **Production and Quality Control**

In order to achieve the goal of becoming a GMB, the Group has established production bases around the world in locations close to their respective markets, with the mother plant supporting all the other plants in order to secure consistent quality. As of 31 March 2023, in addition to the Company's manufacturing facilities, the Company had 11 manufacturing subsidiaries and affiliates in Japan, 21 manufacturing subsidiaries and affiliates in Asia outside Japan and Oceania, 5 manufacturing subsidiaries and associates in North America, and 15 manufacturing subsidiaries and associates in Europe.

The Group promotes the deployment of the Kubota Production System ("KPS") (based on the concepts of "just in time" and "jidoka" (automated) production) at each of its bases, and is implementing initiatives to raise the QCD (quality, cost, delivery) level throughout the entire supply chain.

The Group endeavours to prevent quality problems, and a representative activity in this effort is the initiative to strengthen design reviews. Incorporating the "Quick DR" approach (a method of preventive action of potential problems by focusing on incidental changes in design and development), the Group discusses, tests and verifies even the smallest incidental change when developing new products, in order to prevent quality problems from arising therefrom.

In terms of personnel the Group conducts quality questionnaires among the Group employees to encourage them to volunteer information about issues related to quality, holds training sessions to educate employees about the necessary knowledge, approach, and actions for quality assurance and quality management.

As of 1 April 2023, 23 of the Group's 24 domestic production sites (96 per cent.) had acquired ISO 9001 certification, while 22 of the Group's 50 overseas production sites (44 per cent.) had acquired ISO 9001 certification.

### **Supplies and Raw Materials**

The Group purchases a wide variety of components and raw materials for use in the production of its equipment from numerous suppliers in Japan and other countries around the world. Part of the Group's raw materials consist of precious metals, of which production volume is extremely small and production mines are limited to a small number of countries or regions. The Group believes that it currently has adequate supplies or sources of availability of the raw materials necessary to meet its needs and strives to maintain multiple suppliers for important materials.

The Group monitors the financial condition of its principal suppliers to anticipate problems in the Group's supply chain prior to their occurrence, and selects its suppliers on the basis of the quality and price of the products they manufacture.

During the COVID-19 pandemic, the Group saw some of its procurement processes affected, and future price movements for certain raw materials and parts have been increasingly difficult to anticipate.

### **Dealers and Distributors**

The Group distributes Kubota products principally through a worldwide organisation of dealers (dealer network). The Group's localised dealer network enables strong sales promotion and after-sales service. As of 31 December 2022, the Group's global dealer network had over 1,100 dealers in the United States, up to 650 and 100 dealers in Europe and Thailand, respectively, and up to 1,600 dealers in India (including the dealers of EKL).

In the small and medium-sized tractor market in North America, the Group has fostered long-term relationships with highly-motivated and trusted dealers who are willing to invest in shops and employees for superior products and services, especially in suburban areas, which created market entry barriers; strong dealership enables the Group to promote new products and promptly gather feedback for further product development.

In the compact construction machinery market in North America and Europe, the Group has developed strong relationships with dealers by providing both agricultural and construction machineries, and Great Plains Manufacturing has started production of attachments for construction machinery since being acquired by the Group, to broaden the attachment line-up.

In the agricultural machinery market in South-East Asia, the Group has been selecting prominent dealers based on their sales force and financial condition.

To strengthen the Group's presence in the rapidly growing Indian market and address growing basic tractor needs in emerging countries, the Company has increased its shareholding in EKL, an Indian tractor manufacturer and EKL has become a consolidated subsidiary in the second quarter of the fiscal year ended 31 December 2022.

The Group's dealers do not deal exclusively with Kubota products, and they have a right to terminate the dealership agreement any time with prior notice; however, in most cases sales and servicing of Kubota products are the dealers' principal business. The Group sells some products, including tractors, outdoor power equipment and construction machinery, directly to end customers through sales forces employed by the Group.

### **Competition**

Kubota products and services are sold worldwide into a variety of highly competitive markets. In all markets, the Group competes on the basis of product performance, customer service, quality and price.

From time to time, the intensity of competition results in price discounting in a particular industry or region. Such price discounting puts pressure on margins and can negatively impact operating profit. In certain regions and countries, certain competitors enjoy competitive advantages inherent to operating in their home countries or regions.

## Research and Development

The Group considers food, water and the environment as a singular theme, and aims to realise a sustainable society through a proper cycle of these elements utilising technology and solutions. The Group aims to contribute to the society by envisioning the social issues that could arise in the near future and developing products, services and businesses in anticipation of these issues. Being motivated by this mission, the Company's R&D department takes the initiative to develop products and technologies that are directly linked to each business while pursuing medium- to long-term R&D that supports the Group's sustainable growth. As one of the main themes for the Mid-Term Business Plan 2025, the Group has taken up "initiatives to secure candidates of growth drivers for the next generation". The Group is establishing the foundation for realising GMB2030 and is actively investing resources in R&D to succeed in global competition and realise sustainable growth. Following this initiative, the Group has established global R&D network operated by local teams to satisfy diverse local needs (see "—Strengths—Competitive strength in the machinery business").

The following table sets out the Group's R&D expenses by reporting segment for the periods indicated. The R&D expenses and basic research expenses that are difficult to link to a particular reportable segment are collectively reported in "Other and Corporate" section.

	As of and for the Fiscal Year Ended 31 December		
	2020 <sup>(1)</sup>	2021	2022
	(Billions of yen, except percentages)		
Farm & Industrial Machinery.....	¥49.6	¥52.4	¥60.0
Water & Environment .....	4.6	6.0	5.1
Other and Corporate .....	4.3	9.1	24.8
Total consolidated R&D expenses.....	¥58.4	¥67.5	¥89.9
Percentage of total consolidated R&D expenses to consolidated revenue .....	3.2%	3.1%	3.4%

Note:

- (1) Beginning with the Company's fiscal year ended 31 December 2021, in conformity with the change in the business structure of the Group, the amounts related to Financial Services have been reported in the "Farm & Industrial Machinery" segment, whereas they were formerly reported in the "Other" segment. The amounts relating to R&D expenses for the fiscal year ended 31 December 2020 set out above have not been retrospectively adjusted to conform to the presentation for the fiscal year ended 31 December 2021.

The Group's major R&D achievements by reporting segment were as follows:

### *Farm & Industrial Machinery*

The R&D department in this segment conducts development of farm equipment, agricultural-related products, engines, and construction machinery, and advanced research related to such products. Major achievements include the following:

- *Development of the "KSAS API", an open source of farming data in the "KSAS" agricultural management support system.* The Group has developed the "KSAS (\*1) API (\*2)" for system developers to enable them to utilise the farming data accumulated in the "KSAS" in various systems serviced by other companies. The Group already provides data, such as operational information of farm equipment of the Group, through the "Farm Machinery Open API" of WAGRI, the public-private joint agricultural data collaboration platform. In addition, the Group will open the data accumulated in the KSAS, such as field information, agrochemical information, fertiliser information and work history, to enable easy integration with systems serviced by other companies. This will improve convenience for users using both the KSAS and systems serviced by other companies.

\*1. Abbreviation for Kubota Smart Agri System; a system provided by the Group to support farm operations.

\*2. Abbreviation for Application Programming Interface; a set of defined rules that enable efficient sharing of functions for different applications to communicate with each other.

- *Development of AgriRobo Tractor "MR1000AH (KVT specification)".* The Group has expanded the lineup of the AgriRobo tractors by developing the "MR1000AH (KVT specification)" equipped with a continuously variable transmission, Kubota Variable Transmission ("KVT"). The main features are as follows:
  - Manned mode allows autonomous driving with an operator on board the tractor. The operator can easily check the finished condition of the field, which improves work accuracy and reduces operator fatigue. Unmanned mode enables unmanned autonomous driving of the tractor under the supervision of the user. The tractor can be started and stopped automatically from a remote location using a standard equipped wireless remote control, and the depth of tillage and vehicle speed can also be instructed using a monitoring tablet, allowing work to be performed in accordance with the conditions of the field.
  - Mapping a field by driving a perimeter of the field and entering a necessary information for an operation will automatically generate the most effective work route that matches the field shape.
  - Adaptable to tillage, ploughing, rough tillage, fertiliser application, and seeding operations. The number of applicable implements has been greatly expanded by allowing arbitrary setting of the working width and size of implements.
  - The tractor is equipped with a forward auto-steering function, which allows unskilled operators to perform various types of work with high precision and improve work efficiency as the tractor can handle the steering operation when moving straight, even during the work not covered by the automatic operation.
  - KVT enables smooth driving from start to maximum speed without gearshift operation. The transmission enables the brake to be stopped without clutching for smooth starting and prevents the tractor from sliding down when starting uphill with a hill-starting support function. The cruise function improves work efficiency by automatically increase or decrease engine speed according to the load to maintain a constant vehicle speed during speed-intensive work.
- *Development of the onion conditioner, "KOC-10".* The Group has developed the onion conditioner, "KOC-10", which contributes to the savings of labour and effort in onion conditioning processes, providing features such as reduced height difference between the supply unit and the main unit, and ensuring cut roots are automatically discharged from the machine by a discharge conveyor, eliminating the need for periodic cleaning and allowing continuous operation.

## ***Water & Environment***

The R&D department in this segment conducts product development of pipe system-related products (ductile iron pipes, plastic pipes, and other products), materials and urban infrastructure-related products (reformer and cracking tubes, spiral welded steel pipes, air-conditioning equipment and other products), environment-related products (environmental control plants, pumps, and other products) and advanced research related to such products. Major achievements include the following:

- *Development of the AI anomaly detection system (digital version) for manhole pumps.* The Group has developed the AI anomaly detection system that can be applied to all manhole pumps in Japan. The main features are as follows:
  - Abnormality detection based on pump operation time and frequency has made it possible to detect abnormalities without additional sensors such as current value, flow rate, and water level, which were required in the past.

- The system can be applied even to manhole pumps without current or water level sensors, and can be applied without limiting the manufacturer of manhole pumps. This made the new system applicable to all manhole pumps in Japan, compared with a coverage rate of about 25 per cent. for the previous analogue version of the system.
- The system was selected for "Breakthrough by Dynamic Approach in Sewage High Technology Project (commonly known as B-DASH Project)" lead by the Ministry of Land, Infrastructure, Transport and Tourism of Japan. Demonstration tests were conducted at 201 manhole pumps in three local governments, and the system was evaluated as having achieved sufficient results in terms of improving efficiency and establishing operating methods.
- *Development of the cylindrical centrifugal dehydrator (high centrifugal force model), "SCM-G series".* The Group has expanded the lineup of the cylindrical centrifugal dehydrator and developed the high centrifugal force model, "SCM-G series". The main features include an increased maximum centrifugal effect, which enables stable low cake moisture content even with difficult-to-dehydrate sludge and usage of a hydraulic motor system to drive the screw shaft, enabling powerful conveyance and discharge of dewatered cake with low moisture content. Through such features, the amount of cake generated and greenhouse gas emissions can be reduced compared to the decanter type.

### ***Other & Corporate***

The Group is promoting its own distinctive ESG management, "K-ESG", and in the area of research and development, the Group is accelerating its efforts to create innovations that contribute to solving environmental and social issues. In terms of carbon neutrality, the Group is committed to the commercialisation of Battery Electric Vehicle ("BEVs") for farm equipment and construction machinery, and to the realisation of new power sources such as fuel cells and hydrogen.

In addition, the Group continues to focus on R&D efforts that the Group has been pursuing to improve combustion efficiency and other aspects of fuel efficiency, as well as to increase biodiesel content. Furthermore, the Group will achieve carbon neutrality by bringing together various initiatives such as work loss reduction and optimal energy-saving operation through the autonomous driving technology and the application of biomass (agricultural and food residues).

With regard to smart agriculture, the Group has established the autonomous driving technology for tractors, combine harvesters and rice transplanters, and is promoting research on the use of AI and advanced sensors to make equipment even easier to use. Data-driven agriculture initiatives, including the use of weather information, growth models, and remote sensing, have been enhanced by systematic promotion of field demonstrations.

The Group has also made steady progress in the R&D related to the collaboration of the KSAS agricultural support system, the WATARAS farm water management system and the KSIS water environment platform, including research on a smart rice paddy dam.

### **Intellectual Property**

The Group holds a number of Japanese and foreign trademarks, patents, design patents and utility model registrations. A utility model registration is a right granted under Japanese law with respect to inventions of less originality than those which qualify for patents. In general, the effective period for a utility model registration is shorter than that granted for a patent. The Group also has a number of applications pending for Japanese and foreign patents. While the Group considers all of its intellectual property to be important, it does not consider any one group of patents, trademarks or utility model registrations to be so important that their expiration or termination would materially affect the Group's business.

## Major Properties, Plant and Equipment

The following table sets out certain information with respect to the significant properties, plant and equipment of the Company, its domestic subsidiaries and its overseas subsidiaries as at 31 December 2022. Amounts in each table do not include consumption taxes. In addition;

- "Machinery and Equipment and Others" includes machinery, equipment, tools, furniture, fixtures, motor vehicles, and transport equipment; and
- "Carrying Amounts" are amounts presented in the non-consolidated statement of financial position of each company.

### The Company

Name of Facility (Main Location)	Segment to which the Property Relates	Description of Property (Principal Use)	Buildings <sup>(1)</sup> and Structures	Machinery and Equipment and Others	Carrying Amounts		Construct-ion in Progress	Total
					Land <sup>(1)</sup>			
					Area (m <sup>3</sup> thousands)	Amount		
(Millions of yen, except land area)								
Hanshin Plant (Amagasaki-shi, Hyogo, Japan)	Water & Environment	Production of ductile iron pipes	2,893	3,842	(1) 365	1,930	1,211	9,876
Keiyo Plant (Funabashi-shi, Chiba, Japan)	Water & Environment	Production of ductile iron pipes	2,264	2,895	445	10,664	1,263	17,086
Ichikawa Plant (Ichikawa-shi, Chiba, Japan)	Water & Environment	Production of spiral welded steel pipes	567	1,629	(21) 62	513	227	2,936
Okajima Business Center (Taisho-ku, Osaka, Japan)	Farm & Industrial Machinery, Water & Environment	Production of casting parts	1,719	2,806	(1) 90	42	1,203	5,770
Kubota Global Institute of Technology (Sakai-shi, Osaka, JAPAN)	Farm & Industrial Machinery, Corporate	Research and development (R&D)	64,344	11,697	(7) 1,199	22,916	3,194	102,151
Sakai Plant (Sakai-shi, Osaka, Japan)	Farm & Industrial Machinery	Production of farm equipment, engines, construction machinery	21,245	26,787	(8) 361	7,730	2,509	58,271
Utsunomiya Plant (Utsunomiya-shi, Tochigi, Japan)	Farm & Industrial Machinery	Production of farm equipment	1,264	3,548	146	188	180	5,180
Tsukuba Plant (Tsukubamirai-shi, Ibaraki, Japan)	Farm & Industrial Machinery	Production of farm equipment, engines	7,340	18,792	(22) 395	3,260	2,691	32,083
Hirakata Plant (Hirakata-shi, Osaka, Japan)	Farm & Industrial Machinery, Water & Environment	Production of construction machinery, pumps, valves, steel castings	7,783	6,656	304	672	1,653	16,764
Shiga Plant (Konan-shi, Shiga, Japan)	Water & Environment	Wastewater treatment plant ( <i>johkasou</i> )	822	179	178	1,032	25	2,058
Kyuhoji Business Center (Yao-shi, Osaka, Japan)	Farm & Industrial Machinery	Production of precision equipment	426	382	38	1,521	44	2,373
Head Office, Tokyo Head Office, other regional offices and others (Naniwa-ku, Osaka, Japan and others) <sup>(2)</sup>	Farm & Industrial Machinery, Water & Environment, Corporate	Administration, sales, R&D and others	14,369	2,046	1,649	26,329	360	43,104

#### Notes:

- (1) The Company leases part of its land and buildings. The related rental expenses for such assets were ¥1.2 billion for the fiscal year ended 31 December 2022. Figures in parentheses are the areas of leased land. Leased land and buildings are mainly used for storage yards and sales bases.
- (2) Land is used for factories, distribution and sales bases, recreation facilities, and other purposes.

## Domestic Subsidiaries

Name of Subsidiary	Name of Facility (Main Location)	Segment to which the Property Relates	Description of Property (Principal Use)	Book Value					
				Buildings and Structures	Machinery and Equipment and Others	Land		Construct-ion in Progress	Total
						Area (m³ thousands)	Amount		
(Millions of yen, except land area)									
Kubota ChemiX Co., Ltd.	Head office, regional offices, factories (Amagasaki-shi, Hyogo, Japan and others)	Water & Environment	Production of plastic pipes, fittings	284	4,952	(103)	—	1,772	7,008

Note:

- (1) The figure in parentheses is the area of leased land. Leased land and buildings are mainly used for head office, regional offices, and manufacturing bases.

## Overseas Subsidiaries

Name of Subsidiary	Name of Facility (Main Location)	Segment to which the Property Relates	Description of Property (Principal Use)	Book Value					
				Buildings and Structures	Machinery and Equipment and Others	Land		Construct-ion in Progress	Total
						Area (m³ thousands)	Amount		
Kubota North America Corporation	Head office (Delaware, U.S.A.)	Farm & Industrial Machinery	Administration	13,253	80	3,003	4,943	21	18,297
Kubota Tractor Corporation	Head office, regional offices (Texas and others, U.S.A.)	Farm & Industrial Machinery	Administration, sales and others	13,876	1,655	811	1,716	8,322	25,569
Kubota Manufacturing of America Corporation	Head Factory (Georgia, U.S.A.)	Farm & Industrial Machinery	Production of tractors, outdoor power equipment	6,298	4,401	154	62	2,136	12,897
Kubota Industrial Equipment Corporation	Head Factory (Georgia, U.S.A.)	Farm & Industrial Machinery	Production of implements, tractors, construction machinery	4,080	2,099	356	394	1,428	8,001
Great Plains Manufacturing Inc. and 18 subsidiaries	Head office, factory (Kansas, USA)	Farm & Industrial Machinery	Production of implements, construction machinery	7,307	10,025	1,790	742	2,821	20,895
SIAM KUBOTA Corporation Co., Ltd.	Head office, factories (Pathumthani and others, Thailand)	Farm & Industrial Machinery	Production of tractors, combine harvesters, implements, horizontal type diesel engines	7,310	5,281	496	2,955	1,513	17,059
Escorts Kubota Ltd. and 5 subsidiaries	Head office, factories (Haryana, India, and others)	Farm & Industrial Machinery	Production of tractors, construction machinery	2,602	8,039	(365) 522	17,586	1,184	29,411

Note:

- (1) The figure in parentheses is the area of leased land.

## Corporate Social Responsibility

As corporate social responsibility becomes increasingly important, the Group continues to promote ESG conscious initiatives more than ever in order to continue to be a sustainable company. As a business that operates in the area of food, water and the environment and engages in reducing environmental impact and solving social issues through its business, the Group intends to promote its own distinctive ESG initiatives, "K-ESG", in addition to general initiatives. The Group will advance initiatives in four areas that make up the framework of ESG management, each of which has been broken down into 12 materiality.



The first area is "solving environmental and social problems through business". GMB2030 is aimed to be realised by initiatives for new solutions and expansion of existing businesses. As directions for realisation, the Group is committed to "enhancing the productivity and safety of food", "promoting the circulation of water resources and waste", and "improving urban and living environments". Carbon neutrality, which has been gaining attention recently, is a challenge people and companies face, and no longer described as trend. The Group also recognises carbon neutrality as a requisite for the conduct of the business and a challenge that all share. Thus, the "mitigation of and adaptation to climate change" will also be addressed as a new pillar of K-ESG management in addition to the above directions, which are based on megatrends.

The second area is "accelerating innovation to solve problems". The Group intends to build strong relationships with internal and external divisions, associates, and suppliers in which diverse people from different regions, age groups, and genders can exchange opinions straightforwardly. Furthermore, the Group aims to promote the collaboration among industries, government and academia, such as start-ups, companies from different industries, and universities. To achieve this goal, the Group intends to promote "business operations based on diverse values" and "strengthening of R&D and partnerships" and create innovations distinctive to the Group.

The third area is "gaining empathy and participation of stakeholders". The Group will focus on the "improvement of employee growth and job satisfaction", "customer satisfaction and safety", and "the enhancement of transparency and dialogue" to promote the empathy and participation of stakeholders. The Group intends to expand the circle of empathy and participation to all stakeholders by communicating the Group's business activities and attitudes with a high degree of transparency and holding repeated dialogues with stakeholders.

The fourth area is "building governance to enhance sustainability". The environment surrounding the Group is complex and undergoing major changes, making it difficult to predict the future. Under these circumstances, the Group intends to build frameworks and governance to respond to these changes by pursuing the followings: "strengthening of corporate governance", including strengthening the supervisory functions of the Board of Directors, "strengthening of risk management" to reduce business execution risks, and "penetration and practice of ESG management" through dialogue between management and employees.

## **Corporate Governance**

The Company is a company with an Audit & Supervisory Board and established a voluntary Nomination Advisory Committee and Compensation Advisory Committee.

In addition, the Company has adopted the Executive Officer System to strengthen business execution by each region and workplace, and make prompt and appropriate business decisions.

The Company has a wide range of business domain that includes the areas of food, water, and the environment. The Board of Directors makes decisions on major fundamental management policies based on the perspectives of internal Directors with in-depth experience and knowledge in particular areas of the Group's businesses as well as the objective viewpoints and broad knowledge of Outside Directors. The Board of Directors also supervises and oversees the Executive Officers' conduct of business. Furthermore, the Audit & Supervisory Board Members, who are legally independent from the Board of Directors, provide a monitoring function through its independent audit function which ensures more comprehensive supervision function. The Company has determined that the establishment of the voluntary Nomination Advisory Committee and Compensation Advisory Committee, where a majority of members are Outside Directors, will ensure objectivity and transparency in the personnel affairs and compensation of the Directors and Senior Management, and promote sustainable growth and enhance its corporate value in the medium to long term while ensuring sound, efficient, and effective management.

The Board of Directors of the Company makes strategic decisions and oversees the execution of duties by the Executive Officers. In addition to its regular monthly board meetings, it also meets as and when required to discuss and make decisions relating to management planning, financial planning, investment, business restructuring, and other important management issues.

The Audit & Supervisory Board oversees and audits the execution of duties by the Directors. In addition to its regular monthly Audit & Supervisory Board Meetings, it also meets as and when required to discuss and make decisions with regard to auditing policies, audit reports, and other matters.

With regards to the Nomination Advisory Committee and the Compensation Advisory Committee, which are advisory bodies to the Board of Directors on the appointment of the Director candidates and the remuneration plan for the Directors, more than half of the members are Outside Directors and the Outside Director is appointed as the chairman of the committee, in order to incorporate an independent and objective perspective.

In addition, the Company has established the ESG Management Strategy Conference, the Management Committee and the Investment Council to make decisions and deliberate on specific important issues. The ESG Management Strategy Conference formulates policies and evaluates major measures for the realisation of the long-term vision of the Company, GMB2030, and the creation of medium to long-term corporate value. The Management Committee deliberates and make decisions on important management issues, such as investments and loans, in accordance with the mid-term business plan. Of the management issues deliberated by the Management Committee, important issues are reported to the Board of Directors. The Investment Council serves as an advisory body to the President on issues which requires authorisation of the President and on certain special issues, excluding items deliberated by the Management Committee.

## **Legal Proceedings and Other Issues**

### ***Asbestos-related Proceedings***

Since May 2007, the Company has been subject to 59 asbestos-related lawsuits in Japan, which were filed against the Company or defendant parties consisting of the Japanese government and asbestos-related companies, including the Company. With regard to the six lawsuits consolidating 18 cases, the Supreme Court has concluded proceedings and ruled that the government and a part of asbestos using companies were liable for compensation. However, all claims against the Company were rejected.

Other 41 lawsuits are still ongoing, and the total claims for compensation of all lawsuits aggregate to ¥22,494 million, which relate to 641 construction workers who suffered from asbestos-related diseases. Of these ongoing lawsuits, three first instance judgements have been rendered in eight lawsuits, and the Company was ordered to pay compensation damages of ¥2 million in one lawsuit and other two lawsuits were decided in favour of the Company. These three cases are being heard on the second instance. The court in the second instance rendered a judgement to support the opinion of the first instance for one of the two lawsuits that were decided in favour of the Company. This lawsuit has been appealed to a higher court.

The Company continues to review the status of lawsuits, including consultation with a third-party legal counsel regarding the progress of lawsuits and the likely final outcome. However, the Company believes that it is currently unable to predict the ultimate outcome of lawsuits.

The Company does not have any cost-sharing arrangements with other potentially responsible parties, including the government, for all of these lawsuits.

### ***Matters Related to the Health Hazards of Asbestos***

The Company's plant in Amagasaki, Hyogo Prefecture, Japan, previously produced asbestos-related products. The Company decided to make voluntary consolation payments in June 2005 and established a relief payment programme in April 2006 as a voluntary consolation payment to patients of asbestos-related diseases near the plant. With regard to the current and former employees who suffered and are suffering from asbestos-related diseases, the Company provides compensation, which is not required by law, but is made in accordance with the Company's internal policies.

In an effort to estimate future asbestos-related expenditures, the Company has considered all available data, including a time series data of historical claims and payments, the incidence rate of asbestos-related disease, and other public information related to asbestos-related disease. However, since the health hazards of asbestos tend to have a longer incubation period, reliable statistics to estimate the incidence rate of asbestos-related disease are not available to the Company. Furthermore, there are no cases where final conclusions are made to the cause and the incidence rate of asbestos-related health hazard at other asbestos-related companies. Hence, the Company believes there is no information to determine the range of the final possible outcome in the future. For these reasons, the Company believes it is not possible to reliably estimate the amount of its ultimate liability, and the Company does not accrue on this contingency.

The Law for the Relief of Patients Suffering from Asbestos-Related Diseases (the "New Asbestos Law") was established by the Japanese government in March 2006. The purpose of this law is to provide prompt relief to persons who sustain asbestos-related diseases but are not relieved by compensation for accidents under worker's compensation insurance. Contributions under this law are made by the Japanese government, local authorities and business entities. Contributions by business entities commenced from the year ended 31 March 2008, and these include special contributions by business entities which operated a business closely to asbestos.

The Company accrues asbestos-related expenses when the Company receives claims on voluntary consolation payment, relief payment, compensation for current and former employees, and the special contribution in accordance with the New Asbestos Law. The accrued balances for asbestos-related expenses were ¥138 million and ¥125 million at 31 December 2022 and 2021, respectively. The asbestos-related expenses recognised for the twelve months ended 31 December 2022 and 2021, were ¥379 million and ¥626 million, respectively.

#### ***Other Legal Proceedings and Issues***

The Company has various outstanding tax matters with tax authorities, primarily in India. The outstanding matters mostly relate to interpretation and application of law. The Company believes that, due to the existence of multiple legal issues and large number of parties involved, it is currently unable to predict the ultimate outcome of matters.

The Group is routinely involved in litigation and other legal proceedings in connection with its ordinary course business activities. Other than as set out above, the Group is not currently involved in any litigation or other legal proceedings that, if determined adversely to the Group, would individually or in the aggregate be expected to have a material adverse effect on the Group's business, results of operations or financial condition.

In March 2023, the Company announced that it had discovered that a former employee of a subsidiary (currently in liquidation) of the Company, had been engaged in misappropriation of such subsidiary's funds for private purposes, in an aggregate amount of approximately ¥800 million, for over six years from 2016 to 2022 by cashing cheques and manipulating accounting systems to conceal evidence of disbursement. The Company, having undertaken an investigation which confirmed the misappropriation and as the former employee acknowledged the fact, dismissed the former employee on disciplinary grounds. At the same time, the Company has consulted the investigative authorities, which has led to an arrest of the former employee in April 2023 for allegation of embezzlement. Following the incident, the Company conducted an investigation of its Group companies to discover whether there were any similar instances of misconduct, but did not find any. With a view to preventing recurrence of such incidents, the Group is working to reinforce its internal control system, including ensuring that two or more people process disbursements and their recording (as the former employee had been the sole person at the affected subsidiary responsible for issuing cheques and performing accounting procedures), at the same time as continuing to verify the effectiveness of internal control through internal audits.

#### **Insurance**

The Group maintains a range of insurance policies which cover certain liability risks, including general liabilities, workers' compensation, property liabilities, product liabilities, and fire insurance in respect of domestic and overseas operations. The insurance policies do not cover certain risks such as earthquake risk and cybersecurity attacks. The Company believes that its insurance coverage is comparable to other companies with similar operations.

#### **Regulations**

The Group's business activities and products are subject to various governmental and international regulations in the numerous countries in which it operates business and its products are sold, including regulations relating to business permissions, foreign investment restrictions, consumer protections including product liability and safety measures, export regulations including those related to tariffs, antitrust, labour relations, health and safety, intellectual property, taxation, foreign exchange controls, and environmental and recycling requirements.

## MANAGEMENT AND EMPLOYEES OF THE GROUP

### Management

#### *Directors and Audit & Supervisory Board Members of the Company*

The following table sets forth the Company's Directors (who include the executive officers) and Audit & Supervisory Board Members:

Name	Position	Director / Audit & Supervisory Board Member Since
Yuichi Kitao	President and Representative Director	June 2014
Masato Yoshikawa	Executive Vice President and Representative Director	March 2017
Dai Watanabe	Executive Vice President and Director	March 2019
Hiroto Kimura	Director and Senior Managing Executive Officer	March 2022
Eiji Yoshioka	Director and Senior Managing Executive Officer	March 2023
Shingo Hanada	Director and Managing Executive Officer	March 2023
Yuzuru Matsuda	Director (Outside)	June 2014
Koichi Ina	Director (Outside)	June 2015
Yutaro Shintaku	Director (Outside)	March 2018
Kumi Arakane	Director (Outside)	March 2019 <sup>(1)</sup>
Koichi Kawana	Director (Outside)	March 2023
Toshikazu Fukuyama	Audit & Supervisory Board Member	June 2014
Yasuhiko Hiyama	Audit & Supervisory Board Member	March 2018
Masashi Tsunematsu	Audit & Supervisory Board Member	March 2022
Yuichi Yamada	Audit & Supervisory Board Member (Outside)	March 2020
Yuri Furusawa	Audit & Supervisory Board Member (Outside)	March 2021
Keijiro Kimura	Audit & Supervisory Board Member (Outside)	March 2022

Note:

(1) Ms. Arakane was appointed as an Audit & Supervisory Board Member in March 2019 and as a Director in March 2021.

### *Directors*

The Company's Board of Directors has the ultimate responsibility for the administration of the Company's affairs. The Company's Articles of Incorporation provide for not more than 13 Directors. Directors are elected at a general meeting of shareholders. The term of office of Directors expires at the close of the ordinary general meeting of shareholders for the last fiscal year that will end within one year after their election. A Director may serve any number of consecutive terms. There is no requirement concerning the number of Shares an individual must hold to qualify as a Director under the Companies Act or the Company's Articles of Incorporation. Neither the Companies Act nor the Company's Articles of Incorporation set a mandatory retirement age for the Company's Directors. The Board of Directors elects from among its members one or more Representative Directors, who have the authority individually to represent the Company, and appoints a President. The Board of Directors may also elect a Chairperson of the Board (if necessary), a Vice Chairman of the board (if necessary), a President-Director (if necessary) and one or more Executive Vice President-Directors, Executive Managing Directors and Managing Directors (if necessary) from among its members.

The Companies Act requires a resolution of the board of directors for a company to determine the execution of important businesses, to acquire or dispose of material assets, to borrow substantial amounts of money, to employ or discharge managers and other important employees, and to establish, change or abolish branch offices or other material corporate organisations, to issue bonds, to establish internal control systems, and to exempt a director from liability to the company in accordance with applicable laws and regulations.

The Companies Act provides that compensation for Directors shall be determined at a general meeting of shareholders. In order to ensure fairness and transparency, the amount of remuneration of the Directors is decided by the meeting of the Board of Directors in light of the recommendation by the Compensation Advisory Committee.

Under the Companies Act, if a Director, on his or her behalf or on behalf of a third party, engages in a transaction falling within the same kind of business as that of the Company, such Director must disclose important matters concerning such transaction to the Board of Directors and obtain its approval. The Director must also report to the Board of Directors important matters concerning such transaction without delay after consummation of the transaction. In addition, if a Director, on his or her behalf or on behalf of a third party, engages in a transaction with the Company, or if the Company enters into a transaction with any person, in connection with which there is a conflict of interest between the Company and a Director, then such Director must disclose important matters concerning such transaction to the Board of Directors, obtain its approval and report to the Board important matters concerning such transaction without delay after consummation of the transaction.

Under the Companies Act, Directors are liable for losses or damages incurred by the Company arising from any transaction involving a conflict of interest between the Company and any of its Directors and other actions constituting a failure of such Directors to execute their duties without negligence, including but not limited to violation of laws, regulations or the Company's Articles of Incorporation. The Companies Act contains provisions that allow a shareholder who has held shares for at least six months to request the Company in writing or electronically (such as via electronic mail) to take actions against such Directors to enforce such liability. In general, if the Company has not instituted an action within sixty days of the shareholder's request, the shareholder may initiate a derivative action lawsuit against such Directors.

However, under the Companies Act, the Company may enter into a liability limitation agreement with each Director which limits the maximum amount of their liability to the Company arising in connection with a failure to execute their duties without gross negligence, within the limits stipulated by applicable laws and regulations. The Company has entered into such liability limitation agreements with its Outside Directors.

All of the Directors except Outside Directors are engaged in the Company's business on a full-time basis.

The business address for the Company's Directors is 2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan.

#### ***Audit & Supervisory Board Members of the Company***

The Company's Articles of Incorporation also provide for not more than six Audit & Supervisory Board Members. Audit & Supervisory Board Members are elected at a general meeting of shareholders. The term of office of Audit & Supervisory Board Members expires at the close of the ordinary general meeting of shareholders for the last fiscal year that will end within four years after their election. Nomination by the Board of Directors of Audit & Supervisory Board Members for election at the general meeting of shareholders is subject to the prior consent of the Audit & Supervisory Board referred to below. The Companies Act provides that a company that has or is required to have a board of statutory auditors must have three or more statutory auditors. The Audit & Supervisory Board Members may not at the same time be Directors, account assistants, executive officers, managers or employees of the Company or any of its subsidiaries, and not less than half of the Audit & Supervisory Board Members must be Outside Audit & Supervisory Board Members, who have never been Directors, account assistants, executive officers, managers or employees of the Company or any of its subsidiaries prior to his or her appointment. Audit & Supervisory Board Members are not required to be certified public accountants.

The main matters considered by the Company's Audit & Supervisory Board Members include, but not limited to, the auditing policies and division of duties, status of the establishment and operation of internal control systems, evaluation, appointment and reappointment of the independent auditor, and the audit report. In accordance with the auditing policies, division of duties, and standards for the Audit & Supervisory Board Members as established by the Audit & Supervisory Board, the Audit & Supervisory Board Members communicate with the Directors, the internal audit department, employees, and others; commit to gathering information and enhancing the audit environment; attend meetings of the Board of Directors and other important meetings; receive reports from the Directors, employees, and others regarding the performance of their duties; request explanations as necessary; inspect important documents supporting decisions and other records; and examine the status of operations and assets at the head office and important operating locations. In addition, the Audit & Supervisory Board Members periodically receive reports from the Directors, employees, and others regarding the status of the development and operation of internal control systems; request explanations as necessary; and express opinions. In a company that has or is

required to have an audit & supervisory board, one or more of the audit & supervisory board members must be designated by such board to serve on a full-time basis.

Under the Companies Act, Audit & Supervisory Board Members are also liable for losses or damages incurred by the Company arising from actions constituting a failure of such Audit & Supervisory Board Members to execute their duties without negligence, including but not limited to violation of laws, regulations or the Company's Articles of Incorporation. The Companies Act contains provisions that allow a shareholder who has held shares for at least six months to request the Company in writing or electronically (such as via electronic mail) to take actions against such Audit & Supervisory Board Members to enforce such liability. In general, if the Company has not instituted an action within sixty days of the shareholder's request, the shareholder may initiate a derivative action lawsuit against such Audit & Supervisory Board Members.

However, under the Companies Act, the Company may enter into a liability limitation agreement with each Audit & Supervisory Board Member which limits the maximum amount of their liability to the Company arising in connection with a failure to execute their duties without gross negligence, within the limits stipulated by applicable laws and regulations. The Company has entered into such liability limitation agreements with its Outside Audit & Supervisory Board Members.

In addition to Audit & Supervisory Board Members, the Company must appoint an independent auditor. An independent auditor is elected at a general meeting of shareholders. The term of office of an independent auditor expires at the close of the ordinary general meeting of shareholders for the last fiscal year that will end within one year after its election. Nomination of an independent auditor for election at the general meeting of shareholders is determined by the Audit & Supervisory Board. An independent auditor has a statutory duty to audit the financial statements to be submitted by the Company's Representative Directors to the ordinary general meetings of shareholders, and to prepare and submit a report on examination to the specified Audit & Supervisory Board Member and the specified Director under the Companies Act. Currently the Company's independent auditor is Deloitte Touche Tohmatsu LLC, which also audits both the Company's consolidated financial statements and non-consolidated financial statements included in the Company's securities report pursuant to the FIEA.

Internal audit on the Company's internal control over financial reporting is conducted by the Corporate Auditing Department, which is independent from all other departments of the Company and made up of 14 employees who have the necessary expertise. Internal audits on other risks are conducted by the relevant department in charge, and secondary internal audits are conducted by the independent Corporate Auditing Department in order to ensure the adequacy of preceding internal audits. Internal audits are conducted on site or remotely through documentation reviews, based on audit plans approved by the President. Internal audit departments and the independent auditor report their audit plan and audit results to the Audit & Supervisory Board Members periodically and as needed. In addition, information is exchanged, if required, between the internal audit departments and the independent auditor, ensuring efficient audit activities.

#### ***Executive Compensation of the Company's Directors and Audit & Supervisory Board Members***

The aggregate compensation, including bonuses, which the Company paid to its Directors (other than Outside Directors), Audit & Supervisory Board Members (other than Outside Audit & Supervisory Board Members), Outside Directors and Outside Audit & Supervisory Board Members during the fiscal year ended 31 December 2022 was ¥777 million, ¥120 million, ¥77 million and ¥49 million, respectively.

#### ***Subsidiary Management***

The Company manages its subsidiaries in accordance with the subsidiary management regulations it has established in order to maintain the appropriateness of their operations. The subsidiaries report the status of their business and the execution of the duties by their executives to the department in charge at the Company. The Company emphasises the business connections between the subsidiaries and the operating divisions of the Company and assigns the relevant departments to be departments primarily in charge of managing these subsidiaries. The Company then receives reports on management planning and other matters from the subsidiaries and works to ensure the efficient execution of the duties of their directors through discussions at management review committees and other means.

## Employees of the Group

The following table sets out the number of employees of the Company on a consolidated basis as of 31 December 2020, 2021 and 2022, according to reporting segments applicable to the periods indicated:

	As of 31 December					
	2020		2021		2022	
	Full-time	Part-time <sup>(1)</sup>	Full-time	Part-time <sup>(1)</sup>	Full-time	Part-time <sup>(1)</sup>
Farm & Industrial Machinery.....	30,938	2,228	32,163	2,885	38,682	11,689
Water & Environment .....	7,255	253	7,388	267	7,543	316
Other .....	1,696	218	1,755	204	1,845	208
Corporate.....	1,716	—	1,987	—	2,282	—
Total.....	41,605	2,699	43,293	3,356	50,352	12,213

Notes:

- (1) Average of part-time employees for the period.
- (2) Increases for 31 December 2022 are mainly due to the acquisition of EKL, which is categorised in Farm & Industrial Machinery segment.

There are 12 domestic labour unions and 30 overseas labour unions in respect of the Group. The Company considers the Group's labour relations (including those with the relevant labour unions) to be generally good.

## SUBSIDIARIES AND ASSOCIATES OF THE COMPANY

The Company conducts its business together with those of its subsidiaries and associates. As of 31 March 2023, the Company had 199 consolidated subsidiaries and 20 associates accounted for using the equity method.

The following table sets forth, as of 31 December 2022, certain information on the Company's principal subsidiaries and associates. The percentages shown under "Voting Rights Held by the Company" indicate, for each company shown below, the aggregate percentage of voting rights in such company directly and indirectly held by the Company (with the figures in parentheses indicating the indirect holding within such aggregate holding).

Name	Location	Main Business	Issued Capital <sup>(1)</sup>	Voting Rights Held by the Company (per cent.)
<b>Consolidated Subsidiaries</b>				
6 domestic farm equipment sales companies, including Hokkaido Kubota Corporation <sup>(2)</sup>	Japan	Sales of farm equipment	¥100 million	84.3
KUBOTA Construction Machinery Japan Corporation	Japan	Sales of construction machinery	¥300 million	100.0
Kubota Credit Co., Ltd.	Japan	Retail financing to purchasers of farm equipment and related products	¥500 million	(22.9) 77.8
Kubota Seiki Co., Ltd.	Japan	Manufacturing and sales of hydraulic equipment	¥480 million	100.0
Kubota Machinery Trading Co., Ltd.	Japan	Export and import of repair parts related to farm equipment, engines, and construction machinery	¥30 million	100.0
Kubota Engine Japan Corporation	Japan	Sales, service, and engineering of industrial engines	¥310 million	100.0
Kubota North America Corporation	United States	Administration of North American Farm & Industrial Machinery business	U.S.\$597,100 thousand	100.0
Kubota Tractor Corporation <sup>(4)</sup>	United States	Sales of tractors, outdoor power equipment, construction machinery, and implements	U.S.\$37,000 thousand	(100.0) 100.0
Kubota Credit Corporation U.S.A.	United States	Retail financing to purchasers of tractors, outdoor power equipment, construction machinery, and implements	U.S.\$8,000 thousand	(90.0) 100.0
Kubota Manufacturing of America Corporation	United States	Manufacturing of tractors and outdoor power equipment	U.S.\$10,900 thousand	(100.0) 100.0
Kubota Industrial Equipment Corporation	United States	Manufacturing of implements, tractors, and construction machinery	U.S.\$70,000 thousand	(100.0) 100.0
Kubota Engine America Corporation	United States	Sales, engineering, and after-sales service of engines, engine parts, and engine accessories	U.S.\$10,000 thousand	(100.0) 100.0
Kubota Insurance Corporation	United States	Underwriting non-life insurance in the United States	U.S.\$2,000 thousand	(100.0) 100.0
Great Plains Manufacturing, Inc. and its 18 subsidiaries <sup>(5)</sup>	United States	Manufacturing and sales of implements and construction machinery	U.S.\$90 thousand	(100.0) 100.0



<b>Name</b>	<b>Location</b>	<b>Main Business</b>	<b>Issued Capital<sup>(1)</sup></b>	<b>Voting Rights Held by the Company (per cent.)</b>
Kubota Research & Development North America Corporation	United States	Development of outdoor power equipment and implements	U.S.\$90,000 thousand	(100.0) 100.0
Kubota Canada Ltd.	Canada	Sales of tractors, outdoor power equipment, construction machinery, and implements	C\$6,000 thousand	100.0
Kubota Holdings Europe B.V.	Netherlands	Administration of European Farm & Industrial Machinery business	EUR532,788 thousand	100.0
Kubota Europe S.A.S.	France	Sales of construction machinery, tractors, outdoor power equipment, and engines	EUR11,167 thousand	(100.0) 100.0
Kubota Farm Machinery Europe S.A.S.	France	Manufacturing of upland farming tractors	EUR57,000 thousand	(100.0) 100.0
Kubota Baumaschinen GmbH	Germany	Manufacturing and sales of construction machinery	EUR14,316 thousand	(100.0) 100.0
Kubota (Deutschland) GmbH	Germany	Sales of tractors, outdoor power equipment, and engines	EUR3,579 thousand	(100.0) 100.0
Kubota (U.K.) Ltd.	United Kingdom	Sales of construction machinery, tractors, outdoor power equipment, and engines	GBP2,000 thousand	(100.0) 100.0
Kverneland AS and its 35 subsidiaries <sup>(4)</sup>	Norway	Manufacturing and sales of agricultural implements	EUR53,090 thousand	(100.0) 100.0
Kubota Brabender Technologie GmbH and 3 subsidiaries	Germany	Manufacturing and sales of gravimetric feeders	EUR26 thousand	(100.0) 100.0
SIAM KUBOTA Corporation Co., Ltd.	Thailand	Manufacturing and sales of tractors, combine harvesters, implements, and horizontal type diesel engines, Sales of construction machinery	THB2,739,000 thousand	60.0
Siam Kubota Leasing Co., Ltd.	Thailand	Retail financing to purchasers of tractors and combine harvesters and others	THB2,000,000 thousand	(100.0) 100.0
KUBOTA Engine (Thailand) Co., Ltd.	Thailand	Manufacturing of vertical type diesel engines	THB1,400,000 thousand	100.0
Escorts Kubota Ltd. and its 5 subsidiaries <sup>(5)</sup>	India	Manufacturing and sales of tractors, construction machinery, and other products	INR1,319,406 thousand	44.8
Kubota Agricultural Machinery (SUZHOU) Co., Ltd.	China	Manufacturing and sales of combine harvesters, rice transplanters, and tractors	CNY170,999 thousand	(100.0) 100.0
Kubota Construction Machinery (Wuxi) Co., Ltd.	China	Manufacturing of construction machinery	CNY289,035 thousand	(100.0) 100.0
Kubota China Financial Leasing Ltd.	China	Finance leasing of construction machinery and farm equipment, and factoring service	CNY527,092 thousand	(100.0) 100.0
Kubota Korea Co., Ltd.	Korea	Sales of tractors, combine harvesters, rice transplanters, construction machinery, and engines	KRW200,000 thousand	100.0
Kubota Myanmar Co., Ltd.	Myanmar	Sales of combine harvesters and tractors	U.S.\$23,800 thousand	(20.0) 100.0

Name	Location	Main Business	Issued Capital <sup>(1)</sup>	Voting Rights Held by the Company (per cent.)
Kubota Australia Pty Ltd.	Australia	Sales of tractors, outdoor power equipment, construction machinery, and engines	AUD 21,000 thousand	100.0
Kubota ChemiX Co., Ltd.	Japan	Manufacturing and sales of plastic pipes and fittings	¥3,198 million	100.0
KUBOTA Environmental Engineering Co., Ltd.	Japan	Design, manufacturing, construction, repair, operation and maintenance of various environmental equipment and plants	¥400 million	100.0
NIPPON PLASTIC INDUSTRY CO., LTD.	Japan	Manufacturing and sales of plastic products	¥175 million	(67.0) 67.0
Kubota Construction Co., Ltd.	Japan	Design and construction of water and sewage, civil engineering	¥400 million	100.0
Kubota Air Conditioner, Ltd.	Japan	Manufacturing, sales, and maintenance of air conditioning equipment for business use	¥400 million	100.0
Kubota Materials Canada Corporation	Canada	Manufacturing and sales of cast steel products and TXAX products	C\$15,000 thousand	100.0
Kubota Saudi Arabia Company, LLC	Saudi Arabia	Manufacturing and sales of steel casting products, sales and maintenance of valves	SAR56,250 thousand	51.0
KUBOTA SYSTEMS Inc.	Japan	Development of system, data processing service, and sales of hardware	¥400 million	100.0
KUBOTA LOGISTICS Corporation	Japan	Management of logistics and logistics information service related to transportation, storage, cargo handling, and distribution processing	¥75 million	100.0
Heiwa Kanzai Co., Ltd.	Japan	Building maintenance, security guarding, and facility management	¥50 million	60.0
Kubota China Holdings Co., Ltd.	China	Administration of subsidiaries in China	CNY1,701,861 thousand	100.0
<b>Associates Accounted For Using the Equity Method</b>				
7 domestic farm equipment sales companies, including Akita Kubota Corporation <sup>(6)</sup>	Japan	Sales of farm equipment and others	¥60 million	35.7
KMEW Co., Ltd.	Japan	Manufacturing and sales of roofing, siding materials, and rain gutters	¥8,000 million	50.0

Notes:

- (1) In the above table, "U.S.\$" stands for U.S. dollar, "C\$" stands for Canadian dollar, "EUR" stands for Euro, "GBP" stands for British pound sterling, "THB" stands for Thai baht, "CNY" stands for Chinese yuan, "KRW" stands for South Korean won, "AUD" stands for Australian dollar and "SAR" stands for Saudi Arabian Riyals.
- (2) Issued Capital and Voting Rights Held by the Company denote the amount in respect of Hokkaido Kubota Corporation.
- (3) Issued Capital and Voting Rights Held by the Company denote the amount in respect of Great Plains Manufacturing, Inc.
- (4) Issued Capital and Voting Rights Held by the Company denote the amount in respect of Kverneland AS.
- (5) Issued Capital and Voting Rights Held by the Company denote the amount in respect of Escorts Kubota Ltd. While the ownership percentage of voting rights by the Company is less than 50 per cent., Escorts Kubota Ltd. is considered a subsidiary since this company is substantially controlled by the Company.
- (6) Issued Capital and Voting Rights Held by the Company denote the amount in respect of Akita Kubota Corporation.

- (7) Revenue of Kubota Tractor Corporation (excluding intercompany transfers) exceeded 10 per cent. of total consolidated revenue of the Company. Its major financial data as of/for the fiscal year ended 31 December 2022 were as follows:
- |                             |                  |
|-----------------------------|------------------|
| Revenue:                    | ¥723,825 million |
| Income before income taxes: | ¥40,262 million  |
| Net income:                 | ¥29,893 million  |
| Total equity                | ¥239,238 million |
| Total assets                | ¥533,043 million |

## TAXATION

*The tax laws of the investor's state, and of the Issuer's and the Guarantor's state of incorporation, may have an impact on the income received from the Bonds or the Deed of Guarantee. Prospective purchasers of Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Bonds and receiving payments of interest, principal and/or other amounts under the Bonds and the consequences of such actions under the tax laws of those countries.*

*The statements below are general in nature, and are based on certain aspects of current tax laws in the United States and Japan. None of these statements or any other statements in this Offering Circular is to be regarded as advice on the tax position of any Bondholder or any person purchasing, selling or otherwise dealing in the Bonds or any tax implication arising from the purchase, sale or other dealings in respect of the Bonds. Potential purchasers and sellers of the Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are transferred or other jurisdictions. Prospective investors who are in doubt about their tax position or any such tax implication or who may be subject to tax in a jurisdiction other than the United States or Japan should consult their own professional advisers.*

### U.S. Federal Income Taxation

*The following is a summary of certain U.S. federal income tax considerations that may be relevant to a Non-U.S. Holder (as defined below) of a Bond. This summary is based on provisions of the United States Internal Revenue Code of 1986, as amended (the "Code"), applicable United States Treasury Regulations thereunder, published administrative rulings and court decisions, all as currently in effect, and all of which are subject to change, possibly with retroactive effect. This summary deals only with Non-U.S. Holders that will hold Bonds as capital assets (within the meaning of Section 1221 of the Code) and acquired Bonds upon original issuance at their original issue price. This summary does not address particular tax considerations that may be applicable to Bondholders that are subject to special tax rules, including (but not limited to) banks, tax-exempt entities, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Bonds as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction, entities taxed as partnerships or the partners therein, U.S. expatriates, nonresident alien individuals present in the United States for more than 182 days in a taxable year, persons that have a "functional currency" other than the U.S. dollar or persons that own, directly, indirectly, constructively or by attribution, 5 per cent. or more of the Issuer's outstanding common stock.*

As used herein, a "Non-U.S. Holder" is a beneficial owner of a Bond that is not (i) an individual that is a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the U.S. or meets the "substantial presence" test under Section 7701(b) of the Code; (ii) a corporation or other entity taxable as a corporation created or organised in or under the laws of the U.S. or a political subdivision thereof; (iii) an estate, the income of which is subject to U.S. federal income tax regardless of its source; (iv) a trust, if a U.S. court can exercise primary supervision over the administration of the trust and one or more "United States persons", as defined in Section 7701(a)(30) of the Code, can control all substantial trust decisions, or if the trust was in existence on 20 August 1996, and it has elected to continue to be treated as a U.S. person; or (v) otherwise subject to U.S. federal income taxation on a net income basis in respect of the Bond.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Bonds will depend on the status of the partner and the activities of the partnership. Prospective investors that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Bonds by the partnership.

This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under U.S. federal non-income tax laws (such as the estate or gift tax) or state, local, or non-U.S. tax laws, the alternative minimum tax or the Medicare tax on net investment income. Bondholders should consult their own tax advisers in determining the tax consequences to them of holding Bonds under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

### ***Treatment of Interest***

Subject to the discussions under "—Information Reporting and Backup Withholding" and "—FATCA Withholding" below, under the "portfolio interest exemption", a Non-U.S. Holder will generally not be subject to U.S. federal income tax (or any withholding tax) on payments of stated interest on the Bonds that is not effectively connected with the Non-U.S. Holder's trade or business, provided that:

- the Non-U.S. Holder does not actually or constructively own 10 per cent. or more of the total combined voting power of all classes of the Issuer's common stock entitled to vote;
- the Non-U.S. Holder is not, and is not treated as, a bank receiving interest on an extension of credit pursuant to a loan agreement entered into in the ordinary course of its trade or business;
- the Non-U.S. Holder is not a "controlled foreign corporation" as defined in Section 957(a) of the Code that is related (actually or constructively) to the Issuer; and
- certain certification requirements (such as an IRS Form W-8BEN or IRS Form W-8BEN-E) are met.

If the requirements of the portfolio interest exemption described above are not satisfied, a 30 per cent. withholding tax will apply to the gross amount of interest on the Bonds that is paid to a Non-U.S. Holder, unless either: (a) an applicable income tax treaty reduces or eliminates such tax, and the Non-U.S. Holder claims the benefit of that treaty by providing the Issuer or the Paying Agent a properly completed and duly executed IRS Form W-8BEN or W-8BEN-E (or suitable successor or substitute form) establishing qualification for benefits under the treaty, or (b) the interest is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States and the Non-U.S. Holder provides the Issuer or the Paying Agent an appropriate statement to that effect on a properly completed and duly executed IRS Form W-8ECI (or suitable successor or substitute form).

### ***Sale, Exchange and Other Disposition of Bonds***

Subject to the discussions under "—Information Reporting and Backup Withholding" and "—FATCA Withholding" below, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on gain realised on a sale, exchange or other disposition (including upon redemption) of Bonds unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States); in this case, the gain will be subject to U.S. federal income tax on a net income basis at the regular graduated rates and in the manner applicable to United States persons (unless an applicable income tax treaty provides otherwise) and, if the Non-U.S. Holder is treated as a corporation for U.S. federal income tax purposes, an additional 30 per cent. "branch profits tax" may also apply; or
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other requirements; in this case, except as otherwise provided by an applicable income tax treaty, the gain, which may be offset by certain U.S. source capital losses, generally will be subject to a flat 30 per cent. U.S. federal income tax, even if the Non-U.S. Holder is not treated as a resident of the United States under the Code.

### ***Information Reporting and Backup Withholding***

When required, the Issuer or the Paying Agent will report to the United States Internal Revenue Service (the "IRS") and to each Non-U.S. Holder the amount of any interest paid on the Bonds in each calendar year, and the amount of U.S. federal income tax withheld, if any, with respect to these payments. Non-U.S. Holders who have provided certification to the Issuer or the Paying Agent as to their non-U.S. status or who have otherwise established an exemption will generally not be subject to backup withholding tax if neither the Issuer nor the Paying Agent have actual knowledge or reason to know that such certification is unreliable or that the conditions of the exemption are in fact not satisfied.

Payments of the proceeds from the sale or other disposition (including a redemption) of a Bond to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, additional information reporting, but generally not backup withholding, may apply to those payments if the broker is one of the following: (a) a United States person, (b) a "controlled foreign corporation" as defined in Section 957(a) of the Code, (c) a foreign person 50 per cent. or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment was effectively connected with a U.S. trade or business, or (d) a foreign partnership with specified connections to the United States.

Payment of the proceeds from a sale or other disposition (including a redemption) of a Bond to or through the United States office of a broker will be subject to information reporting and backup withholding unless the Non-U.S. Holder certifies to the Issuer or the Paying Agent as to its non-U.S. status or otherwise establishes an exemption from information reporting and backup withholding, provided that neither the Issuer nor the Paying Agent have actual knowledge or reason to know that such certification is unreliable or that the conditions of the exemption are in fact not satisfied.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle the holder to a refund, provided the required information is timely furnished to the IRS.

### ***FATCA Withholding***

The Foreign Account Tax Compliance Act ("FATCA") imposes U.S. withholding tax at a rate of 30 per cent. on payments of U.S. source interest and on payments of gross proceeds from the disposition of securities that pay U.S. source interest, in each case, if the Bondholder is not FATCA compliant, or holds its Bonds through a foreign financial institution that is not FATCA compliant. Proposed regulations eliminate the requirement of withholding on payments of gross proceeds from the sale or disposition of financial instruments. The United States Treasury Department has indicated that taxpayers may rely on these proposed regulations pending their finalisation. In order to be treated as FATCA compliant, a Bondholder must provide certain documentation (usually an IRS Form W-8BEN or W-8BEN-E) containing information about its identity, its FATCA status, and if required, its direct and indirect U.S. owners. These requirements may be modified by the adoption or implementation of an intergovernmental agreement between the United States and another country or by future United States Treasury Regulations. If any taxes are required to be deducted or withheld from any payments in respect of the Bonds as a result of a beneficial owner or intermediary's failure to comply with the foregoing rules, no additional amounts will be paid on the Bonds as a result of the deduction or withholding of such tax.

Documentation that Bondholders provide in order to be treated as FATCA compliant may be reported to the IRS and other tax authorities, including information about a Bondholder's identity, its FATCA status, and if applicable, its direct and indirect U.S. owners. Prospective investors should consult their own tax advisers about how information reporting and the possible imposition of withholding tax under FATCA may apply to their investment in the Bonds.

### **Japan**

The payment of principal and interest in respect of the Bonds and the Deed of Guarantee to an individual non-resident of Japan or a non-Japanese corporation will, under Japanese tax laws currently in effect, not be subject to any Japanese income tax or corporation tax (including, where applicable, special taxes for reconstruction), unless any interest on the Bonds is attributable to a business in Japan conducted by the Issuer in the manner provided for in Article 6 of the Act on Special Measures Concerning Taxation of Japan (Act No. 26 of 1957, as amended).

Gains derived from the sale outside Japan of the Bonds, by a holder that is an individual non-resident of Japan or a non-Japanese corporation, having no permanent establishment in Japan will, in general, not be subject to Japanese income or corporation tax (including, where applicable, special taxes for reconstruction). Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired the Bonds as a legatee, heir or donee, even if the individual is not a Japanese resident. No stamp, issue, registration or similar taxes or duties will, under present Japanese law, be payable by Bondholders in connection with the issue of the Bonds.

## SUBSCRIPTION AND SALE

Morgan Stanley & Co. International plc, Merrill Lynch International, Barclays Bank PLC and Nomura International plc (together, the "Joint Lead Managers") have entered into a subscription agreement with the Company dated 23 May 2023 in respect of the Bonds (the "Subscription Agreement"), under which, subject to the satisfaction of certain conditions set out therein, the Joint Lead Managers have agreed severally but not jointly to subscribe for the Bonds at 100 per cent. of the principal amount of the Bonds, in the amounts described below:

<b>Joint Lead Managers</b>	<b>Aggregate principal amount of the Bonds</b>
Morgan Stanley & Co. International plc .....	U.S.\$200,000,000
Merrill Lynch International.....	150,000,000
Barclays Bank PLC	100,000,000
Nomura International plc .....	50,000,000
Total.....	<u>U.S.\$500,000,000</u>

The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue and offering of the Bonds.

### **Selling Restrictions**

#### ***United States***

The Bonds and the Deed of Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act.

The Bonds and the Deed of Guarantee have not been offered or sold and will not be offered or sold (i) as part of their distribution, at any time or (ii) otherwise, until 40 days after the later of the commencement of the offering of the Bonds and the Deed of Guarantee, and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and only in accordance with Rule 903 of Regulation S, and each Joint Lead Manager will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to whom it sells the Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds and the Deed of Guarantee within the United States or to, or for the account or benefit of, U.S. persons.

The Bonds and the Deed of Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds and the Deed of Guarantee, an offer or sale of the Bonds and the Deed of Guarantee within the United States by any dealer (whether or not participating in the offering of the Bonds) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meaning given to them by Regulation S.

#### ***Switzerland***

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds. The Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("FinSA") and no application has or will be made to admit the Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus pursuant to the FinSA, and neither this Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

## ***United Kingdom***

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

## ***Japan***

The Bonds have not been and will not be registered under the FIEA and accordingly, each Joint Lead Manager has represented and agreed that it will not directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any person resident in Japan for Japanese securities law purposes (including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## ***Singapore***

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;



- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

### ***Hong Kong***

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds, other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

### ***Important Notice to CMIs (including Private Banks)***

This notice to CMIs (including Private Banks) is a summary of certain obligations the Code imposes on CMIs, which require the attention and cooperation of other CMIs (including Private Banks). Certain CMIs may also be acting as OCs for this offering and are subject to additional requirements under the Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer or the Guarantor, a CMI or its group companies would be considered under the Code as having an Association with the Issuer or the Guarantor, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for Bonds. In addition, Private Banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or the Guarantor or any CMI (including its group companies) and inform the Joint Lead Managers accordingly.

CMIs are informed that the marketing and investor targeting strategy for this offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any UK MiFIR product governance language set out elsewhere in this Offering Circular.

CMIs should ensure that orders placed are *bona fide*, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for Bonds (except for omnibus orders where underlying investor information should be provided to the OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including Private Banks as the case may be) in the order book and book messages.

CMIs (including Private Banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer or the Guarantor. In addition, CMIs (including Private Banks) should not enter into arrangements which may result in prospective investors paying different prices for the Bonds.

The Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make

an informed decision. In order to do this, those Joint Lead Managers in control of the order book should consider disclosing order book updates to all CMI's.

When placing an order for Bonds, Private Banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private Banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the Code. Private Banks should be aware that placing an order on a "principal" basis may require the Joint Lead Managers to apply the "proprietary orders" requirements of the Code to such order and will require the Joint Lead Managers to apply the "rebates" requirements of the Code to such order.

In relation to omnibus orders, when submitting such orders, CMI's (including Private Banks) that are subject to the Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any "Associations" (as used in the Code);
- Whether any underlying investor order is a "Proprietary Order" (as used in the Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to:

omnibus\_debt@morganstanley.com;  
bofa\_dcm\_syndicate\_pb\_orders@bofa.com;  
barclaysscfomnibusorders-debt@barclays.com;  
aejdebtsyndicate@nomura.com

To the extent information being disclosed by CMI's and investors is personal and/or confidential in nature, CMI's (including Private Banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to the OC's; (B) that they have obtained the necessary consents from the underlying investors to disclose such information to the OC's. By submitting an order and providing such information to the OC's, each CMI (including Private Banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by the OC's and/or any other third parties as may be required by the Code, including to the Issuer or the Guarantor, relevant regulators and/or any other third parties as may be required by the Code, for the purpose of complying with the Code, during the bookbuilding process for this offering. CMI's that receive such underlying investor information are reminded that such information should be used only for submitting orders in this offering. The Joint Lead Managers may be asked to demonstrate compliance with their obligations under the Code, and may request other CMI's (including Private Banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMI's (including Private Banks) are required to provide the relevant Joint Lead Manager with such evidence within the timeline requested.

By placing an order, prospective investors (including any underlying investors in relation to omnibus orders) are deemed to represent to the Joint Lead Managers that it is not a Sanctions Restricted Person. A "Sanctions Restricted Person" means an individual or entity (a "Person"): (a) that is, or is directly or indirectly owned or controlled by a Person that is, described or designated in (i) the most current "Specially Designated Nationals and Blocked Persons" list (which as of the date hereof can be found at: <http://www.treasury.gov/ofac/downloads/sdnlist.pdf>) or (ii) the Foreign Sanctions Evaders List (which as of the date hereof can be found at: <http://www.treasury.gov/ofac/downloads/fse/fselist.pdf>) or (iii) the most current "Consolidated list of persons, groups and entities subject to EU financial sanctions" (which as of the date hereof can be found at: [https://eeas.europa.eu/headquarters/headquartershomepage\\_en/8442/Consolidated%20list%20of%20sanctions](https://eeas.europa.eu/headquarters/headquartershomepage_en/8442/Consolidated%20list%20of%20sanctions)); or (b) that is otherwise the subject of any sanctions administered or enforced by any Sanctions Authority, other than solely by virtue of: (i) their inclusion in the most current "Sectoral Sanctions Identifications" list (which as of the date hereof can be found at:

<https://www.treasury.gov/ofac/downloads/ssi/ssilist.pdf>) (the "SSI List"), (ii) their inclusion in Annexes 3, 4, 5 and 6 of Council Regulation No. 833/2014, as amended by Council Regulation No. 960/2014 (the "EU Annexes"), (iii) their inclusion in any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes, (iv) them being the subject of restrictions imposed by the United States Department of Commerce's Bureau of Industry and Security ("BIS") under which BIS has restricted exports, re-exports or transfers of certain controlled goods, technology or software to such individuals or entities; (v) them being an entity listed in the Annex to the new Executive Order of 3 June 2021 entitled "Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China" (known as the Non-SDN Chinese Military- Industrial Complex Companies List), which amends the Executive Order 13959 of 12 November 2020 entitled "Addressing the threat from Securities Investments that Finance Chinese Military Companies"; or (vi) them being subject to restrictions imposed on the operation of an online service, Internet application or other information or communication services in the United States directed at preventing a foreign government from accessing the data of U.S. persons; or (c) that is located, organized or a resident in a comprehensively sanctioned country or territory, including Cuba, Iran, North Korea, Syria, the Crimea region of Ukraine, the Donetsk's People's Republic or Luhansk People's Republic. "Sanctions Authority" means: (a) the United States government; (b) the United Nations; (c) the European Union (or any of its member states); (d) the United Kingdom; (e) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions; and (f) the respective governmental institutions and agencies of any of the foregoing including, without limitation, the Office of Foreign Assets Control of the United States Department of the Treasury, the United States Department of State, the United States Department of Commerce and His Majesty's Treasury.

### **General**

Neither the Issuer, the Guarantor nor any of the Joint Lead Managers represents that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating such sales.

### **Other Relationships**

Certain of the Joint Lead Managers and/or their affiliates may purchase or sell the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution. The Joint Lead Managers and/or their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with the offering of the Bonds, any of the Joint Lead Managers and/or their affiliates may purchase the Bonds for its or their own account and may for its or their own account enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps or other derivatives relating to the Bonds and/or other securities (or related derivative securities) and financial instruments (including bank loans) of the Issuer, the Guarantor or their respective subsidiaries or affiliates and/or components of such Bonds and/or other securities, at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). As a result, any of the Joint Lead Managers and/or their affiliates may hold long or short positions in the Bonds and/or derivatives relating thereto. Any such short positions could adversely affect future trading prices of the Bonds offered hereby. No disclosure will be made of any such positions.

Certain of the Joint Lead Managers and/or their affiliates have in the past provided, are currently providing and may in the future provide, investment and commercial banking, underwriting, financial advisory, securities trading, investment research, hedging, financing, brokerage activities and other services to the Issuer, the Guarantor and their respective subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation. Interests may evolve out of these transactions that could potentially conflict with the interests of a purchaser of the Bonds.

## GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The ISIN for the Bonds is XS2544560639 and the Common Code for the Bonds is 254456063. The LEI for the Issuer is 549300AU3IAKTN5NZ764 and the LEI for the Guarantor is 549300CSY4INHEHQQT13.
2. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of U.S.\$200,000 for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for definitive Certificates. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.
3. The Issuer has obtained all necessary consents, approvals and authorisations in the United States, if any, in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution dated 22 May 2023 of the Board of Directors of the Issuer.
4. The Guarantor has obtained all necessary consents, approvals and authorisations in Japan, if any, in connection with the giving of the Guarantee. The giving of the Guarantee was authorised by a resolution dated 16 December 2022 of the Board of Directors of the Guarantor.
5. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or the Group, and no material adverse change in the prospects of the Issuer or the Group since 31 December 2022.
6. Save as disclosed in this Offering Circular, neither the Issuer, the Guarantor nor any other member of the Group is, or has been involved in, any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Issuer, the Guarantor or the Group, nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.
7. Copies of the latest annual and interim securities reports of the Guarantor including the English translation of the audited annual consolidated financial statements or the reviewed interim consolidated financial statements of the Guarantor and its subsidiaries, as the case may be, may be obtained, and copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee will be available for inspection, at the Specified Offices of each of the Agents during normal business hours, so long as any of the Bonds is outstanding.
8. The consolidated financial statements of the Guarantor and its subsidiaries for each of the fiscal years ended 31 December 2022, 2021 and 2020, included in this Offering Circular, have been audited by Deloitte Touche Tohmatsu LLC, the Guarantor's independent auditor, as stated in its audit reports appearing herein.
9. The unaudited condensed interim consolidated financial statements of the Guarantor and its subsidiaries for the three-month period ended 31 March 2023 (together with comparable information as of 31 December 2022 and for the three-month period ended 31 March 2022), included in this Offering Circular, have been reviewed by Deloitte Touche Tohmatsu LLC, as stated in its review report appearing herein.
10. The Issuer's consolidated financial statements for each of the fiscal years ended 31 December 2022, 2021 and 2020, included in this Offering Circular, have been audited by Deloitte & Touche LLP, the Issuer's independent auditor, as stated in its audit report appearing herein.
11. Effective from the beginning of the fiscal year ending 31 December 2023, the Company and its subsidiaries have adopted IFRS 17 "Insurance Contracts". The Company has retrospectively applied IFRS 17 with a transition date of 1 January 2022. The retrospective adjustment has been

applied to corresponding figures for the fiscal year ended 31 December 2022 presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. See "Note 3. MATERIAL ACCOUNTING POLICIES — Changes in Accounting Policy" of the Notes to the Company's unaudited condensed interim consolidated financial statements for the three-month period ended 31 March 2023 included elsewhere in this Offering Circular.

12. As the Company had not completed measurements of the associated fair value of the assets acquired, liabilities assumed, non-controlling interests and goodwill in relation to its acquisition of EKL in April 2022 as of 31 December 2022, the Company recorded provisional values in the consolidated financial statements as of and for the fiscal year ended 31 December 2022. The provisional accounting for the business combination of EKL was finalised during the three-month period ended 31 March 2023, and the Company has retrospectively applied adjustments of the provisional amounts associated with the completion of the initial accounting for business combination to the figures previously recorded for the fiscal year ended 31 December 2022 presented as comparative information in the unaudited condensed interim consolidated financial statements as of and for the three-month period ended 31 March 2023. Such retrospective adjustments have not been reflected in the audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. See "Note 5. BUSINESS COMBINATION" of the Notes to the Company's unaudited condensed interim consolidated financial statements for the three-month period ended 31 March 2023 included elsewhere in this Offering Circular.
13. The Company has previously evaluated and recognised an allowance for doubtful accounts for lease receivables based on lifetime expected credit losses. Effective from the fiscal year ended 31 December 2022, an allowance for doubtful accounts of which credit risk has not increased significantly since initial recognition is recognised for the 12-month expected credit losses, and an allowance for doubtful accounts of which credit risk has increased significantly since initial recognition is recognised for lifetime expected credit losses. The Company made this change since the Company had, by the fiscal year ended 31 December 2022, accumulated sufficient data to enable a more detailed evaluation of expected credit losses for the finance lease business offered mainly in Thailand. In this Offering Circular, two separate sets of audited annual consolidated financial statements as of and for the fiscal years ended 31 December 2021 and 31 December 2022, and as of and for the fiscal years ended 31 December 2020 and 31 December 2021, are included. The change in the accounting policy has been applied retrospectively to the comparative information for the fiscal year ended 31 December 2021 contained in the Company's audited annual consolidated financial statements as of and for the fiscal year ended 31 December 2022. Such retrospective adjustments have, however, not been reflected in the audited annual consolidated financial statements as of and for the fiscal years ended 31 December 2020 and 31 December 2021 included elsewhere in this Offering Circular. See "Note 3. SIGNIFICANT ACCOUNTING POLICIES — Changes in Accounting Policies" of the Notes to the Company's audited annual consolidated financial statements for the fiscal year ended 31 December 2022 included elsewhere in this Offering Circular.

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# INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY

	<u>Page</u>
<b>Audited Annual Consolidated Financial Statements</b>	
<b><i>Fiscal Year Ended December 31, 2022</i></b>	
Independent Auditor's Report.....	F-2
Consolidated Statements of Financial Position as of December 31, 2022 and 2021 .....	F-6
Consolidated Statements of Profit or Loss for the years ended December 31, 2022 and 2021 .....	F-8
Consolidated Statements of Comprehensive Income for the years ended December 31, 2022 and 2021 .....	F-8
Consolidated Statements of Changes in Equity for the years ended December 31, 2022 and 2021 .....	F-9
Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021 ...	F-10
Notes to Consolidated Financial Statements .....	F-11
<b><i>Fiscal Year Ended December 31, 2021</i></b>	
Independent Auditor's Report.....	F-60
Consolidated Statements of Financial Position as of December 31, 2021 and 2020 .....	F-64
Consolidated Statements of Profit or Loss for the years ended December 31, 2021 and 2020 .....	F-66
Consolidated Statements of Comprehensive Income for the years ended December 31, 2021 and 2020 .....	F-66
Consolidated Statements of Changes in Equity for the years ended December 31, 2021 and 2020 .....	F-67
Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020 ...	F-68
Notes to Consolidated Financial Statements .....	F-69

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Kubota Corporation:

### **Opinion**

We have audited the consolidated financial statements of Kubota Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

### **Basis for Opinion**

We conducted our audits 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matter**

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.



Assessment of the allowance for doubtful accounts on finance receivables at the finance subsidiaries	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 8 to the consolidated financial statements, the Group recorded ¥23,069 million of the allowance for doubtful accounts related to retail finance receivables of ¥1,294,750 million and finance lease receivables of ¥412,833 million (collectively, finance receivables) on the consolidated statement of financial position as of December 31, 2022. In addition, as described in Note 28 to the consolidated financial statements, the balance of financial receivables and allowance for doubtful accounts in the consolidated statement of financial position mainly consists of the balances of finance subsidiaries in North America and Thailand.</p> <p>The allowance for doubtful accounts for expected credit losses on finance receivables is measured based on basic information, such as the status of collection at the end of the reporting period and historical credit loss experience, estimates in solvency of debtors and collateral value, and assumptions for forward-looking information of the economic conditions, after grouping finance receivables by the past due days and determining whether there is a significant increase in credit risk since initial recognition.</p> <p>If the management estimates and assumptions used do not appropriately reflect the credit risk of the debtor, there is a risk that the allowance for doubtful accounts is not properly determined. In addition, the audit effort included the involvement of professionals with specialized skills and knowledge since the evaluation of assumptions for future economic conditions involves a high degree of auditor's judgment.</p> <p>As such, we identified management's assumptions used in estimating the allowance for doubtful accounts on finance receivables at the finance subsidiaries as a key audit matter.</p>	<p>With the assistance of auditors of finance subsidiaries in North America and Thailand, we performed the following audit procedures to evaluate the allowance for doubtful accounts on finance receivables, among others:</p> <p>(1) Internal control testing</p> <p>We evaluated the design and operating effectiveness of certain internal controls related to the allowance for doubtful accounts on finance receivables, which included the controls over the following:</p> <ul style="list-style-type: none"> <li>• Basic information used to estimate expected credit losses</li> <li>• Determining key assumptions used to estimate expected credit losses</li> </ul> <p>(2) Assessment of the reasonableness of estimates in allowance for doubtful accounts on finance receivables</p> <ul style="list-style-type: none"> <li>• We evaluated the appropriateness of finance receivables grouping and tested the accuracy and completeness of the basic information used to estimate expected credit losses.</li> <li>• We evaluated the grouping of finance receivables with shared credit risk characteristics.</li> <li>• We evaluated management's conclusion on whether there is a significant increase in credit risk since initial recognition.</li> <li>• We performed a trend analysis of the outstanding finance receivables balance to the allowance for doubtful accounts by each group.</li> <li>• We evaluated the reasonableness of estimates related to finance receivable amount and loss given default at the time of default.</li> <li>• With the assistance of component auditor's credit specialists, we evaluated the reasonableness of the assumptions of future economic conditions used by management.</li> </ul>

## **Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over 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 an 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. The procedures selected depend on the auditor's judgment. In addition, we 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing 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 overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as 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 Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board 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.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners 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.

/s/Deloitte Touche Tohmatsu LLC  
Osaka, Japan  
May 12, 2023

# Consolidated Financial Statements

Kubota Corporation and Its Subsidiaries

## (1) Consolidated Statements of Financial Position

(Unit: millions of yen)

December 31:	Note	2022	2021
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	6	¥ 225,799	¥ 258,639
Trade receivables	7	779,385	574,349
Finance receivables	8, 14	480,658	381,235
Other financial assets	9	71,516	50,875
Contract assets		28,018	24,707
Inventories	10	644,471	510,065
Income taxes receivable		2,710	8,430
Other current assets		72,768	59,115
Total current assets		2,305,325	1,867,415
<b>Noncurrent assets:</b>			
Investments accounted for using the equity method	11	46,492	43,768
Finance receivables	8, 14	1,203,856	1,029,264
Other financial assets	9	165,438	154,781
Property, plant, and equipment	12, 14	635,700	496,312
Goodwill	13	162,439	10,355
Intangible assets	13	116,335	85,529
Deferred tax assets	25	74,443	50,423
Other noncurrent assets	19	21,245	35,809
Total noncurrent assets		2,425,948	1,906,241
<b>Total assets</b>		¥ 4,731,273	¥ 3,773,656

(Unit: millions of yen)

December 31:	Note	2022	2021
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Bonds and borrowings	15	¥ 640,889	¥ 504,335
Trade payables	16	454,780	392,331
Other financial liabilities	14, 17	106,096	96,740
Income taxes payable		24,646	33,546
Provisions	18	65,823	52,208
Contract liabilities		33,509	23,402
Other current liabilities	20	268,787	211,177
Total current liabilities		1,594,530	1,313,739
<b>Noncurrent liabilities:</b>			
Bonds and borrowings	15	970,216	590,174
Other financial liabilities	14, 17	41,135	33,375
Retirement benefit liabilities	19	14,293	14,899
Deferred tax liabilities	25	27,096	31,037
Other noncurrent liabilities	18, 20	6,673	5,323
Total noncurrent liabilities		1,059,413	674,808
<b>Total liabilities</b>		<b>2,653,943</b>	<b>1,988,547</b>
<b>Equity:</b>			
Equity attributable to owners of the parent:	21		
Share capital		84,130	84,130
Share premium		79,247	84,886
Retained earnings		1,535,115	1,439,631
Other components of equity		188,386	69,522
Treasury shares		(3,557)	(134)
Total equity attributable to owners of the parent		1,883,321	1,678,035
Noncontrolling interests		194,009	107,074
<b>Total equity</b>		<b>2,077,330</b>	<b>1,785,109</b>
<b>Total liabilities and equity</b>		<b>¥ 4,731,273</b>	<b>¥ 3,773,656</b>

See notes to consolidated financial statements.

(2) Consolidated Statements of Profit or Loss and  
Consolidated Statements of Comprehensive Income

Consolidated Statements of Profit or Loss

(Unit: millions of yen, except earnings per share)

Years ended December 31:	Note	2022	%	2021	%
Revenue	22	¥ 2,678,772	100.0	¥ 2,196,766	100.0
Cost of sales	10, 12, 13, 19	(1,982,248)		(1,564,960)	
Selling, general, and administrative expenses	12, 13, 19	(485,644)		(392,091)	
Other income	23	15,488		10,638	
Other expenses	23	(7,426)		(5,788)	
Operating profit		218,942	8.2	244,565	11.1
Finance income	24	16,982		9,341	
Finance costs	24	(1,997)		(2,989)	
Profit before income taxes		233,927	8.7	250,917	11.4
Income tax expenses	25	(59,149)		(64,756)	
Share of profits of investments accounted for using the equity method	11	1,642		3,042	
Profit for the year		¥ 176,420	6.6	¥ 189,203	8.6
Profit attributable to:					
Owners of the parent		¥ 156,182	5.8	¥ 174,765	8.0
Noncontrolling interests		¥ 20,238	0.8	¥ 14,438	0.6
Earnings per share attributable to owners of the parent:					
Basic	26	¥ 130.82		¥ 144.80	
Diluted		¥ —		¥ —	

Consolidated Statements of Comprehensive Income

(Unit: millions of yen)

Years ended December 31:	Note	2022	2021
Profit for the year		¥ 176,420	¥ 189,203
Other comprehensive income, net of income tax:	21		
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans		(8,642)	4,085
Net change in fair value of financial assets measured at fair value through other comprehensive income		8,108	12,682
Items that may be reclassified subsequently to profit or loss:			
Exchange rate differences on translating foreign operations		136,081	78,139
Total other comprehensive income, net of income tax		135,547	94,906
Comprehensive income for the year		¥ 311,967	¥ 284,109
Comprehensive income attributable to:			
Owners of the parent		¥ 285,657	¥ 269,162
Noncontrolling interests		¥ 26,310	¥ 14,947

See notes to consolidated financial statements.

### (3) Consolidated Statements of Changes in Equity

(Unit: millions of yen)

	Note	Equity attributable to owners of the parent					Total equity attributable to owners of the parent	Noncontrolling interests	Total equity
		Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares			
<b>Balance as of January 1, 2021</b>		¥ 84,130	¥ 84,943	¥ 1,325,764	¥ (18,162)	¥ (636)	¥ 1,476,039	¥ 98,146	¥ 1,574,185
Cumulative effect of change in accounting policies				943	7		950	716	1,666
Profit for the year				174,765			174,765	14,438	189,203
Total other comprehensive income, net of income tax	21				94,397		94,397	509	94,906
<b>Comprehensive income for the year</b>				174,765	94,397		269,162	14,947	284,109
Transfer to retained earnings				6,718	(6,718)		—		—
Dividends paid	21			(48,333)			(48,333)	(6,706)	(55,039)
Purchases and sales of treasury shares						(20,003)	(20,003)		(20,003)
Retirement of treasury shares			(95)	(20,226)		20,321	—		—
Share-based payments with transfer restrictions			98			184	282		282
Changes in ownership interests in subsidiaries			(60)		(2)		(62)	(29)	(91)
<b>Balance as of December 31, 2021</b>		¥ 84,130	¥ 84,886	¥ 1,439,631	¥ 69,522	¥ (134)	¥ 1,678,035	¥ 107,074	¥ 1,785,109
Profit for the year				156,182			156,182	20,238	176,420
Total other comprehensive income, net of income tax	21				129,475		129,475	6,072	135,547
<b>Comprehensive income for the year</b>				156,182	129,475		285,657	26,310	311,967
Transfer to retained earnings				10,757	(10,757)		—		—
Dividends paid	21			(51,466)			(51,466)	(6,673)	(58,139)
Purchases and sales of treasury shares						(23,412)	(23,412)		(23,412)
Retirement of treasury shares				(19,989)		19,989	—		—
Share-based payment transactions			552				552		552
Written put options over noncontrolling interests			(3,138)				(3,138)		(3,138)
Changes associate with business combinations							—	70,034	70,034
Changes in ownership interests in subsidiaries			(3,053)		146		(2,907)	(2,736)	(5,643)
<b>Balance as of December 31, 2022</b>		¥ 84,130	¥ 79,247	¥ 1,535,115	¥ 188,386	¥ (3,557)	¥ 1,883,321	¥ 194,009	¥ 2,077,330

See notes to consolidated financial statements.

#### (4) Consolidated Statements of Cash Flows

(Unit: millions of yen)

Years ended December 31:	Note	2022	2021
<b>Cash flows from operating activities:</b>			
Profit for the year		¥ 176,420	¥ 189,203
Depreciation and amortization		85,213	71,701
Finance income and costs		(12,040)	(6,455)
Income tax expenses		59,149	64,756
Share of profits of investments accounted for using the equity method		(1,642)	(3,042)
(Increase) decrease in trade receivables		(174,720)	30,366
Increase in finance receivables		(77,218)	(180,782)
Increase in inventories		(64,082)	(109,017)
Increase in other assets		(8,403)	(15,051)
Increase in trade payables		31,844	59,694
Increase in other liabilities		54,586	41,302
Net changes in retirement benefit assets and liabilities		3,142	(3,033)
Other, net		(830)	3,481
Interest received		5,100	2,071
Dividends received		2,255	2,234
Interest paid		(2,205)	(1,838)
Income taxes paid, net		(84,249)	(53,079)
Net cash (used in) provided by operating activities		(7,680)	92,511
<b>Cash flows from investing activities:</b>			
Payments for acquisition of property, plant, and equipment		(134,569)	(97,434)
Payments for acquisition of intangible assets		(35,082)	(28,289)
Proceeds from sales of property, plant, and equipment		4,246	4,294
Payments for acquisition of securities		(8,763)	(2,584)
Proceeds from sales and redemptions of securities		1,844	4,240
Payments for acquisition of subsidiaries		(135,039)	(7,986)
Payments for acquisition of investments accounted for using the equity method		(28,856)	(4,844)
Payments for loans receivable to associates		(16,900)	(19,090)
Collection of loans receivable from associates		16,300	19,590
Payments for time deposits		(17,304)	(35,352)
Proceeds from withdrawal of time deposits		13,930	46,282
Net decrease in restricted cash		638	9,894
Payments for acquisition of short-term investments		(97,563)	(689)
Proceeds from sales and redemptions of short-term investments		109,390	—
Other, net		9,229	(15,402)
Net cash used in investing activities		(318,499)	(127,370)
<b>Cash flows from financing activities:</b>			
Funding from bonds and long-term borrowings	27	703,003	336,100
Redemptions of bonds and repayments of long-term borrowings	27	(373,832)	(283,146)
Net increase in short-term borrowings	27	55,973	96,282
Repayments of lease liabilities	27	(20,731)	(19,096)
Dividends paid	21	(51,466)	(48,333)
Purchases of treasury shares		(23,412)	(20,003)
Other, net		(6,978)	(1,218)
Net cash provided by financing activities		282,557	60,586
<b>Effect of exchange rate changes on cash and cash equivalents</b>		10,782	9,993
<b>Net (decrease) increase in cash and cash equivalents</b>		(32,840)	35,720
<b>Cash and cash equivalents, at the beginning of the year</b>	6	258,639	222,919
<b>Cash and cash equivalents, at the end of the year</b>	6	¥ 225,799	¥ 258,639

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Kubota Corporation and Its Subsidiaries

## 1. REPORTING ENTITY

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Kubota Corporation (the “Parent Company”) is an entity located in Japan. The Parent Company and its subsidiaries (the “Company”) manufacture and sell a comprehensive range of machinery and other industrial and consumer products, including farm equipment, agricultural-related products, engines, construction machinery, pipe system-related products, materials and urban infrastructure-related products, and environment-related products.

The Company manufactures its products not only in Japan, but also in overseas countries, including the United States, France, Germany, China, Thailand and India, and sells its products in Japan, North America, Europe, Asia, and other area.

## 2. BASIS OF FINANCIAL STATEMENTS

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### **Compliance with International Financial Reporting Standards (“IFRS”)**

The consolidated financial statements of the Company are prepared in accordance with IFRS, as permitted by the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (the “Ordinance”) since the Company is fully qualified as a *Specified Company under Designated International Financial Reporting Standards* pursuant to the provision of Article 1-2 of the Ordinance.

### **Basis of Measurement**

Except for the items stated in Note 3. SIGNIFICANT ACCOUNTING POLICIES, the Company’s consolidated financial statements are prepared on a historical cost basis.

### **Functional Currency and Presentation Currency**

The consolidated financial statements of the Company are presented in Japanese yen, which is the Parent Company’s functional currency, and figures are rounded to the nearest million yen.

### **Significant Accounting Judgements, Estimates, and Assumptions**

The consolidated financial statements of the Company are prepared by using judgements, estimates, and assumptions relating to the application of accounting policies and reporting of assets, liabilities, revenue, and expenses. Actual results could differ from those accounting estimates and assumptions.

The estimates and assumptions are continually reviewed. The effects of a change in accounting estimates, if any, are recognized in the reporting period in which the change is made and in the future periods.

The judgements made in applying accounting policies, which could have a material impact on the Company’s consolidated financial statements, are as follows:

- (a) Scope of consolidated subsidiaries, associates, and joint ventures (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Basis of Consolidation)
- (b) Classification of financial instruments (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Financial Instruments)
- (c) Timing of satisfaction of performance obligations (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Revenue Recognition)

The information related to risks and uncertainties arising from assumptions and estimates that could result in material adjustments after the financial statement date is as follows:

- (a) Measurement of intangible assets and goodwill acquired through business combination (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Business Combination; Goodwill and Intangible Assets, Note 5. BUSINESS COMBINATION, and Note 13. GOODWILL AND INTANGIBLE ASSETS)
- (b) Impairment of financial assets measured at amortized cost (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Financial Instruments and Note 28. FINANCIAL INSTRUMENTS)
- (c) Impairment of nonfinancial assets (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Impairment of Nonfinancial Assets, Note 12. PROPERTY, PLANT, AND EQUIPMENT and Note 13. GOODWILL AND INTANGIBLE ASSETS)

- (d) Measurement of provisions (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Provisions and Note 18. PROVISIONS)
- (e) Measurement of defined benefit liabilities (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Postemployment Benefits and Note 19. EMPLOYEE BENEFITS)
- (f) Contingent liabilities (refer to Note 31. COMMITMENTS AND CONTINGENT LIABILITIES)

As of the end of the reporting period, the Company expects that the impact of COVID-19 on the Company's results of operations is not material. However, the timing of convergence and future impact of COVID-19 remains uncertain, and an adverse development in the future could have a significant impact on the accounting judgments, estimates, and assumptions of the Company.

## **Changes in Presentation**

### Consolidated Statement of Financial Position

"Contract assets" and "Contract liabilities," previously included in "Other current assets" and "Other current liabilities" respectively, are presented separately from the year ended December 31, 2022, for clarification. To reflect this change in presentation, the comparative information has been retrospectively adjusted. As a result, ¥83,822 million presented as "Other current assets" in the previous fiscal year is now presented as "Contract assets" of ¥24,707 million and "Other current assets" of ¥59,115 million, and ¥234,579 million presented as "Other current liabilities" is now presented as "Contract liabilities" of ¥23,204 million and "Other current liabilities" of ¥211,177 million.

Furthermore, "Goodwill," previously included in "Goodwill and intangible assets," is presented separately from the year ended December 31, 2022, as the amounts became material. To reflect this change in presentation, the comparative information has been retrospectively adjusted. As a result, ¥95,884 million presented as "Goodwill and intangible assets" in the consolidated statement of financial position for the year ended December 31, 2021, is separately presented as "Goodwill" of ¥10,355 million and "Intangible assets" of ¥85,529 million.

### Consolidated Statement of Cash Flows

"Payments for acquisition of subsidiaries" and "Payments for acquisition of investments accounted for using the equity method," previously included in "Other, net" in cash flows from investing activities, is presented separately from the year ended December 31, 2022, as the amount became material. To reflect this change in presentation, the comparative information has been retrospectively adjusted. As a result, net cash outflow of ¥28,232 million presented as "Other, net" in cash flows from investing activities in the year ended December 31, 2021, is separately presented as net cash outflow of ¥7,986 million for "Payments for acquisition of subsidiaries," net cash outflow of ¥4,844 million for "Payments for acquisition of investments accounted for using the equity method," and net cash outflow of ¥15,402 million for "Other, net."

## **3. SIGNIFICANT ACCOUNTING POLICIES**

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### **Basis of Consolidation**

#### **(1) Subsidiaries and structured entities**

Subsidiaries are entities that are controlled by the Company. The Company controls an entity when the Company has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To determine whether or not the Company controls an entity, the Company considers all relevant factors indicating that it may have power over the entity such as the status of voting rights or similar rights, contractual agreements, whether the directors and/or employees dispatched from the Company account for a majority of the board of directors of the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when the Company obtains control over the subsidiary until the date when it loses control of the subsidiary. Necessary adjustments are made to the financial statements of subsidiaries if their accounting policies differ from those of the Company. Balances of receivables and payables, and unrealized profit or loss arising from intercompany transactions are eliminated in the preparation of the consolidated financial statements. Any change in ownership interests in a subsidiary that does not result in a loss of control of the subsidiary is accounted for as an equity transaction. When control over a subsidiary is lost, the investment retained after the loss of control is re-measured at fair value as of the date of the loss of

control, and any gains or losses arising from such re-measurement are recognized in profit or loss.

Structured entities are entities designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. For fundraising purposes, the Company enters into securitization transactions by transferring a pool of certain finance receivables into newly formed structured entities. After the transfer, the Company has both the power to direct the activities that most significantly affect those structured entities' economic performance through its role in managing and controlling its past due or default receivables and the obligation to absorb losses or receive benefits that could potentially be significant to them through the Company's retention of the residual interest in them. Accordingly, the Company consolidates such structured entities.

## (2) Associates and joint ventures

Associates are entities over which the Company has a significant influence over the decisions on financial and operating policy decisions, but does not have control or joint control of those policies. If the Company holds, directly or indirectly, 20% or more and less than 50% of the voting rights of the entity, it is presumed that the Company has significant influence over the entity unless it can be clearly demonstrated that this is not the case.

Joint ventures are joint arrangements whereby the parties, including the Company, that have joint control of the arrangements have rights to the net assets of the arrangements. Joint arrangements are arrangements in which two or more parties have joint control, and joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method from the date when the investees are determined as associates or joint ventures until the date that they cease to be classified as associates or joint ventures. When an entity no longer meets the criteria for an associate or joint venture and the application of the equity method is discontinued, the investment retained after the discontinuation of the equity method is re-measured at fair value, and any gains or losses arising from such re-measurement are recognized in profit or loss, unless the entity meets the criteria for a subsidiary.

If there is any objective evidence of impairment on investments in associates or joint ventures, the Company conducts impairment tests on those investments as one asset group.

## Business Combination

Business combinations are accounted for by the acquisition method and acquisition-related costs that are attributable to a business combination are expensed as incurred. Consideration for acquisition is measured as the sum of the acquisition date fair values of the assets transferred, liabilities assumed, and equity instruments issued by the Company in exchange of control over the acquired company. If consideration for acquisition exceeds the fair value of identifiable assets and liabilities, such excess is recorded as goodwill in the consolidated statement of financial position. Conversely, if the consideration turns out to be less than the fair value, the difference is immediately recognized in profit or loss in the consolidated statement of profit or loss.

For each business combination, the Company chooses whether noncontrolling interests are measured at fair value or at the proportion of the fair value of the identifiable assets and liabilities of the acquiree.

Acquisition of additional noncontrolling interests after control is obtained is accounted for as an equity transaction and no goodwill arising from such a transaction is recognized.

Business combinations under common control (i.e., transactions in which all of the combining entities and/or businesses are ultimately controlled by the same party or parties both before and after the business combination and the common control is not transitory) are accounted for at carrying amount.

If the initial accounting for the business combination is incomplete by the end of the fiscal year in which the business combination occurs, the business combination is accounted for using the provisional amounts. Provisional amounts are retrospectively adjusted when new information about facts and circumstances that existed at the acquisition date becomes available during the measurement period which shall not exceed one year from the acquisition date.

When a business combination is achieved in stages, previously held interest in the acquiree by the Company is remeasured at fair value as of the date of obtaining control and resulting gains or losses are recognized in profit or loss, or other comprehensive income.

## **Foreign Currency Translation**

### **(1) Foreign currency transactions**

Foreign currency transactions are translated into the functional currency of each company using the exchange rate at the date of the transactions or a rate that approximates such rate.

At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency using the closing rate, and nonmonetary items denominated in foreign currencies measured at fair value are translated into the functional currency using the exchange rate at the date when the fair value is measured. Exchange differences arising from the translation or settlement are recognized in profit or loss.

### **(2) Translation of foreign operations**

Assets and liabilities of foreign operations are translated at the closing rate, while their income and expenses are translated at the average rate during the period. Exchange differences arising from translation are recognized in other comprehensive income.

When control or significant influence of foreign operations is lost due to the disposal of those operations, cumulative translation differences arising from those operations are reclassified to profit or loss at the time of disposal as part of gain or loss on the disposal of foreign operations.

## **Financial Instruments**

### **(1) Financial assets (excluding derivatives)**

#### Initial recognition

The Company initially recognizes trade receivables and other receivables on the date such receivables arise and recognizes other financial assets as of the transaction date, on which the Company becomes a party to the agreement, at the fair value plus transaction costs that are directly attributable to the acquisition. However, trade receivables that do not include significant financial components are measured at the transaction price.

#### Classification and subsequent measurement

Financial assets are classified as financial assets measured at amortized cost, debt financial assets measured at fair value through other comprehensive income, equity financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss.

#### *Financial assets measured at amortized cost*

Financial assets are subsequently measured at amortized cost using the effective interest method if both of the following conditions are met. Specifically, the amount measured at initial recognition is reduced by repayment of principal by adjusting for the accumulated amortized amount, which is calculated by the effective interest method on the differences between initially recognized amount and maturity amount. This amount is also adjusted by an allowance for doubtful accounts for related financial assets.

- (a) The financial assets are held within a business model with the objective of collecting contractual cash flows, and
- (b) The contractual terms of the financial assets provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

#### *Debt financial assets measured at fair value through other comprehensive income*

Financial assets are classified as debt financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) The financial assets are held within a business model with the objective of both collecting contractual cash flows and selling financial assets, and
- (b) The contractual terms of the financial assets provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

#### *Equity financial assets measured at fair value through other comprehensive income*

With regard to equity financial assets, the Company has elected to recognize changes in fair value in other comprehensive income.

The accumulated amounts of net changes in the fair value of the equity financial assets are transferred to retained earnings, not to profit or loss, when the equity financial assets are derecognized or the fair value of equity financial assets declines from the acquisition cost and its decline is deemed to be more than temporary.

Dividends on equity financial assets measured at fair value through other comprehensive income are recognized in profit or loss as finance income unless the dividend clearly represents a recovery of part of the cost of the investment.

#### *Financial assets measured at fair value through profit or loss*

Financial assets that are not classified as financial assets measured at amortized cost, debt financial assets measured at fair value through other comprehensive income, or equity financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. Subsequent changes in fair value related to financial assets measured at fair value through profit or loss are recognized in profit or loss.

#### Derecognition

Financial assets are derecognized when contractual rights to cash flows from the financial assets expire or when contractual rights to receive the cash flows are transferred, and substantially all risks and rewards of ownership of the financial assets are transferred.

#### Impairment of financial assets measured at amortized cost

The Company evaluates and recognizes an allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost at the end of each reporting period, reflecting the collection status of these financial assets, historical credit loss experience, economic trends, customers' ability to repay, collateral values, and other factors. If the credit risk on financial assets is determined to be low at the end of the reporting period, such credit risk is deemed not to have significantly increased since initial recognition, and an allowance for doubtful accounts is recognized for the 12-month expected credit losses. The Company considers that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due and recognizes an allowance for doubtful accounts for the lifetime expected credit losses, unless there is reasonable contradictory evidence. With regard to trade receivables, contract assets and long-term trade accounts receivables, an allowance for doubtful accounts is always recognized for the lifetime expected credit losses. The provision of an allowance for doubtful accounts or reversal of a previously recognized allowance is recognized in profit or loss, and included within selling, general, and administrative expenses. The Company directly writes off the gross carrying amount of receivables when the Company has no reasonable expectation of recovering the contractual cash flows. The Company defines a default on financial assets as a loss of the debtor's ability to repay.

#### (2) Financial liabilities (excluding derivatives)

##### Initial recognition

The Company initially recognizes financial liabilities on the transaction date, which is when the Company becomes party to an agreement, at fair value less directly attributable transaction costs.

##### Classification and subsequent measurement

Financial liabilities are classified as financial liabilities measured at amortized cost. They are subsequently measured at amortized cost using the effective interest method. Amortization is calculated using the effective interest method and gains or losses arising from derecognition are recognized in profit or loss.

##### Derecognition

Financial liabilities are derecognized when they are extinguished due to satisfaction of contractual obligations related to the financial liabilities.

(3) Derivatives and hedge accounting

In order to hedge foreign currency risk and interest rate risk, the Company uses derivative financial instruments, such as foreign exchange forward contracts and interest rate swap contracts. Since these derivatives do not meet the requirements for hedge accounting, hedge accounting is not applied. The Company initially recognizes these derivatives at fair value at the date the contracts are entered into and subsequently re-measures them at fair value. Changes to the fair value of these derivatives are recognized in profit or loss.

(4) Fair value measurements

Fair value measurements are classified into the following three levels by inputs used for measurements:

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. These are measured using the entity's own assumptions and inputs that are reasonably available or inputs many market participants use with reasonable confidence

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits withdrawable at any time, and short-term investments with a maturity of three months or less from the acquisition date that are readily convertible to cash and are subject to insignificant risk of changes in value.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs include purchase costs, direct labor costs, other direct costs, related production overheads based on the normal capacity of the production facilities, and all expenses required to bring the inventories to the present location and condition, principally determined by the moving average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and those necessary to sell the inventories.

**Property, Plant, and Equipment**

Property, plant, and equipment are measured based on the cost model and are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include the costs directly attributable to the acquisition of assets; costs of dismantling, removing, and restoration of assets; and borrowing costs that meet certain criteria for capitalization.

Property, plant, and equipment, except land and construction in progress, are principally depreciated using the straight-line method based on the estimated useful lives of the assets. The estimated useful lives range from 10 to 50 years for buildings and structures, and from two to 14 years for machinery and other equipment. Estimated useful lives, the depreciation method, and residual value of the assets are reviewed at least at each fiscal year end. Any changes in the useful life, depreciation method, and residual value are accounted for prospectively as a change in estimates.

**Goodwill and Intangible Assets**

(1) Goodwill

Goodwill is not amortized and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating unit (CGU) or groups of CGUs that are expected to benefit from the synergies of a business combination. Goodwill is tested for impairment annually, regardless of whether there is any indication of impairment, or whenever there is an indication of impairment or circumstances change. Impairment losses on goodwill are recognized in profit or loss and are not subsequently reversed.

The measurement of goodwill on initial recognition is described in *Business Combination* section.

(2) Intangible assets

Intangible assets are measured based on the cost model and are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost less accumulated impairment losses.

Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Intangible assets with definite useful lives are amortized by the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the main intangible assets are as follows: mainly 5 years for software for internal use, 5 years for capitalized development costs, 8-20 years for customer relationships, 10-20 years for trademarks and 10-14 years for technology know-how. Estimated useful lives and the amortization method are reviewed at least at each fiscal year end. Any changes in the useful life and amortization method are accounted for prospectively as a change in estimates.

Intangible assets with indefinite useful lives are not amortized. They are tested for impairment annually or whenever there is an indication that the asset may be impaired or circumstances change.

Expenditures on development activities are recognized as intangible assets only if they meet all of the following requirements:

- (a) technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) the Company's intention to complete the intangible asset and use or sell it;
- (c) the Company's ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits;
- (e) the availability of adequate technical, financial, and other resources to complete development and to use or sell the intangible asset; and
- (f) the Company's ability to measure reliably the expenditures attributable to the intangible asset during its development.

Expenditures on development activities that do not meet the above conditions are expensed as incurred.

## **Leases**

### **(1) As lessee**

The Company recognizes a right-of-use asset and a lease liability at the commencement date of lease contract.

As for short-term leases (with a lease term of 12 months or less) and leases of low-value assets, the Company does not recognize a right-of-use asset and a lease liability. Instead, the Company elects to recognize related expenses in profit or loss by using the straight-line method over the lease term.

The Company applies a cost model and measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses, and the amounts are included in property, plant, and equipment in the consolidated statement of financial position. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, any initial direct costs incurred by the lessee, and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. The Company depreciates the right-of-use assets using the straight line method from the commencement date to the shorter of the end of lease term or the end of estimated useful life of the underlying asset.

The Company measures the lease liability at the present value of the lease payments that are not paid by discounting with the lessee's incremental borrowing rate at the commencement date. At the commencement date, the lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, the exercise price of a purchase option and payments of penalties for terminating the lease term. After the commencement date, the Company recognizes a constant periodic rate of interest on the lease liability in profit or loss and measures the lease liability by reducing the carrying amount to reflect the lease payments made. Lease liabilities are included in other financial liabilities (current) and other financial liabilities (noncurrent) in the consolidated statement of financial position.

The lease term is determined as the non-cancellable period of a lease together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

After the commencement date, the Company re-measures the lease liability by discounting the revised lease payments using a revised discount rate. Re-measurement takes place when there has been either a change in the lease term or a change in the Company's assessment of an option to purchase the underlying asset.

As a practical expedient, the Company elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

(2) As lessor

The Company classifies a lease as a finance lease if it transfers substantially all the risks and rewards of ownership of an underlying asset. All other leases are classified as operating leases.

The Company recognizes assets held under a finance lease and present them as a receivable at an amount equal to the net investment in the lease. The Company recognizes finance income over the lease term in the consolidated statement of profit or loss based on a pattern which reflects the contractual periodic rate of return on the lessor's net investment in the lease.

### **Impairment of Nonfinancial Assets**

The carrying amounts of nonfinancial assets other than inventories and deferred tax assets are assessed to determine whether or not there is any indication of impairment at the end of each reporting period based on an individual asset or the CGU to which an asset belongs. If such an indication exists, a recoverable amount of the asset or CGU is estimated.

Goodwill, intangible assets with indefinite useful lives, and intangible assets that are not yet available for use are tested for impairment annually, regardless of whether there is any indication of impairment, or whenever there is an indication of impairment or circumstances change.

The recoverable amount of an individual asset or a CGU is the higher of the fair value less costs of disposal and value in use. Value in use is determined by discounting the estimated future cash flows expected to be derived from an individual asset or CGU to its present value, using a pretax discount rate that reflects the time value of money and risks specific to that individual asset or CGU.

A CGU is determined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the CGU to which the asset belongs is determined.

Since corporate assets do not generate separate cash inflows, if there are any indications of impairment, they are tested for impairment based on the recoverable amount of the CGU to which the corporate assets belong.

If the recoverable amount of the asset or CGU is less than its carrying amount, the carrying amount is reduced to the recoverable amount, and the difference between the recoverable amount and the carrying amount is recognized as an impairment loss in profit or loss. Impairment losses recognized in relation to the CGU are allocated first to reduce the carrying amount of goodwill allocated to such CGU and then to each asset, pro-rated across the respective carrying amounts of each asset within that CGU.

Individual assets other than goodwill or CGUs for which impairment losses were recognized in prior periods are assessed to determine whether or not there is any indication that such impairment losses may no longer exist or may have decreased at the end of each reporting period. If such an indication exists, the recoverable amount of the asset or the CGU is estimated, and if the recoverable amount exceeds the carrying amount of the asset or CGU, the impairment loss is reversed. In such cases, the impairment loss is reversed up to the carrying amount of the asset or CGU, net of amortization or depreciation, as if there had been no impairment loss recognized for the asset or CGU in prior periods.

### **Provisions**

Provisions are recognized when the Company has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

Provisions are measured based on the best estimate of expenditure required to settle the present obligation at the end of the reporting period. When the effect of the time value of money is material, a provision is measured at the present value of the expenditures required to settle the obligation.

### **Postemployment Benefits**

The Company has defined benefit pension plans and defined contribution pension plans as postemployment benefits for employees.

(1) Defined benefit pension plans

The Parent Company and most subsidiaries mainly located in Japan have defined benefit corporate pension plans and/or lump-sum severance indemnity plans. The net defined benefit liability and asset in the consolidated statement of financial position is measured as the difference between the present value of the defined benefit obligation and the fair value of plan assets.



If the defined benefit pension plan has a surplus, the asset ceiling is the present value of any future economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined benefit obligations are calculated using the projected unit credit method, and the present value is calculated by discounting future estimated cash outflows. The discount rate is determined based on market yields on high-quality corporate bonds as of the end of the reporting period, reflecting the estimated timing and amount of benefit payment.

Prior service costs resulting from plan amendments are recognized in profit or loss when the plan is amended.

Re-measurement of the net defined liability and asset is recognized in other comprehensive income when such re-measurement is made and transferred immediately to retained earnings.

## (2) Defined contribution pension plans

The Parent Company and certain subsidiaries have defined contribution plans. Contributions to defined contribution plans for the period when employees render the related services are recognized as employee benefit expenses in profit or loss.

## Revenue Recognition

### (1) Revenue from contracts with customers

The Company recognizes revenue, excluding income from retail finance and finance leases, from contracts with customers based on the following five steps:

Step 1: Identify the contract(s) 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 the entity satisfies a performance obligation

The Company engages in various fields of businesses and industries by providing products and services as described in Note 1. REPORTING ENTITY.

The Company has determined that control over the products is transferred to customers and that the performance obligation is satisfied when the products are delivered to customers, considering indicators of the transfer of control, such as the transfer of significant risks and rewards of physical possession and ownership of products. Accordingly, revenue from sales of products is recognized at that point in time.

The Company has construction contracts with customers. The Company considers that its satisfaction of performance obligations under the contracts does not create an asset with an alternative use to the Company, the Company has an enforceable right to payment for performance completed to date, and it transfers the control over the assets to customers over time. Accordingly, revenue is recognized over the construction period based on its progress towards complete satisfaction of performance obligations measured at the end of the reporting period. Since the Company considers that it is possible to develop reasonable estimates of the total contract cost and to reasonably estimate the extent of progress towards complete satisfaction of performance obligations under the contracts, the Company uses the input method to measure the extent of progress towards completion based on the costs incurred relative to the total expected costs by contract.

Revenue is measured at the consideration promised in contracts with customers, less discounts, rebates depending on sales volume, and other items. Variable consideration, including discounts, rebates, and other payments, is estimated considering all the information (historical, current, and forecast) that is reasonably available to the Company, and revenue is recognized only to the extent that it is highly probable that a significant reversal of recognized revenue will not occur.

When two or more performance obligations are identified in the contract, the transaction price is primarily allocated to each of the performance obligations on a relative observable stand-alone selling price basis.

### (2) Income from retail finance and finance leases

The Company provides retail finance and finance leases to end users who purchase the Company's products, such as farm equipment, etc., through dealers.

With regard to finance receivables arising from retail finance operations, interest income is recognized using the effective interest method over the contractual period and included in revenue in the consolidated statement of profit or loss.

## **Income Taxes**

Income taxes, which is comprised of current taxes and deferred taxes, are recognized in profit or loss, except to the extent that they relate to business combinations or items recognized in other comprehensive income or directly in equity.

Current taxes are measured at the expected amount of income taxes payable to or recoverable from the tax authorities, using the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are recognized based on temporary differences between the carrying amount of assets or liabilities in the consolidated statement of financial position and the tax bases of the assets or liabilities, and carryforwards of unused tax losses and tax credits.

Deferred tax assets are recognized only to the extent that it is probable that taxable profits will be available against the deductible temporary differences, unused tax losses, and unused tax credits. Deferred tax liabilities are recognized essentially for all taxable temporary differences.

However, deferred tax liabilities for taxable temporary differences related to investments in subsidiaries, associates, and joint ventures are not recognized if the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future. Deferred tax assets for deductible temporary differences related to investments in subsidiaries, associates, and joint ventures are recognized to the extent that it is probable that taxable profits will be available against which the temporary differences can be utilized, and the differences will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the assets are realized or the liabilities are settled, based on the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period.

The Company reviews the carrying amount of deferred tax assets at the end of the reporting period and does not recognize the deferred tax assets to the extent that it is no longer probable that taxable profits will be sufficient to allow the benefit of part or all of those deferred tax assets to be realized.

Deferred tax assets and deferred tax liabilities are offset, only when the Company has a legally enforceable right to offset current tax assets against current liabilities, and the same taxation authority levies income taxes either on the same taxable entity or on different taxable entity which intends either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously.

The Company reflects the effect of uncertainty in determining the related taxable profit, etc. if the Company concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

## **Earnings per Share**

Basic earnings per share attributable to owners of the parent are calculated based on profit attributable to common shareholders of the parent by the weighted-average number of issued common shares during the period. Diluted earnings per share attributable to owners of the parent are calculated by adjusting the effects of all dilutive potential common share.

## **Changes in Accounting Policies**

The Company has previously evaluated and recognized an allowance for doubtful accounts for lease receivables based on lifetime expected credit losses. Effective from this current fiscal year, an allowance for doubtful accounts of which credit risk has not increased significantly since initial recognition is recognized for the 12-month expected credit losses, and an allowance for doubtful accounts of which credit risk has increased significantly since initial recognition is recognized for lifetime expected credit losses.

The Company has made this change since the Company has now accumulated sufficient data to enable a more detailed evaluation of expected credit losses for the finance lease business offered mainly in Thailand.

This change in the accounting policy has been applied retrospectively, and therefore the comparative information in the consolidated financial statements has been retrospectively adjusted. The impact of the change in accounting policy on the consolidated financial statements is immaterial.

### New Accounting Standards and Interpretations Not Yet Adopted

The following are major standards and interpretations that were newly issued or amended by the date of approval of the consolidated financial statements, but have not been applied in the current fiscal year since application is not mandatory.

Standards and interpretations	Title	Effective date (from the fiscal year beginning on or after)	Scheduled adoption by the Company	Description of new or amended standards and interpretations
IFRS 17	Insurance Contracts	January 1, 2023	Year ending December 31, 2023	Establishment of consistent accounting treatment for insurance contracts

The Company has been accounted for insurance contracts in accordance with accounting principles generally accepted in the United States under IFRS 4. However, upon adoption of IFRS 17, the Company will, in principle, recognize and measure assets, liabilities, revenue and expenses related to insurance after classifying into fulfillment cash flows and unearned profits arising from insurance contracts. In applying IFRS 17, the difference that would have occurred had IFRS 17 been applied at the transition date of January 1, 2022, will be recognized as equity.

The Company considers that the impact of IFRS 17 on the consolidated financial statements is immaterial.

#### 4. SEGMENT INFORMATION

The Company engages in various fields of business and industries by providing products and services that are categorized into the following three segments: Farm & Industrial Machinery, Water & Environment, and Other. Farm & Industrial Machinery mainly engages in manufacturing and sales of farm equipment, agricultural-related products, engines, and construction machinery. Water & Environment mainly engages in manufacturing and sales of pipe system-related products (ductile iron pipes, plastic pipes and other products,) materials and urban infrastructure-related products (reformer and cracking tubes, spiral welded steel pipes, air-conditioning equipment and other products) and environment-related products (environmental control plants, pumps and other products.) Other mainly engages in offering various services.

These three segments represent the Company's organizational structure, which is principally based on the nature of products and services, and the financial information by segment is reviewed periodically by the chief operating decision-maker in determining allocation of resources and evaluating performance. The accounting policies for the reportable segments are consistent with the accounting policies used in the Company's consolidated financial statements.

Information by reportable segment is summarized as follows:

(Unit: millions of yen)

	Farm & Industrial Machinery	Water & Environment	Other	Adjustments	Consolidated
<b>Year ended December 31, 2022:</b>					
Revenue:					
External customers	¥ 2,327,990	¥ 327,602	¥ 23,180	¥ —	¥ 2,678,772
Intersegment	257	184	34,787	(35,228)	—
Total	¥ 2,328,247	¥ 327,786	¥ 57,967	¥ (35,228)	¥ 2,678,772
Operating profit	¥ 237,134	¥ 17,250	¥ 3,089	¥ (38,531)	¥ 218,942
Depreciation and amortization	66,133	7,748	4,635	6,697	85,213
Addition to noncurrent assets	135,964	11,809	9,492	36,874	194,139
<b>December 31, 2022:</b>					
Assets	¥ 4,064,311	¥ 307,759	¥ 96,782	¥ 262,421	¥ 4,731,273
Investments accounted for using the equity method	13,577	5,030	27,885	—	46,492
<b>Year ended December 31, 2021:</b>					
Revenue:					
External customers	¥ 1,864,803	¥ 305,380	¥ 26,583	¥ —	¥ 2,196,766
Intersegment	244	1,523	31,083	(32,850)	—
Total	¥ 1,865,047	¥ 306,903	¥ 57,666	¥ (32,850)	¥ 2,196,766
Operating profit	¥ 248,793	¥ 22,270	¥ 3,700	¥ (30,198)	¥ 244,565
Depreciation and amortization	54,586	7,228	4,513	5,374	71,701
Addition to noncurrent assets	109,611	11,656	5,934	20,173	147,374
<b>December 31, 2021:</b>					
Assets	¥ 3,115,713	¥ 291,059	¥ 78,490	¥ 288,394	¥ 3,773,656
Investments accounted for using the equity method	12,521	5,007	26,240	—	43,768

(Notes)

- Adjustments include items, such as the elimination of intersegment transfers, corporate expenses, and corporate assets, which are not allocated to any particular reportable segment. The corporate expenses included in Adjustments amounted to ¥38,531 million and ¥30,198 million for the year ended December 31, 2022 and 2021, respectively, which consist mainly of administration department expenses, basic research expenses, and foreign exchange gains or losses incurred by the Parent Company. The corporate assets included in Adjustments amounted to ¥294,761 million and ¥317,016 million at December 31, 2022 and 2021, respectively, which consists mainly of cash and cash equivalents, securities, and corporate properties held or used by the administration department of the Parent Company.
- The aggregated amounts of operating profit are equal to those presented in the consolidated statement of profit or loss. Refer to the consolidated statement of profit or loss for the reconciliation of operating profit to profit before income taxes.
- Intersegment transfers are recorded at values that approximate market prices.
- Noncurrent assets do not include financial instruments, deferred tax assets, nor net defined benefit assets.

## Revenue from External Customers by Product Group

Information about revenue from external customers by product group is summarized as follows:

(Unit: millions of yen)

Years ended December 31:	2022	2021
<b>Farm &amp; Industrial Machinery:</b>		
Farm equipment and engines	¥ 1,821,532	¥ 1,474,428
Construction machinery	506,458	390,375
Subtotal	2,327,990	1,864,803
<b>Water &amp; Environment:</b>		
Pipe system-related products	134,628	126,580
Materials and urban infrastructure-related products	68,958	58,004
Environment-related products	124,016	120,796
Subtotal	327,602	305,380
<b>Other</b>	23,180	26,583
Total	¥ 2,678,772	¥ 2,196,766

(Note)

Effective from the year ended December 31, 2022, in conformity with changes in the internal organization of the Company, the former product group of "Pipe- and infrastructure-related products" is reclassified into "Pipe system-related products" and "Materials and urban infrastructure-related products." The comparative information has been retrospectively adjusted and presented in accordance with the new classification.

## Geographic Information

Information about revenue from external customers by location is summarized as follows:

(Unit: millions of yen)

Years ended December 31:	2022	2021
Japan	¥ 602,376	¥ 602,783
North America	1,101,960	819,813
Europe	337,976	285,651
Asia outside Japan	532,989	406,884
Other areas	103,471	81,635
Total	¥ 2,678,772	¥ 2,196,766

(Notes)

- Revenue from North America includes that from the United States of ¥971,475 million and ¥721,398 million for the years ended December 31, 2022 and 2021, respectively.
- There were no sales to specific customers that exceed 10% of consolidated revenue of the Company.

Information about noncurrent assets based on physical location is summarized as follows:

(Unit: millions of yen)

December 31:	2022	2021
Japan	¥ 461,777	¥ 378,632
North America	150,621	110,289
Europe	82,829	55,305
Asia outside Japan	235,850	60,940
Other areas	2,355	3,649
Total	¥ 933,432	¥ 608,815

(Notes)

- Noncurrent assets do not include financial instruments, deferred tax assets, and net defined benefit assets.
- Noncurrent assets of North America include those in the United States of ¥139,895 million and ¥92,900 million as of December 31, 2022 and 2021, respectively. Noncurrent assets of Asia outside Japan include those in India of ¥173,305 million and ¥5,097 million as of December 31, 2022 and 2021, respectively.

## 5. BUSINESS COMBINATION

### Year ended December 31, 2022

#### Acquisition of Escorts Limited

##### (1) Outline of the Business Combination

###### 1) Name and nature of business of the acquiree

Name: Escorts Limited (Corporate name has been changed to Escorts Kubota Limited on June 9, 2022.)

Business: Manufacture and sales of agricultural machinery, construction machinery, etc.

###### 2) Primary reason for business combination

The market of tractors that are designed to be highly durable with limited functions and at affordable prices (hereinafter, "basic tractors") are expected to expand primarily in the emerging countries. The Parent Company aims to provide basic tractors of good quality at an affordable price in this market by combining expertise of EKL in the development and manufacturing of basic tractors with accumulated product development knowledge and capabilities to improve quality and productivity of the Parent Company.

###### 3) Acquisition date

April 11, 2022

###### 4) Shareholding ratio acquired

44.8%

###### 5) Method by which control of the acquiree was obtained

The Company acquired additional shares of EKL in cash, and the shareholding ratio of the Parent Company in EKL has increased to 44.8%. EKL is considered substantially controlled by the Parent Company as officers from the Parent Company were appointed as members of EKL's Board of Directors, and became a subsidiary of the Parent Company during the three months ended June 30, 2022.

##### (2) Acquisition Cost

(Unit: millions of yen)	
Fair value of acquisition cost	Amount
Cash	¥ 123,722
Equity interests held immediately prior to the acquisition date	71,351
Total	¥ 195,073

##### (3) Assets Acquired, Liabilities Assumed, Noncontrolling Interests, and Goodwill

(Unit: millions of yen)	
Fair value of assets acquired and liabilities assumed	Amount
Current assets:	
Trade receivables	¥ 13,078
Other financial assets	42,533
Inventories	13,969
Others	6,237
Noncurrent assets:	
Other financial assets	37,868
Property, plant, and equipment	29,699
Others	6,710
Current liabilities:	
Trade payables	14,748
Others	7,606
Noncurrent liabilities:	2,576
<b>Fair value of assets acquired and liabilities assumed, net</b>	<b>¥ 125,164</b>
<b>Noncontrolling interests</b>	<b>69,091</b>
<b>Goodwill</b>	<b>139,000</b>
<b>Total</b>	<b>¥ 195,073</b>

(Notes)

- The above amounts are provisional estimates since the allocation of acquisition cost has not been completed as of December 31, 2022.
- Noncontrolling interests are recognized at the proportion of the fair value of the identifiable assets and liabilities of the acquiree.

#### (4) Composition of Goodwill Recognized

Goodwill reflects the future excess earning power expected from the business development and synergies between the Company and EKL.

#### (5) Impact of the Business Combination on Earnings

Revenue and profit for the year of EKL from the acquisition date to December 31, 2022, are ¥104,076 million and ¥7,046 million, respectively.

Assuming that such business combination occurred as of January 1, 2022, revenue and profit of the Company for the year ended December 31, 2022, are ¥2,711,389 million and ¥179,612 million, respectively. This pro forma information is not subject to audit certification.

#### Other business combinations

Business combinations other than the acquisition of Escorts Limited that are individually immaterial but are material collectively are disclosed in aggregate.

Business combinations during the year ended December 31, 2022, took place in the Farm & Industrial Machinery segment, and the aggregate information of these business combinations is as follows.

#### (1) Acquisition Cost

(Unit: millions of yen)	
Fair value of acquisition cost	Amount
Cash	¥ 30,386
Total	¥ 30,386

(Note)

The above amounts have been finalized following the completion of post-acquisition adjustments.

#### (2) Assets Acquired, Liabilities Assumed, Noncontrolling Interests, and Goodwill

(Unit: millions of yen)	
Fair value of assets acquired and liabilities assumed	Amount
Current assets	¥ 11,910
Noncurrent assets	10,530
Current liabilities	5,889
Noncurrent liabilities	3,445
Fair value of assets acquired and liabilities assumed, net	¥ 13,106
Noncontrolling interests	943
Goodwill	18,223
Total	¥ 30,386

(Notes)

1. The above amounts were provisional estimates at September 30, 2022, based on the information available during the period, however, the amounts have been finalized by December 31, 2022, as the allocation of acquisition cost has been completed. The impact of the finalization of the provisional accounting is immaterial.
2. Noncontrolling interests are recognized at the proportion of the fair value of the identifiable assets and liabilities of the acquiree.
3. Written put options are granted to noncontrolling shareholder of the acquiree. In principle, the present value of the redemption amount is recognized as a financial liability (noncurrent) and the same amount is reduced from share premium.

#### (3) Composition of Goodwill Recognized

Goodwill resulting from these business combinations is recorded in the Farm & Industrial Machinery segment. Goodwill reflects the future excess earning power from synergies with existing operations expected to arise from acquisitions that do not qualify for separate recognition.

#### (4) Impact of the Business Combination on Earnings

Revenue and profit for the year of acquirees from the acquisition date to December 31, 2022, as well as revenue and profit for the year of the Company assuming that such business combinations occurred as of January 1, 2022, are not disclosed since the impact on the consolidated financial statements is immaterial.

**Year ended December 31, 2021**

No material matters.

**6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are composed of the following:

Cash and cash equivalents are categorized as financial assets measured at amortized cost.

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Cash and deposits	¥	181,421	¥	207,681
Short-term investments		44,378		50,958
<b>Total</b>	<b>¥</b>	<b>225,799</b>	<b>¥</b>	<b>258,639</b>

(Note)

The balance on the consolidated statement of financial position is equal to the balance on the consolidated statement of cash flows.

**7. TRADE RECEIVABLES**

Trade receivables are composed of the following:

Trade receivables are categorized as financial assets measured at amortized cost.

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Trade notes	¥	91,130	¥	85,019
Trade accounts receivable		693,682		492,388
Allowance for doubtful accounts		(5,427)		(3,058)
<b>Total</b>	<b>¥</b>	<b>779,385</b>	<b>¥</b>	<b>574,349</b>

**8. FINANCE RECEIVABLES**

Finance receivables are composed of the following:

Finance receivables are categorized as financial assets measured at amortized cost.

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Retail finance receivables	¥	1,294,750	¥	1,083,738
Finance lease receivables		412,833		347,286
Allowance for doubtful accounts		(23,069)		(20,525)
<b>Total</b>	<b>¥</b>	<b>1,684,514</b>	<b>¥</b>	<b>1,410,499</b>
Current assets		480,658		381,235
Noncurrent assets		1,203,856		1,029,264



## 9. OTHER FINANCIAL ASSETS

Other financial assets are composed of the following:

(Unit: millions of yen)

December 31:		2022		2021
Financial assets measured at amortized cost:				
Long-term trade accounts receivable	¥	36,555	¥	37,013
Time deposits		16,745		12,054
Restricted cash (Note)		5,878		5,651
Debt financial assets		44,132		—
Others		18,582		33,709
Financial assets measured at fair value through other comprehensive income:				
Debt financial assets		—		686
Equity financial assets		68,595		106,328
Financial assets measured at fair value through profit or loss:				
Debt financial assets		35,515		5,245
Derivatives		10,952		4,970
Total	¥	236,954	¥	205,656
Current assets		71,516		50,875
Noncurrent assets		165,438		154,781

(Note)

Deposits pledged as collateral that are restricted from withdrawal and advances received for public works that are restricted from usage.

The Company holds equity financial assets mainly for the purpose of maintaining and enhancing business relationships and have been classified as equity financial assets measured at fair value through other comprehensive income. The fair value of equity financial assets by issue is as follows:

(Unit: millions of yen)

Issue		2022		2021
December 31:				
Sumitomo Mitsui Trust Holdings, Inc.	¥	10,381	¥	8,695
Sumitomo Mitsui Financial Group, Inc.		9,246		6,884
Shin-Etsu Chemical Co., Ltd.		7,538		9,255
Daikin Industries, Ltd.		7,082		9,147
Osaka Gas Co., Ltd.		6,658		5,942
Mitsubishi UFJ Financial Group, Inc.		5,390		3,789
Toho Gas Co., Ltd.		3,623		4,216
Hulic Co., Ltd.		2,080		2,184
Mitsubishi Estate Co., Ltd.		1,800		1,677
Yamazen Corporation		1,058		1,135
Escorts Ltd.		—		36,264
Others	¥	13,739	¥	17,140

The Company sold and derecognized certain equity financial assets measured at fair value through other comprehensive income, primarily as a result of review of its business relationships. Fair values as of derecognition date and the accumulated gains or losses before tax effect adjustments on their disposal are as follows:

(Unit: millions of yen)

Years ended December 31:		2022		2021
Fair value as of derecognition	¥	1,844	¥	4,240
Accumulated gains (losses)		1,000		3,810

## 10. INVENTORIES

Inventories are composed of the following:

(Unit: millions of yen)

December 31:		2022		2021
Finished products	¥	358,097	¥	300,041
Spare parts		88,795		74,090
Work in process		76,519		61,793
Raw materials and supplies		121,060		74,141
Total	¥	644,471	¥	510,065

Inventories recognized as an expense for the year ended December 31, 2022 and 2021, were ¥1,819,184 million and ¥1,435,255 million, respectively. The write-downs of inventories recognized as an expense for the year ended December 31, 2022 and 2021, were ¥2,482 million and ¥1,746 million, respectively.

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Investments in and Loans Receivable from Associates and Transactions with Associates

The following table presents trade receivables (trade notes and trade accounts receivable), loans receivable, investments, and deposits received related to transactions with associates:

(Unit: millions of yen)

December 31:		2022		2021
Trade receivables	¥	19,479	¥	18,301
Loans receivable		2,252		1,550
Investments		20,019		17,501
Deposits received		5,844		6,652

Aggregate revenue from associates was ¥49,725 million and ¥50,426 million for the year ended December 31, 2022 and 2021, respectively.

There are no associates that are individually material to the Company. The Company's share of profit of associates that are not individually material was ¥876 million and ¥902 million for the year ended December 31, 2022 and 2021, respectively.

### Investments in and Loans Receivable from Joint Ventures and Transactions with Joint Ventures

The following table presents trade receivables (trade notes and trade accounts receivable), loans receivable, investments, and deposits received related to transactions with joint ventures:

(Unit: millions of yen)

December 31:		2022		2021
Trade receivables	¥	474	¥	519
Loans receivable		—		—
Investments		26,473		26,267
Deposits received		10,640		11,029

Aggregate revenue from joint ventures was ¥5,580 million and ¥5,521 million for the year ended December 31, 2022 and 2021, respectively.

There are no joint ventures that are individually material to the Company. The Company's share of profit related to joint ventures that are not individually material was ¥766 million and ¥2,140 million for the year ended December 31, 2022 and 2021, respectively.

## 12. PROPERTY, PLANT, AND EQUIPMENT

### Reconciliation

The following table presents reconciliation of acquisition cost, accumulated depreciation and accumulated impairment losses, and balances of the carrying amount of the Company's property, plant, and equipment:

### Acquisition Costs

(Unit: millions of yen)						
		Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
<b>January 1, 2021</b>	¥	104,064	¥ 381,775	¥ 571,911	¥ 33,190	¥ 1,090,940
Acquisition		779	19,847	21,795	87,412	129,833
Sales or disposal		(186)	(8,647)	(21,636)	(2,506)	(32,975)
Exchange rate differences on foreign currencies		1,648	7,181	11,212	1,277	21,318
Transfers between accounts		1,567	24,440	33,658	(59,665)	—
Others		22	(454)	551	(343)	(224)
<b>December 31, 2021</b>	¥	107,894	¥ 424,142	¥ 617,491	¥ 59,365	¥ 1,208,892
Acquisition		2,168	25,838	22,268	122,780	173,054
Sales or disposal		(463)	(10,939)	(23,666)	(4,756)	(39,824)
Acquisition through business combination		17,120	2,747	9,305	918	30,090
Exchange rate differences on foreign currencies		2,725	14,841	22,893	2,995	43,454
Transfers between accounts		8,028	83,190	47,873	(139,091)	—
Others		(522)	327	(1,219)	157	(1,257)
<b>December 31, 2022</b>	¥	136,950	¥ 540,146	¥ 694,945	¥ 42,368	¥ 1,414,409

### Accumulated Depreciation and Accumulated Impairment Losses

(Unit: millions of yen)						
		Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
<b>January 1, 2021</b>	¥	1,437	¥ 222,973	¥ 441,858	¥ —	¥ 666,268
Depreciation		241	21,482	36,016	—	57,739
Impairment losses		—	76	604	63	743
Sales or disposal		(2)	(7,257)	(14,613)	—	(21,872)
Exchange rate differences on foreign currencies		5	1,757	6,500	—	8,262
Others		3	601	836	—	1,440
<b>December 31, 2021</b>	¥	1,684	¥ 239,632	¥ 471,201	¥ 63	¥ 712,580
Depreciation		421	25,317	42,095	—	67,833
Impairment losses		30	1,318	891	—	2,239
Sales or disposal		(8)	(8,960)	(20,898)	(62)	(29,928)
Exchange rate differences on foreign currencies		2	5,431	16,582	—	22,015
Others		226	1,574	2,170	—	3,970
<b>December 31, 2022</b>	¥	2,355	¥ 264,312	¥ 512,041	¥ 1	¥ 778,709

### Balances of Carrying Amount

(Unit: millions of yen)						
		Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
<b>January 1, 2021</b>	¥	102,627	¥ 158,802	¥ 130,053	¥ 33,190	¥ 424,672
<b>December 31, 2021</b>	¥	106,210	¥ 184,510	¥ 146,290	¥ 59,302	¥ 496,312
<b>December 31, 2022</b>	¥	134,595	¥ 275,834	¥ 182,904	¥ 42,367	¥ 635,700

The depreciation expense for property, plant, and equipment is included in cost of sales as well as in selling, general, and administrative expenses in the consolidated statement of profit or loss. Impairment losses on property, plant, and equipment are included in other expenses in the consolidated statement of profit or loss.

### 13. GOODWILL AND INTANGIBLE ASSETS

The following table presents reconciliation of acquisition cost, accumulated amortization and accumulated impairment losses, and balances of carrying amount of the Company's goodwill and intangible assets:

#### Acquisition Costs

(Unit: millions of yen)

	Intangible assets					
	Goodwill	Software	Intangible assets through business combination	Capitalized development costs	Other	Total
<b>January 1, 2021</b>	¥ 7,285	¥ 58,776	¥ 31,659	¥ 29,578	¥ 3,574	¥ 123,587
Acquisition	—	15,963	—	—	1,075	17,038
Internal development	—	2,188	—	7,106	—	9,294
Sales and disposal	—	(4,137)	—	(1,316)	(664)	(6,117)
Acquisition through business combination	6,914	—	—	—	—	—
Exchange rate differences on foreign currencies	330	1,083	2,106	257	545	3,991
Others	—	2,547	—	(70)	(1,022)	1,455
<b>December 31, 2021</b>	¥ 14,529	¥ 76,420	¥ 33,765	¥ 35,555	¥ 3,508	¥ 149,248
Acquisition	—	22,681	—	—	1,067	23,748
Internal development	—	3,805	—	7,473	—	11,278
Sales and disposal	—	(2,923)	—	(142)	(72)	(3,137)
Acquisition through business combination	157,223	752	8,544	519	234	10,049
Exchange rate differences on foreign currencies	(1,560)	2,428	4,123	607	469	7,627
Others	(3,188)	(356)	1,209	(306)	(1,164)	(617)
<b>December 31, 2022</b>	¥ 167,004	¥ 102,807	¥ 47,641	¥ 43,706	¥ 4,042	¥ 198,196

#### Accumulated Amortization and Accumulated Impairment Losses

(Unit: millions of yen)

	Intangible assets					
	Goodwill	Software	Intangible assets through business combination	Capitalized development costs	Other	Total
<b>January 1, 2021</b>	¥ 3,987	¥ 23,124	¥ 17,927	¥ 10,586	¥ 2,709	¥ 54,346
Amortization	—	6,639	1,727	4,925	671	13,962
Sales and disposal	—	(4,118)	—	(1,311)	(759)	(6,188)
Exchange rate differences on foreign currencies	187	465	956	146	184	1,751
Others	—	(787)	—	607	28	(152)
<b>December 31, 2021</b>	¥ 4,174	¥ 25,323	¥ 20,610	¥ 14,953	¥ 2,833	¥ 63,719
Amortization	—	8,520	2,256	5,924	680	17,380
Sales and disposal	—	(2,942)	—	(140)	(68)	(3,150)
Exchange rate differences on foreign currencies	391	1,147	2,712	499	138	4,496
Others	—	(291)	—	(170)	(123)	(584)
<b>December 31, 2022</b>	¥ 4,565	¥ 31,757	¥ 25,578	¥ 21,066	¥ 3,460	¥ 81,861

#### Balances of Carrying Amount

(Unit: millions of yen)

	Intangible assets					
	Goodwill	Software	Intangible assets through business combination	Capitalized development costs	Other	Total
<b>January 1, 2021</b>	¥ 3,298	¥ 35,652	¥ 13,732	¥ 18,992	¥ 865	¥ 69,241
<b>December 31, 2021</b>	¥ 10,355	¥ 51,097	¥ 13,155	¥ 20,602	¥ 675	¥ 85,529
<b>December 31, 2022</b>	¥ 162,439	¥ 71,050	¥ 22,063	¥ 22,640	¥ 582	¥ 116,335

Intangible assets acquired through business combination include items such as customer relationships, trademarks, and technology know-how.

The amortization expense for intangible assets is included in cost of sales as well as in selling, general, and administrative expenses in the consolidated statement of profit or loss.

The following table presents the expenditures relating to research and development that were expensed:

(Unit: millions of yen)

Years ended December 31:		2022		2021
Amounts incurred	¥	89,897	¥	67,469
Amounts transferred to capitalized development costs		(7,473)		(7,106)
Capitalized development costs amortized		5,924		4,925
Total	¥	88,348	¥	65,288

*Others* in the previous tables include intangible assets with indefinite useful lives, but the amount is immaterial.

The following table presents the carrying amount of goodwill allocated to the CGUs:

(Unit: millions of yen)

December 31		2022		2021
Farm & Industrial Machinery	North America	¥ 8,352	¥	1,029
	Europe	17,446		1,499
	Other	1,011		913
Total		¥ 26,809	¥	3,441

The recoverable amount of the CGU to which goodwill is allocated is measured using the value in use. The value in use is calculated by discounting the estimated future cash flows to present value based on a five-year business plan reflecting past performance. The estimated future cash flows for the periods over five years approved by management are calculated by using the market growth rate (from 2.0% to 3.0%), taking into consideration the long-term average growth rate in each country or market in which the CGU belongs. The discount rate is based on the pre-tax weighted average cost of capital on each of CGUs (from 10.2% to 14.9%).

Since the value in use is well above the carrying amount of the CGU, the Company has concluded that even if market growth rate and discount rate used in value in use calculation moved within a reasonable range of values, it is unlikely that a material impairment would be incurred.

Good will of ¥135,630 million resulting from the acquisition of Escorts Limited is a provisional estimate as the initial accounting for the business combination has not been completed as described in Note 5. BUSINESS COMBINATION, and allocation to CGU has not been completed.

#### 14. LEASES

##### As Lessee

The Company leases certain office space, manufacturing equipment, and employee housing under the lease contracts.

The following table presents a reconciliation of carrying amount of right-of-use assets as lessee:

The Company re-measures the lease liability when there is a change in the lease term and recognizes such amount as an adjustment to the right-of-use asset.

(Unit: millions of yen)

		Land	Buildings and structures	Machinery and equipment and others	Total
<b>January 1, 2021</b>	¥	3,802	¥ 32,312	¥ 10,561	¥ 46,675
Increase		660	15,965	12,097	28,722
Depreciation		(236)	(11,495)	(4,400)	(16,131)
Decrease		—	(1,050)	(1,158)	(2,208)
<b>December 31, 2021</b>	¥	4,226	¥ 35,732	¥ 17,100	¥ 57,058
Increase		1,411	22,643	2,498	26,552
Depreciation		(409)	(13,240)	(4,706)	(18,355)
Decrease		(147)	(3,208)	(5,443)	(8,798)
<b>December 31, 2022</b>	¥	5,081	¥ 41,927	¥ 9,449	¥ 56,457

The following table presents the amounts recognized in profit or loss:

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Interest expense related to lease liabilities	¥ 148	¥ 101
Expenses related to short-term leases	338	462
Expenses related to leases of low-value assets	2,535	1,882

Total cash outflows for leases were ¥23,752 million and ¥21,541 million for the year ended December 31, 2022 and 2021, respectively.

The Company depends on each of affiliates' own judgements when it comes to entering into lease contracts. In cases where the lessee is able to exercise an extension option without the lessor's consent, it is considered that the lessee has an extension option. In case where the lessee is able to terminate its lease contract in the middle of the contract, it is considered that the lessee has a termination option. Each of the affiliates exercises these options as necessary.

The following table presents maturity analyses for lease liabilities as of December 31, 2022 and 2021:

(Unit: millions of yen)

<b>December 31:</b>	<b>2022</b>	<b>2021</b>
Within 1 year	¥ 18,539	¥ 16,374
Between 1 and 5 years	32,994	28,266
Later than 5 years	3,324	3,296
Undiscounted lease liabilities	¥ 54,857	¥ 47,936
Less:		
Interest equivalent	(2,481)	(473)
Present value of lease liabilities	¥ 52,376	¥ 47,463

#### As Lessor

The Company leases its farm equipment and others to end users under finance leases.

Risks associated with the underlying assets are mitigated through regular monitoring and by accumulating information on sales in the secondhand market.

The following table presents finance income on the net investment in the lease.

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Finance income on the net investment in the lease	¥ 34,090	¥ 28,368

The following table presents maturity analyses for lease receivables

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Within 1 year	¥ 143,656	¥ 119,123
Between 1 and 2 years	123,720	102,796
Between 2 and 3 years	88,190	75,735
Between 3 and 4 years	63,388	54,981
Between 4 and 5 years	41,502	34,981
Later than 5 years	31,704	25,646
Undiscounted lease receivables	¥ 492,160	¥ 413,262
Less:		
Unearned finance income	(79,327)	(65,976)
Net investment in the lease	¥ 412,833	¥ 347,286

## 15. BONDS AND BORROWINGS

### Bonds and Borrowings

Bonds and borrowings are composed of the following:

(Unit: millions of yen)

December 31:	2022	2021
Short-term borrowings (Note 1)	¥ 351,030	¥ 263,242
Bonds and long-term borrowings (Note 2)	1,260,075	831,267
Total	¥ 1,611,105	¥ 1,094,509
Current liabilities	640,889	504,335
Noncurrent liabilities	970,216	590,174

(Notes)

- Short-term borrowings consist of notes payable to banks and commercial paper. The weighted-average interest rate on short-term borrowings at December 31, 2022, was 4.225%.
- Bonds and long-term borrowings include their current portions.

Bonds and long-term borrowings (including current portions) are composed of the following:

(Unit: millions of yen)

December 31:	2022	2021	Interest rate (%)	Maturity term
<b>Bonds</b>				
14 <sup>th</sup> Unsecured Bond	¥ 99,821	¥ —	0.300	Fiscal year 2027
15 <sup>th</sup> Unsecured Bond	49,793	—	0.514	Fiscal year 2032
<b>Long-term borrowings</b>			1.960	Through fiscal year 2029
Secured	343,623	265,945		
Unsecured	766,838	565,322		
Total	¥ 1,260,075	¥ 831,267		
Current portion	289,859	241,093		

(Note)

Interest rate of bonds are that of nominal interest rate and the interest rate of long-term borrowings is that of the weighted-average interest rate at December 31, 2022.

Bonds and borrowings are categorized as financial liabilities measured at amortized cost.

### Assets Pledged as Collateral

The following table presents assets pledged as collateral:

(Unit: millions of yen)

December 31:	2022	2021
Trade receivables	¥ 13	¥ 17
Finance receivables (current) (Note 1)	148,573	114,140
Other financial assets (current) (Note 2)	3,991	4,011
Finance receivables (noncurrent) (Note 1)	260,925	191,908
Property, plant, and equipment	404	931
Total	¥ 413,906	¥ 311,007

(Notes)

- Finance receivables (current) and finance receivables (noncurrent) are pledged in accordance with the terms of securitization transactions.
- Other financial assets (current) represent restricted cash, which is pledged in accordance with the terms of borrowings.

Both short-term and long-term bank loans are made under general agreements, which provide that security and guarantees for future indebtedness will be given upon request from the bank and that the bank has the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Long-term agreements with lenders other than banks also generally provide that the Company must give additional security upon request from the lender.

## 16. TRADE PAYABLES

Trade payables are composed of the following:

Trade payables are categorized as financial liabilities measured at amortized cost.

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Trade notes payable	¥	274,855	¥	245,836
Trade accounts payable		179,925		146,495
Total	¥	454,780	¥	392,331

## 17. OTHER FINANCIAL LIABILITIES

Other financial liabilities are composed of the following:

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Financial liabilities measured at amortized cost:				
Lease liabilities	¥	52,376	¥	47,463
Notes and accounts payable for capital expenditures		43,054		37,072
Deposits received		27,617		27,922
Others		21,194		12,361
Financial liabilities measured at fair value through profit or loss:				
Derivatives		2,990		5,297
Total	¥	147,231	¥	130,115
Current liabilities		106,096		96,740
Noncurrent liabilities		41,135		33,375

## 18. PROVISIONS

The following table presents a reconciliation of provisions by items:

(Unit: millions of yen)

	Product warranty	Other provisions	Total
<b>January 1, 2022</b>	¥ 48,569	¥ 5,017	¥ 53,586
Additions	48,522	3,410	51,932
Utilized	(38,069)	(2,432)	(40,501)
Reversal	(2,298)	(22)	(2,320)
Others	2,975	2,203	5,178
<b>December 31, 2022</b>	¥ 59,699	¥ 8,176	¥ 67,875

The Company provides contractual product warranties under which it generally guarantees the performance of products sold according to a product specification which the Company and its customers have mutually agreed on. The cost of free repairs expected to be incurred in the future is recorded as a provision for product warranties. The provision for product warranties includes expenditures estimated based on historical costs of product warranties, as well as expenditures estimated individually for recalls and voluntary free repairs based on unit repair costs and the number of units to be repaired. The outflow of economic benefits is expected to occur generally within one year to five years.

Other provision includes provisions for loss on orders received and provisions for assets retirement obligation.

The following table presents the breakdown of provision by current and noncurrent categories:

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Current liabilities	¥	65,823	¥	52,208
Noncurrent liabilities		2,052		1,378
Total	¥	67,875	¥	53,586

Provisions categorized as noncurrent liabilities are included in *Other noncurrent liabilities* in the consolidated statement of financial position.



## 19. EMPLOYEE BENEFITS

### Postemployment Benefits

The Parent Company and most subsidiaries mainly in Japan have defined benefit corporate pension plans and/or lump-sum severance indemnity plans covering substantially all of their employees as defined benefit pension plans. At the Parent Company and certain subsidiaries, employees who terminate their employment have the option to receive benefits in the form of a lump-sum payment or annuity payments from defined benefit pension plans. The benefits are mainly calculated based on accumulated *points* under the point-based benefits system. The *points* consist of *service period points*, which are attributed to the length of service, *job title points*, which are attributed to the job title of each employee, and *performance points*, which are attributed to the annual performance evaluation of each employee.

Defined benefit corporate pension plans are run by Kubota Pension Fund, which is a separate legal entity from the Parent Company, in compliance with laws and regulations. Such laws and regulations require the Board of Kubota Pension Fund and the pension investment organization to execute their duties in the best interest for the participants in defined benefit pension plans and to assume responsibility on the management of their plan assets in conformity with predetermined policies.

In addition, the Parent Company and certain domestic subsidiaries employ defined contribution pension plans for most of their employees.

In November 2021, the Parent Company extended the mandatory retirement age of certain employees from 60 to 65, and the defined benefit corporate pension plans and retirement allowance plans, which were revised in conjunction with the extended mandatory retirement age, became effective on April 1, 2022.

As a result of the amendment of the plan, the defined benefit plan obligation was reduced and the same amount of past service cost was recognized in profit or loss in the year ended December 31, 2021. The total amount of past service cost recognized in profit or loss for the year ended December 31, 2021 was ¥5,547 million, which reduced cost of sales and selling, general, and administrative expenses in the consolidated statements of profit or loss by ¥3,933 million and ¥1,614 million, respectively.

Furthermore, part of the defined benefit corporate pension plans were terminated and the past funding were transferred to the defined contribution plan.

As a result of the transfer of the plan, defined benefit liabilities and plan assets were decreased by ¥17,933 million and ¥19,211 million, respectively, in the year ended December 31, 2022, and the difference was recognized for the year as loss on settlement. Loss on settlement recognized in the consolidated statements of profit or loss for the year ended December 31, 2022, was ¥1,728 million, of which ¥910 million was included in cost of sales and ¥368 million in selling, general, and administrative expenses.

#### (1) Defined benefit liabilities or assets recognized in the consolidated statement of financial position

The following table presents net defined benefit liabilities and assets, and a status of defined benefit obligation and plan assets:

(Unit: millions of yen)				
<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Present value of defined benefit obligation	¥	193,251	¥	232,588
Fair value of plan assets		210,763		243,722
Effect of asset ceiling		29,518		6,843
Net defined benefit liabilities	¥	12,006	¥	(4,291)
Amount recognized in the consolidated statement of financial position:				
Other noncurrent assets	¥	2,287	¥	19,190
Retirement benefit liabilities		14,293		14,899
Net amount recognized in the consolidated statement of financial position	¥	12,006	¥	(4,291)

(2) Present value of defined benefit obligation

The following table presents a reconciliation of the present value of defined benefit obligation:

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Balance at the beginning of the year	¥ 232,588	¥ 234,192
Service costs	10,611	10,131
Interest costs	2,075	1,771
Past service costs	—	(5,547)
Remeasurement of defined benefit obligation:		
Actuarial gains and losses arising from changes in demographic assumptions	4	(6)
Actuarial gains and losses arising from changes in financial assumptions	(30,119)	(828)
Others	2,400	1,662
Benefits paid (lump-sum payment)	(3,420)	(4,077)
Benefits paid (annuity payment)	(6,252)	(5,924)
Transfer of the plan	(17,933)	—
Changes in scope of consolidation	1,803	—
Exchange rate differences on foreign currencies	1,494	1,214
Balance at the end of the year	¥ 193,251	¥ 232,588

The weighted-average duration of defined benefit obligation at December 31, 2022 and 2021, was 17 years for both years.

(3) Fair value of plan assets

The following table presents a reconciliation of the fair value of plan assets:

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Balance at the beginning of the year	¥ 243,722	¥ 232,086
Interest income	4,312	1,874
Return from remeasurement of plan assets	(19,433)	11,474
Employer contributions	6,203	4,797
Benefits paid (lump-sum payment)	(1,295)	(1,576)
Benefits paid (annuity payment)	(6,252)	(5,924)
Transfer of the plan	(19,211)	—
Changes in scope of consolidation	1,475	—
Exchange rate differences on foreign currencies	1,242	991
Balance at the end of the year	¥ 210,763	¥ 243,722

The Company plans to make contributions of ¥6,500 million to the defined benefit corporate pension plan for the year ending December 31, 2023.

(4) Effect of asset ceiling

When the defined benefit pension plan is in surplus, the amount of defined benefit assets recognized in the consolidated statement of financial position is limited to the asset ceiling amount, which is the present value of any future economic benefits available in the form of refunds from the plan and reductions in the future contributions to the plan.

The following table presents a reconciliation of the effect of the asset ceiling:

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Balance at the beginning of the year	¥ 6,843	¥ 2,304
Interest income	0	88
Remeasurement of defined benefit pension plan:		
Changes in effect of asset ceiling	22,675	4,451
Balance at the end of the year	¥ 29,518	¥ 6,843

(5) Actuarial assumptions

The following table presents significant actuarial assumptions used for calculating the present value of defined benefit obligation:

December 31:	2022	2021
Discount rate	1.8%	0.8%

The rate of compensation increase is not used in the calculations of defined benefit obligation under the point-based benefits system.

(6) Breakdown of plan assets by item

The plan assets are composed of the following:

(Units: millions of yen)				
December 31, 2022	With quoted price in an active market	With no quoted price in an active market		Total
Equity securities:				
Financial institutions (Japanese equity securities)	¥ 9,565	¥ —	¥	9,565
Other industries (Japanese equity securities)	10,949	—		10,949
Pooled funds (Japanese equity securities)	—	16,514		16,514
Pooled funds (Foreign equity securities)	—	30,394		30,394
Debt securities:				
Pooled funds (Japanese debt securities)	—	43,098		43,098
Pooled funds (Foreign debt securities)	—	41,906		41,906
Cash and short-term investments	1,315	4,047		5,362
General accounts of insurance companies	—	28,773		28,773
Other assets	—	24,202		24,202
Total	¥ 21,829	¥ 188,934	¥	210,763

(Units: millions of yen)				
December 31, 2021	With quoted price in an active market	With no quoted price in an active market		Total
Equity securities:				
Financial institutions (Japanese equity securities)	¥ 7,137	¥ —	¥	7,137
Other industries (Japanese equity securities)	13,371	—		13,371
Pooled funds (Japanese equity securities)	—	23,016		23,016
Pooled funds (Foreign equity securities)	—	34,139		34,139
Debt securities:				
Pooled funds (Japanese debt securities)	—	63,486		63,486
Pooled funds (Foreign debt securities)	—	51,953		51,953
Cash and short-term investments	711	2,575		3,286
General accounts of insurance companies	—	27,387		27,387
Other assets	—	19,947		19,947
Total	¥ 21,219	¥ 222,503	¥	243,722

The Company's policy and objective for plan asset management is to maximize returns on plan assets to meet future benefit payment requirements under risks which the Company considers permissible. In order to diversify potential risks, careful consideration is given to balancing the portfolio among industry sectors, companies, and geographies, taking into account interest rate sensitivity, dependence on economic growth, currency, and other factors that affect investment returns. The Company's target allocation is 38% for equity securities and foreign debt securities subject to foreign currency exchange rate risks and 62% for other investment vehicles, primarily Japanese debt securities, foreign debt securities not subject to foreign currency exchange rate risks, cash, short-term investments, and the general accounts of insurance companies.

A large portion of the plan assets is managed by trust banks and investment advisors. Those fund managers are bound by the Company's plan asset management guidelines, which are established to achieve the optimized asset compositions in terms of long-term overall plan asset management, and the fund managers' performance is measured against specific benchmarks.

To measure the performance of the plan asset management, the Company establishes benchmark return rates for each individual investment, combines these individual benchmark rates based on the asset composition ratios within each asset category, and compares the combined rates with the corresponding actual return rates on each asset category.

(7) Sensitivity analysis of significant actuarial assumptions

The following table presents a sensitivity analysis of significant actuarial assumptions on defined benefit liabilities:

(Unit: millions of yen)

<b>December 31:</b>	<b>2022</b>	<b>2021</b>
Discount rate (0.5% increase)	¥ 9,820 (decrease)	¥ 12,337 (decrease)
Discount rate (0.5% decrease)	11,013 (increase)	13,988 (increase)

The above sensitivity analysis assumes that assumptions other than discount rate remain unchanged. In practice, the results of this sensitivity analysis do not necessarily accurately represent changes in defined benefit liabilities because of interrelated changes in other actuarial assumptions.

(8) Defined contribution pension plans

Costs recognized for defined contribution pension plans for the years ended December 31, 2022 and 2021, were ¥6,033 million and ¥4,987 million, respectively.

**Employee Benefit Expenses**

Employee benefit expenses included in the consolidated statement of profit or loss were ¥402,795 million and ¥344,148 million for the year ended December 31, 2022 and 2021, respectively.

Employee benefit expenses include expenses such as salaries, bonus, welfare, and postemployment benefits for employees. Compensation for the Directors is also included in employee benefit expenses (refer Note 30. RELATED-PARTY TRANSACTIONS).

Employee benefit expenses are included in cost of sales and selling, general, and administrative expenses in the consolidated statement of profit or loss.

**20. OTHER LIABILITIES**

The following table presents the Company's other liabilities:

(Unit: millions of yen)

<b>December 31:</b>	<b>2022</b>	<b>2021</b>
Employment benefit obligation	¥ 55,925	¥ 50,377
Accrued expenses	54,099	51,075
Refund liabilities	67,975	36,323
Others	97,461	78,725
<b>Total</b>	<b>¥ 275,460</b>	<b>¥ 216,500</b>
Current liabilities	268,787	211,177
Noncurrent liabilities	6,673	5,323

## 21. EQUITY

### Number of Shares Authorized to Be Issued and Number of Issued Shares

The total number of shares authorized to be issued was 1,874,700,000 shares as of December 31, 2022 and 2021. All shares issued by the Company are common stock without par value and issued shares have been fully paid.

The following table presents a reconciliation of the number of issued shares:

	(Unit: thousands of shares)	
Years ended December 31:	2022	2021
Number of issued shares:		
Balance at the beginning of the year	1,200,247	1,208,577
Increase during the year	—	—
Decrease during the year (Note)	(9,240)	(8,330)
Balance at the end of the year	1,191,007	1,200,247

(Note)

The decreases in the years ended December 31, 2022 and 2021, were due to retirement of treasury shares.

Treasury shares included in the number of issued shares above are 1,838 thousand shares and 339 thousand shares at December 31, 2022 and 2021, respectively. Included in treasury shares are 1,492 thousand shares of Kubota Corporation held by the trust in connection with stock compensation plan at December 31, 2022. Shares held by affiliates (equivalent to equity interest of the Company), which totaled 337 thousand shares and 337 thousand shares at December 31, 2022 and 2021, respectively, are also included in treasury shares.

### Share Premium and Retained Earnings

#### (1) Share premium

Share premium is composed of a surplus which is derived from equity transactions but is not recorded as share capital, and it is mainly composed of capital reserve. The Act stipulates that no less than 50% of the paid-in amount or proceeds of issuance of shares should be incorporated in share capital and that the remaining should be appropriated as capital reserve within share premium. Capital reserve may be appropriated as share capital with the approval of the General Meeting of Shareholders.

#### (2) Retained earnings

Retained earnings are composed of legal reserve and other accumulated earnings. The Act stipulates that an amount equal to 10% of cash dividends from retained earnings should be appropriated as a capital reserve or a legal reserve until the aggregated amount of capital reserve and legal reserve equals 25% of share capital. The legal reserve may be used to compensate for deficits or may be reversed with the approval of the General Meeting of Shareholders.

### Dividends

#### (1) Dividends paid

##### Year ended December 31, 2022

Resolution	Class of shares	Dividends (millions of yen)	Dividends per common share	Record date	Effective date
Meeting of the Board of Directors on February 14, 2022	Common shares	¥ 25,205	¥ 21.00	December 31, 2021	March 22, 2022
Meeting of the Board of Directors on August 3, 2022	Common shares	¥ 26,294	¥ 22.00	June 30, 2022	September 1, 2022

(Note)

The total amount of dividends based on the resolution of the Meeting of the Board of Directors on August 3, 2022, includes dividends of ¥33 million for shares of Kubota Corporation held by the trust in connection with the stock compensation plan.

**Year ended December 31, 2021**

Resolution	Class of shares	Dividends (millions of yen)	Dividends per common share	Record date	Effective date
Meeting of the Board of Directors on February 15, 2021	Common shares	¥ 22,957	¥ 19.00	December 31, 2020	March 22, 2021
Meeting of the Board of Directors on August 3, 2021	Common shares	¥ 25,376	¥ 21.00	June 30, 2021	September 1, 2021

**(2) Dividends with the record date in the year ended December 31, 2022, but the effective date in the following year**

Resolution	Class of shares	Dividends (millions of yen)	Dividends per common share	Record date	Effective date
Meeting of the Board of Directors on February 14, 2023	Common shares	¥ 26,202	¥ 22.00	December 31, 2022	March 27, 2023

(Note)

The total amount of dividends includes dividends of ¥33 million for shares of Kubota Corporation held by the trust in connection with the stock compensation plan.

**Other Components of Equity**

The following table presents a reconciliation of other components of equity by item:

(Unit: millions of yen)

	Remeasurement of defined benefit pension plans	Net change in fair value of financial assets measured at fair value through other comprehensive income	Exchange rate differences on translating foreign operations	Total
<b>January 1, 2021</b>	¥ —	¥ 35,882	¥ (54,044)	¥ (18,162)
Cumulative effect of changes in accounting policies	—	—	7	7
Total other comprehensive income, net of income tax	4,075	12,698	77,624	94,397
Transfer to retained earnings	(4,073)	(2,645)	—	(6,718)
Changes in ownership interests in subsidiaries	(2)	—	—	(2)
<b>December 31, 2021</b>	¥ —	¥ 45,935	¥ 23,587	¥ 69,522
Total other comprehensive income, net of income tax	(8,674)	8,133	130,016	129,475
Transfer to retained earnings	8,674	(19,431)	—	(10,757)
Changes in ownership interests in subsidiaries	—	—	146	146
<b>December 31, 2022</b>	¥ —	¥ 34,637	¥ 153,749	¥ 188,386

The following table presents the breakdown of total other comprehensive income, net of income tax, by item and related tax effects (including noncontrolling interests).

(Unit: millions of yen)

Years ended December 31:	2022			2021		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Remeasurement of defined benefit pension plans:						
Increase (decrease) during the year	¥ (12,679)	¥ 4,037	¥ (8,642)	¥ 5,900	¥ (1,815)	¥ 4,085
	(12,679)	4,037	(8,642)	5,900	(1,815)	4,085
Net change in fair value of financial assets measured at fair value through other comprehensive income:						
Increase (decrease) during the year	3,208	4,900	8,108	15,547	(2,865)	12,682
	3,208	4,900	8,108	15,547	(2,865)	12,682
Exchange rate differences on translating foreign operations:						
Increase (decrease) during the year	144,638	(3,800)	140,838	80,037	(1,898)	78,139
Reclassification adjustment	(4,757)	—	(4,757)	—	—	—
	139,881	(3,800)	136,081	80,037	(1,898)	78,139
Total	¥ 130,410	¥ 5,137	¥ 135,547	¥ 101,484	¥ (6,578)	¥ 94,906

The following table presents the breakdown of total other comprehensive income, net of income tax, which is included in noncontrolling interests:

(Unit: millions of yen)

Years ended December 31:	2022	2021
Remeasurement of defined benefit pension plans	¥ 32	¥ 10
Net change in fair value of financial assets measured at fair value through other comprehensive income	(25)	(16)
Exchange rate differences on translating foreign operations	6,065	515
Total	¥ 6,072	¥ 509

## 22. REVENUE

### Disaggregation of Revenue

The following table presents the Company's revenue recognized from contracts with customers and other sources of revenue by product group and location.

Effective from the year ended December 31, 2022, in conformity with changes in the internal organization of the Company, the former product group of "Pipe- and infrastructure-related products" is reclassified into "Pipe system-related products" and "Materials and urban infrastructure-related products." The comparative information has been retrospectively adjusted and presented in accordance with the new classification.

(Unit: millions of yen)

Year ended December 31, 2022	Japan	North America	Europe	Asia outside Japan	Other areas	Total
Farm equipment and engines	¥ 261,021	¥ 707,211	¥ 223,894	¥ 447,726	¥ 66,559	¥ 1,706,411
Construction machinery	38,730	301,270	111,306	34,626	20,526	506,458
<b>Farm &amp; Industrial Machinery</b>	<b>299,751</b>	<b>1,008,481</b>	<b>335,200</b>	<b>482,352</b>	<b>87,085</b>	<b>2,212,869</b>
Pipe system-related products	130,275	893	—	3,439	21	134,628
Materials and urban infrastructure-related products	39,829	10,162	2,092	7,485	9,390	68,958
Environment-related products	106,514	3,057	681	8,331	5,433	124,016
<b>Water &amp; Environment</b>	<b>276,618</b>	<b>14,112</b>	<b>2,773</b>	<b>19,225</b>	<b>14,844</b>	<b>327,602</b>
<b>Other</b>	<b>23,154</b>	<b>10</b>	<b>3</b>	<b>13</b>	<b>—</b>	<b>23,180</b>
Revenue recognized from:						
Contracts with customers	599,523	1,022,603	337,976	501,620	101,929	2,563,651
Other sources of revenue	2,853	79,357	—	31,369	1,542	115,121
<b>Total</b>	<b>¥ 602,376</b>	<b>¥ 1,101,960</b>	<b>¥ 337,976</b>	<b>¥ 532,989</b>	<b>¥ 103,471</b>	<b>¥ 2,678,772</b>

(Unit: millions of yen)

Year ended December 31, 2021	Japan	North America	Europe	Asia outside Japan	Other areas	Total
Farm equipment and engines	¥ 267,514	¥ 535,439	¥ 186,283	¥ 339,337	¥ 55,934	¥ 1,384,507
Construction machinery	40,015	214,969	96,552	21,766	17,073	390,375
<b>Farm &amp; Industrial Machinery</b>	<b>307,529</b>	<b>750,408</b>	<b>282,835</b>	<b>361,103</b>	<b>73,007</b>	<b>1,774,882</b>
Pipe system-related products	121,768	427	—	4,213	172	126,580
Materials and urban infrastructure-related products	35,873	7,327	1,705	8,232	4,867	58,004
Environment-related products	108,088	1,682	1,110	7,660	2,256	120,796
<b>Water &amp; Environment</b>	<b>265,729</b>	<b>9,436</b>	<b>2,815</b>	<b>20,105</b>	<b>7,295</b>	<b>305,380</b>
<b>Other</b>	<b>26,551</b>	<b>7</b>	<b>1</b>	<b>22</b>	<b>2</b>	<b>26,583</b>
Revenue recognized from:						
Contracts with customers	599,809	759,851	285,651	381,230	80,304	2,106,845
Other sources of revenue	2,974	59,962	—	25,654	1,331	89,921
<b>Total</b>	<b>¥ 602,783</b>	<b>¥ 819,813</b>	<b>¥ 285,651</b>	<b>¥ 406,884</b>	<b>¥ 81,635</b>	<b>¥ 2,196,766</b>

Revenue recognized from other sources of revenue includes revenue from retail finance calculated using effective interest rate method and revenue from finance leases. The amounts of the above revenue were ¥81,272 million and ¥62,819 million for the year ended December 31, 2022 and 2021, respectively.

The Company engages in various fields of business and industries by providing products and services which are categorized mainly into the Farm & Industrial Machinery business and the Water & Environment business.

Performance obligations for each business are as follows:

#### (1) Farm & Industrial Machinery

In the Farm & Industrial Machinery business, the Company manufactures products such as farm equipment, agricultural-related products, engines, and construction machinery in Japan and various overseas regions and sells products to the corporate dealers and individual and corporate end users in these areas.

The Company has determined that performance obligations are satisfied when the products are delivered to



customers, and therefore, revenue from the sale of products is recognized at that time. The Company does not adjust the consideration promised for financial factors by applying the practical expedient method since the consideration is received primarily within one year from the time the performance obligation is satisfied. Revenue is measured at the consideration promised in contracts, net of discounts, rebates based on purchase volume, and other items. Amounts expected to be refunded to customers are recognized as refund liabilities.

There are no material contracts between the Company and customers pertaining to returns.

The Company provides product warranties to cover free replacement and/or repairs on malfunctions resulting from product defects that occur within a certain period after the sale. Warranties generally guarantee to customers the performance of the products sold according to product specifications which the Company and its customers have mutually agreed on. The Company recognizes provisions for product warranties.

## (2) Water & Environment

In the Water & Environment business, the Company manufactures and sells pipe system-related products, materials and urban infrastructure-related products and environment-related products. The Company also engages in construction contracts of public facilities such as environment-related facilities and water supply facilities. The main customers are national and local governments and other public offices in Japan, as well as corporations in Japan and various overseas regions.

The Company has determined that performance obligations are satisfied when the products are delivered to customers, and therefore, revenue from the sale of products is recognized at that time. For construction contracts, revenue is recognized over a construction period since a performance obligation is satisfied in accordance with the progress of construction. The Company uses the input method which is based on the costs incurred relative to the total expected costs of individual contracts, as the method to measure the extent of progress towards completion. The Company does not adjust the consideration promised for financial factors by applying the practical expedient method since the consideration is received primarily within one year from the time the performance obligation is satisfied. Revenue is measured at the consideration promised in contracts, net of discounts, rebates based on purchase volume, and other items. Amounts expected to be refunded to customers are recognized as refund liabilities.

There are no material contracts between the Company and customers pertaining to returns.

The Company provides product warranties to cover free replacements and/or repairs on defects found for a certain period after the sale. Warranties generally guarantee to customers the performance of the products sold according to product specifications or services rendered according to an intention of service, which the Company and its customers have mutually agreed on. The Company recognizes provisions for product warranties.

## Contract Balances

Receivables are unconditional rights to consideration received in exchange for satisfaction of performance obligations. In addition to those presented as trade receivables in the consolidated statement of financial position, long-term trade account receivables are included in other financial assets (non-current).

Contract assets are the Company's rights to consideration received, excluding receivables, in exchange for satisfaction of a portion of the performance obligation that is measured based on the degree of completion as of the end of the reporting period for construction contracts in the Water & Environment business. Contract assets are reclassified into receivables at the time when the Company's right to consideration becomes an unconditional right to payment before its payment due date.

Contract liabilities include advances from customers.

The following table presents the significant changes in the balances of contract assets and contract liabilities:

(Unit: millions of yen)

	2022		2021	
Years ended December 31:	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Increase by revenue recognition	¥ 70,020	¥ —	¥ 65,967	¥ —
Decrease by transfer to receivables	(66,709)	—	(71,870)	—
Increase by receipt of cash	—	100,073	—	112,855
Decrease by recognition of revenue	—	(94,818)	—	(105,936)

Revenue recognized during the reporting period, which were included in the beginning balance of contract liabilities, were ¥16,304 million and ¥7,481 million for the year ended December 31, 2022 and 2021, respectively.

Revenue recognized from performance obligations which had been satisfied or partially satisfied in the past were not material for the year ended December 31, 2022 and 2021.

#### Transaction Price Allocated to Remaining Performance Obligation

The aggregate amount of the transaction price allocated to the performance obligations that were unsatisfied or partially unsatisfied were ¥178,818 million and ¥146,832 million for the year ended December 31, 2022 and 2021, respectively. These performance obligations are primarily related to construction contracts in the Water & Environment business and are deemed to be recognized as revenue within approximately five years, in accordance with the progress of construction.

As the Company applies the practical expedient method, the above amounts do not include a transaction price for unsatisfied performance obligations with an initial expected contract period of one year or less.

There was no material consideration from contracts with customers which was not included in the transaction price.

### 23. OTHER INCOME AND OTHER EXPENSES

Other income and other expenses are composed of the following:

(Unit: millions of yen)				
Years ended December 31:	2022		2021	
Other income:				
Foreign exchange gains	¥	12,016	¥	7,266
Royalty income		961		1,019
Profit from disposal of property, plant, and equipment and intangible assets		430		272
Insurance proceeds		409		915
Other		1,672		1,166
Total	¥	15,488	¥	10,638
Other expenses:				
Loss from disposal of property, plant, and equipment and intangible assets	¥	(3,637)	¥	(3,465)
Impairment loss of property, plant, and equipment and intangible assets		(2,354)		(1,488)
Other		(1,435)		(835)
Total	¥	(7,426)	¥	(5,788)

### 24. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs are composed of the following:

(Unit: millions of yen)				
Years ended December 31:	2022		2021	
Finance income:				
Interest income:				
Financial assets measured at amortized cost	¥	5,166	¥	2,420
Dividend income:				
Equity financial assets measured at fair value through other comprehensive income		2,255		2,234
Other		9,561		4,687
Total	¥	16,982	¥	9,341
Finance costs:				
Interest expenses:				
Financial liabilities measured at amortized cost	¥	(1,602)	¥	(992)
Other		(395)		(1,997)
Total	¥	(1,997)	¥	(2,989)

The amount related to equity financial assets derecognized during the reporting period that is included in *Dividend income* is immaterial.

*Finance income – Other* above include gains from foreign exchange forward contracts entered into in connection with the acquisition of Escorts Ltd. of ¥6,221 million and ¥3,903 million for the year ended December 31, 2022 and 2021, respectively.

## 25. INCOME TAXES

### Income Tax Expenses

Income tax expenses are composed of the following:

	(Unit: millions of yen)			
Years ended December 31:	2022		2021	
Current tax expenses:				
Tax expenses recognized for the current taxable income	¥	81,138	¥	72,932
Subtotal		81,138		72,932
Deferred tax expenses:				
Temporary differences originated and reversed		(22,799)		(8,093)
Changes in realizability of deferred tax assets		810		(83)
Subtotal		(21,989)		(8,176)
Total	¥	59,149	¥	64,756

The Parent Company and domestic affiliates are subject to the Japanese corporate tax, an inhabitant tax, and business tax. The aggregated combined statutory income tax rates for the year ended December 31, 2022 and 2021, were both 30.6 %. Subsidiaries located in foreign countries are subject to local taxes.

A reconciliation of the Japanese statutory tax rates and the average effective tax rates is as follows:

Years ended December 31:	2022	2021
Japanese statutory tax rates applied to profit before income taxes	30.6%	30.6%
Increase (decrease) in taxes resulting from:		
Changes in realizability of deferred tax assets	(0.3)	0.0
Permanently nondeductible expenses	0.3	0.2
Tax effect on unremitted earnings of foreign affiliates	1.6	0.6
Extra tax deduction on expenses for research and development	(3.5)	(2.9)
Difference in statutory tax rates of foreign subsidiaries	(1.9)	(3.1)
Effect of a step acquisition of investments in affiliates	(1.3)	—
Other—net	(0.2)	0.4
Effective income tax rates applied to profit before income taxes	25.3%	25.8%

### Deferred Tax Assets and Deferred Tax Liabilities

The significant components of deferred tax assets and liabilities are as follows:

	(Unit: millions of yen)			
December 31:	2022		2021	
<b>Deferred tax assets:</b>				
Allowance for doubtful accounts	¥	5,620	¥	5,219
Intercompany profits		27,069		19,384
Financial assets measured at fair value through other comprehensive income		2,722		2,850
Write-downs of inventories; property, plant, and equipment; and intangible assets		3,022		2,474
Depreciation and amortization		5,861		5,267
Accrued bonuses		5,479		4,547
Retirement benefit liabilities		10,073		5,059
Refund liabilities		6,466		4,290
Accrued expenses		8,386		3,048
Provisions for product warranties		15,993		11,140
Tax loss and credit carryforwards		822		1,382
Other temporary differences		17,983		23,235
Gross deferred tax assets		109,496		87,895
<b>Deferred tax liabilities:</b>				
Financial assets measured at fair value through other comprehensive income		13,139		19,706
Unremitted earnings of foreign affiliates		42,902		35,317
Other temporary differences		6,108		13,486
Gross deferred tax liabilities		62,149		68,509
<b>Net deferred tax assets</b>	¥	47,347	¥	19,386

The following table presents a reconciliation of deferred tax assets—net:

(Unit: millions of yen)

<b>Years ended December 31:</b>		<b>2022</b>		<b>2021</b>
Balance as of the beginning of the year	¥	19,386	¥	15,553
Amounts recognized through profit or loss:				
Elimination of intercompany profit included in assets		7,685		8,225
Depreciation and amortization		(2,809)		(1,662)
Refund liabilities		2,176		(851)
Accrued expenses		5,338		65
Unremitted earnings of foreign affiliates		(7,585)		(3,626)
Provisions for product warranties		4,853		2,215
Other		12,963		4,585
Subtotal		22,621		8,951
Amounts recognized through other comprehensive income:				
Net change in fair value of financial assets measured at fair value through other comprehensive income		4,900		(2,865)
Re-measurement of defined benefit pension plans		4,037		(1,815)
Other		(3,800)		(1,899)
Subtotal		5,137		(6,579)
Other changes		203		1,461
Balance as of the end of the year	¥	47,347	¥	19,386

(Note)

The difference between *Amounts recognized through profit or loss* above and deferred tax expenses is due to fluctuation of exchange rate changes.

The following table presents deductible temporary differences, carryforward of unused tax losses, and carryforward of unused tax credit for which deferred tax assets are not recognized:

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Deductible temporary differences	¥	20,454	¥	3,313
Carryforward of unused tax losses		30,890		21,064
Carryforward of unused tax credit		826		—

Carryforward of unused tax losses for which deferred tax assets are not recognized will expire as follows:

(Unit: millions of yen)

<b>December 31:</b>		<b>2022</b>		<b>2021</b>
Within 1 year	¥	451	¥	594
Between 1 and 5 years		2,449		1,340
Later than 5 years		8,420		2,642
Indefinite years		19,570		16,488
Total	¥	30,890	¥	21,064

The aggregate amounts of temporary differences relating to investments in associates for which deferred tax liabilities are not recognized were ¥36,067 million and ¥20,884 million at December 31, 2022 and 2021, respectively. Deferred tax liabilities are not recognized since the Company may control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in foreseeable periods.

The Company reflects the effect of uncertainty in determining the related taxable profit, etc., if the Company concludes it is not probable that the taxation authority will accept an uncertain tax treatment. The amounts of such effect were not material at December 31, 2022 and 2021.

## 26. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The numerator and denominator used to calculate basic earnings per share attributable to owners of the parent are presented in the table below.

The Company adopted a restricted stock compensation plan (the "Plan") for the Company's Directors and Executive Officers. Among the new shares granted under the Plan, non-vested shares are classified as common shares as participating equity instruments. Each common share and participating equity instrument have the same right to profit attributable to owners of the parent.

Shares of Kubota Corporation held by the trust in connection with the stock compensation plan are deducted from the weighted-average number of common shares issued as treasury shares.

Years ended December 31:	2022	2021
(Unit: millions of yen)		
Profit attributable to owners of the parent	¥ 156,182	¥ 174,765
Profit attributable to participating equity instruments	—	5
Profit attributable to common shareholders	¥ 156,182	¥ 174,760
(Unit: thousands of shares)		
Weighted-average number of common shares issued	1,193,855	1,206,967
Weighted-average number of participating equity instruments	1	37
Weighted-average number of common shares outstanding	1,193,855	1,206,930

Earnings per share attributable to owners of the parent - Diluted for the year ended December 31, 2022 and 2021 are not stated as Kubota Corporation did not have potentially dilutive common shares that were outstanding.

## 27. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in Liabilities Arising from Financing Activities

The following table presents the reconciliation of liabilities arising from financing activities:

(Unit: millions of yen)					
	Short-term borrowings	Long-term borrowings (Note)	Bonds	Lease liabilities	Total
<b>January 1, 2021</b>	¥ 145,733	¥ 728,703	¥ —	¥ 42,128	¥ 916,564
Changes arising from cash flows	96,282	52,954	—	(19,096)	130,140
Non-cash changes:	13,610	57,227	—	24,431	95,268
Exchange rate differences on foreign currencies	13,610	57,227	—	273	71,110
Other	—	—	—	24,158	24,158
<b>December 31, 2021</b>	¥ 255,625	¥ 838,884	¥ —	¥ 47,463	¥ 1,141,972
Changes arising from cash flows	55,973	179,557	149,614	(20,731)	364,413
Non-cash changes:	25,982	105,470	—	25,644	157,096
Exchange rate differences on foreign currencies	24,562	104,914	—	620	130,096
Other	1,420	556	—	25,024	27,000
<b>December 31, 2022</b>	¥ 337,580	¥ 1,123,911	¥ 149,614	¥ 52,376	¥ 1,663,481

(Note)

Borrowings with a term of more than three months are classified as long-term borrowings.

### Non-cash Transaction

Non-cash transaction is composed of the following:

(Unit: millions of yen)			
Years ended December 31:	2022	2021	
Retirement of treasury shares	¥ 19,989	¥ 20,321	
Acquisition of assets by means of a lease	¥ 26,552	¥ 28,722	

### **Capital Management**

The Company considers equity attributable to owners of the parent to be equity capital.

The Company puts the highest priority on stable and sustainable enhancement of corporate value. In order to sustainably enhance corporate value, the basic capital policy of the Company is to fully utilize its capital to enhance profitability, to maintain sufficient level of capital to support future business expansion, and to further enhance shareholder returns.

Based on this basic policy, the Company determines the use of retained earnings, taking into consideration the maintenance of sound management and response to the future business environment, and the Company is committed to maintaining and improving stable dividends in terms of profit distribution.

There are no significant restrictions subject to the Company's capital except for those general provisions stipulated in the Act.

### **Credit Risk**

The Company is exposed to the credit risk of its customers regarding its trade receivables, contract assets, long-term trade accounts receivable, and finance receivables in cases where customers become unable to satisfy their debt obligations.

With regard to trade receivables and contract assets, the Company determines a maximum credit limit of its customers individually, considering the customer's credit rating, details of transactions, and financial conditions, and monitors them on a regular basis in order to mitigate the credit risk. The Company obtains guarantee deposits, collaterals, and bank guarantees, if necessary. With regard to finance receivables and long-term trade accounts receivables, the Company performs credit research on its customers by referring to information for internal use and external credit reporting services at the time of entering into contracts with them. After the commencement of transactions, the Company manages and monitors due dates and performs collection activities, including reminders through calls, emails, and letters; visits to customers; and repossessions of products sold or leased, depending on the number of day past-due dates.

The carrying amount of these financial assets, net of impairment losses, stated in the consolidated statement of financial position is the Company's maximum exposures of credit risk on financial assets. These receivables arise from sales of the Company's products to a large number of dealers and to retail end users. The Company is not in a situation where the Company is significantly concentrated in transactions with specific customers.

The Company is exposed to the credit risk of issuers of financial assets, which are held by the Company to invest excess funds, and derivatives, which are utilized by the Company to mitigate foreign currency risk.

To prevent these credit risks, the Company raises funds mainly through bonds with low risk and conducts transactions only with financial institutions with high credit ratings.

#### **(1) Measurement of credit risk on trade receivables, contract assets and long-term trade accounts receivables**

Long-term trade accounts receivables are generated mainly from direct sales to individual end users in the farm equipment market in Japan.

The Company always measures an allowance for doubtful accounts for trade receivables, contract assets, and long-term trade accounts receivables at an amount equal to the lifetime expected credit losses. The Company measures the expected credit losses on these financial assets in a group with similar risk characteristics considering historical credit loss experience, current conditions and forecasts of future economic conditions. The Company also measures the expected credit losses on credit-impaired financial assets individually. The Company determines whether they are credit-impaired based on observable events, such as significant financial difficulty of the debtor, long-term past due, bankruptcy, or other financial reorganization of the debtor. Expected credit losses on contract assets are not material.

The following table presents balances of carrying amounts of trade receivables and long-term trade accounts receivables (before an allowance for doubtful accounts) by risk classification:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
<b>December 31:</b>			
<b>2021</b>	¥ 612,020	¥ 2,773	¥ 614,793
<b>2022</b>	¥ 817,184	¥ 4,443	¥ 821,627

The following table presents reconciliation of an allowance for doubtful accounts for the above receivables:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
<b>January 1, 2021</b>	¥ 2,269	¥ 1,192	¥ 3,461
Remeasurement	265	(38)	227
Collection	(9)	—	(9)
Write-off	(106)	(3)	(109)
Other	56	48	104
<b>December 31, 2022</b>	¥ 2,475	¥ 1,199	¥ 3,674
Remeasurement	788	269	1,057
Collection	(23)	—	(23)
Write-off	(103)	(286)	(389)
Other	240	1,347	1,587
<b>December 31, 2022</b>	¥ 3,377	¥ 2,529	¥ 5,906

## (2) Measurement of credit risk on lease receivables

The Company provides finance leases mainly in Thailand. These lease receivables relate to the Company's products, such as farm equipment, leased to individual and corporate end users. These lease receivables are recorded at the aggregate of minimum lease payments receivable plus the estimated residual value of the leased property, less unearned finance income and an allowance for doubtful accounts.

An allowance for doubtful accounts for lease receivables of which credit risk has not increased significantly since initial recognition is recognized for the 12-month expected credit losses, and an allowance for doubtful accounts of which credit risk has increased significantly since initial recognition is recognized for lifetime expected credit losses. Lease receivables are grouped primarily by past due days, and if the credit risk as of the end of the reporting period has not increased significantly since initial recognition, the 12-month expected credit loss is measured by taking into account the historical credit loss experience, current conditions and projected future economic conditions.

If the credit risk has increased significantly since initial recognition, the lifetime expected credit loss is measured by taking into account the historical credit loss experience, current conditions, projected future economic conditions, and the recoverable amount from repossession of products of the Company. The Company determines whether lease receivables are credit-impaired based on observable events, such as long-term past due and the debtor's bankruptcy, etc. The Company does not regard past due lease receivables as credit-impaired financial assets when the Company determines that the past due resulted from a temporary shortage in funds of the debtor, the risk of default is considered low, and the debtor has a strong capacity to meet its contractual cash flow obligation in the near term. The Company held ¥5,472 million and ¥4,467 million of its products as of December 31, 2022 and 2021, respectively, for credit enhancements on credit-impaired financial assets.

The following table presents balances of carrying amounts of lease receivables (before an allowance for doubtful accounts) by risk classification:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses		Credit-impaired financial assets	Total
		Financial assets on which credit risk increased significantly since initial recognition, but that are not credit-impaired			
<b>December 31:</b>					
<b>2021</b>	¥ 308,583	¥ 19,822		¥ 18,881	¥ 347,286
<b>2022</b>	¥ 366,249	¥ 27,071		¥ 19,513	¥ 412,833

The following table presents an aging analysis of past due lease receivables:

(Unit: millions of yen)

	Within 30 days past due	From 31 to 60 days past due	From 61 to 90 days past due	Longer than 90 days past due	Total past due	Current	Total
<b>December 31:</b>							
<b>2021</b>	¥ 19,412	¥ 4,713	¥ 2,403	¥ 9,691	¥ 36,219	¥ 311,067	¥ 347,286
<b>2022</b>	¥ 25,074	¥ 5,627	¥ 2,552	¥ 10,456	¥ 43,709	¥ 369,124	¥ 412,833

The following table presents a reconciliation of the allowance for doubtful accounts for the above receivables:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses		Credit-impaired financial assets	Total
		Financial assets on which credit risk increased significantly since initial recognition, but that are not credit-impaired			
<b>January 1, 2021</b>	¥ 3,706	¥ 3,540		¥ 11,330	¥ 18,576
Remeasurement	976	41		5,352	6,369
Collection	—	—		(1,179)	(1,179)
Write-off	(65)	—		(7,275)	(7,340)
Other	(87)	(301)		377	(11)
<b>December 31, 2021</b>	¥ 4,530	¥ 3,280		¥ 8,605	¥ 16,415
Remeasurement	487	421		3,394	4,302
Collection	—	—		(631)	(631)
Write-off	(66)	(5)		(3,385)	(3,456)
Other	503	342		921	1,766
<b>December 31, 2022</b>	¥ 5,454	¥ 4,038		¥ 8,904	¥ 18,396

### (3) Measurement of credit risk of retail finance receivables

The Company provides retail finance to customers who purchase the Company's products, such as farm equipment, from dealers mainly in North America. Retail finance receivables are purchased under agreements between the Company and dealers in relation to the products offered to individual and corporate end users. These receivables are recorded at amortized cost, less any allowance for credit losses.

The Company measures an allowance for doubtful accounts for retail finance receivables at an amount equal to 12-month expected credit losses when the credit risk on these receivables has not significantly increased since initial recognition, and at an amount equal to life-time expected credit losses when the credit risk on these receivables has significantly increased since initial recognition. Retail finance receivables are grouped primarily by past due days, and when the credit risk at the end of the reporting period has not increased significantly since initial recognition, the 12-month expected credit loss is measured by taking into account the historical credit loss experience, current conditions, and projected future economic condition.

When the credit risk has increased significantly since initial recognition, the Company measures the life-time expected credit loss, taking into account the historical credit loss experience, current conditions, projected future economic conditions, and recoverable amounts from repossession of products sold. Determination of whether receivables qualify as credit-impaired financial asset is based primarily on past due information, but other objective



evidences such as debtor's bankruptcy are also considered. The Company's products held for credit enhancement on credit-impaired financial assets were ¥1,380 million and ¥1,379 million as of December 31, 2022 and 2021, respectively.

The following table presents balances of carrying amounts of retail finance receivables (before an allowance for doubtful accounts) by risk classification:

(Unit: millions of yen)					
	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses		Credit-impaired financial assets	Total
		Financial assets on which credit risk increased significantly since initial recognition, but that are not credit-impaired			
December 31:					
2021	¥ 1,079,366	¥ 2,646		¥ 1,726	¥ 1,083,738
2022	¥ 1,289,663	¥ 3,260		¥ 1,827	¥ 1,294,750

The following table presents an aging analysis of past due retail finance receivables:

(Unit: millions of yen)

	Within 30 days past due	From 31 to 60 days past due	From 61 to 90 days past due	Longer than 90 days past due	Total past due	Current	Total
<b>December 31:</b>							
<b>2021</b>	¥ 49,848	¥ 5,511	¥ 1,512	¥ 1,567	¥ 58,438	¥ 1,025,300	¥ 1,083,738
<b>2022</b>	¥ 65,974	¥ 5,979	¥ 1,951	¥ 1,451	¥ 75,355	¥ 1,219,395	¥ 1,294,750

The following table presents a reconciliation of an allowance for doubtful accounts for the above receivables:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses	Financial assets on which credit risk increased significantly since initial recognition, but that are not credit-impaired	Credit-impaired financial assets	Total
January 1, 2021	¥ 2,809	¥ 691	¥ 266	¥	3,766
Remeasurement	(14)	99	1,619		1,704
Write-off	(58)	(8)	(1,759)		(1,825)
Other	227	78	160		465
December 31, 2021	¥ 2,964	¥ 860	¥ 286	¥	4,110
Remeasurement	(35)	(5)	3,170		3,130
Write-off	(39)	(153)	(3,251)		(3,443)
Other	427	291	158		876
December 31, 2022	¥ 3,317	¥ 993	¥ 363	¥	4,673

## Liquidity Risk

The Company is exposed to liquidity risk that the Company may have difficulties in satisfying payment obligations. The Company manages liquidity risk by maintaining retained earnings at an appropriate level and monitoring cash flow plans and actual results.

The following table presents financial liabilities by due date:

(Unit: millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
<b>December 31, 2022:</b>					
Trade payables	¥ 454,780	¥ 454,780	¥ 454,780	¥ —	¥ —
Other financial liabilities	144,241	146,797	102,093	41,380	3,324
Bonds and borrowings	1,611,105	1,657,762	660,316	905,930	91,516
Derivative liabilities	2,990	2,990	1,699	1,291	—

(Unit: millions of yen)

<b>December 31, 2021:</b>	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
Trade payables	¥ 392,331	¥ 392,331	¥ 392,331	¥ —	¥ —
Other financial liabilities	124,818	125,291	92,164	29,831	3,296
Bonds and borrowings	1,094,509	1,113,345	514,210	599,135	—
Derivative liabilities	5,297	5,297	4,716	581	—

### Market Risk

#### (1) Foreign currency exchange rate risks

The Company's exposure to foreign currency risk relates primarily to assets and liabilities denominated in foreign currencies associated with international operations. The Company enters into forward foreign exchange contracts, cross-currency swap contracts, and cross-currency interest rate swap contracts, which are designated to mitigate its exposure to foreign currency exchange rate risk.

For financial instruments denominated in foreign currencies held by the Company as of each reporting date, if the Japanese yen appreciates by 1% against the currencies in the following table, impacts to profit before income taxes in the consolidated statement of profit or loss are stated in the table below.

The table below does not include impacts of translating financial instruments denominated in Japanese yen and assets, liabilities, income, and expenses of foreign operations into Japanese yen. In addition, currencies other than those stated in the following table are assumed to remain unchanged.

(Unit: millions of yen)

<b>December 31:</b>	<b>2022</b>	<b>2021</b>
US dollar	¥ (655)	¥ (693)
Euro	(227)	(382)
Thai baht	(44)	(111)
Chinese yuan	(126)	(26)

#### (2) Interest rate risk

The Company is exposed to interest rate risk mainly inherent in its debt obligations with both fixed and variable rates. In order to hedge interest rate risk, the Company enters into interest rate swap contracts and cross-currency interest rate swap contracts to manage the risk of interest rate exposures, and therefore, the exposure to interest rate risk is not material to the Company's cash flows.

#### (3) Market price volatility risk management

The Company holds equity and debt financial assets, mainly cross-holdings, which are exposed to market price volatility risk. Each individual share of cross-shareholdings is examined annually at the Board of Directors in order to verify appropriateness of holding these shares, taking into consideration the purpose of holding these shares, benefits associated, market price volatility risk, and other factors. If it is determined that holding the share is not appropriate, the Company gradually reduces the number of policy stock holdings, taking into consideration market conditions and other factors.

### Derivative and Hedge Accounting

As stated in Note 3. SIGNIFICANT ACCOUNTING POLICIES, Financial Instruments, (3) Derivatives and hedge accounting, hedge accounting was not applied to derivatives.

## Fair Value of Financial Instruments

### (1) Financial instruments measured at fair value

The following table presents fair values of financial instruments measured at fair value:

(Unit: millions of yen)

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets measured at fair value through other comprehensive income:				
Equity financial assets	¥ 65,593	¥ —	¥ 3,002	¥ 68,595
Financial assets measured at fair value through profit or loss:				
Debt financial assets	27,855	—	7,660	35,515
Derivatives:				
Foreign exchange contracts	—	9,022	—	9,022
Interest swap contracts	—	92	—	92
Cross-currency interest rate swap contracts	—	1,838	—	1,838
<b>Total</b>	<b>¥ 93,448</b>	<b>¥ 10,952</b>	<b>¥ 10,662</b>	<b>¥ 115,062</b>
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 736	¥ —	¥ 736
Interest swap contracts	—	108	—	108
Cross-currency interest rate swap contracts	—	2,146	—	¥ 2,146
<b>Total</b>	<b>¥ —</b>	<b>¥ 2,990</b>	<b>¥ —</b>	<b>¥ 2,990</b>

(Unit: millions of yen)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets measured at fair value through other comprehensive income:				
Debt financial assets	¥ 686	¥ —	¥ —	¥ 686
Equity financial assets	101,555	—	4,773	106,328
Financial assets measured at fair value through profit or loss:				
Debt financial assets	—	—	5,245	5,245
Derivatives:				
Foreign exchange contracts	—	4,114	—	4,114
Interest swap contracts	—	10	—	10
Cross-currency interest rate swap contracts	—	846	—	846
<b>Total</b>	<b>¥ 102,241</b>	<b>¥ 4,970</b>	<b>¥ 10,018</b>	<b>¥ 117,229</b>
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 2,598	¥ —	¥ 2,598
Stock forward contracts	—	1,325	—	1,325
Interest swap contracts	—	809	—	809
Cross-currency interest rate swap contracts	—	565	—	565
<b>Total</b>	<b>¥ —</b>	<b>¥ 5,297</b>	<b>¥ —</b>	<b>¥ 5,297</b>

Debt financial assets and equity financial assets classified in Level 1 are measured at fair value using quoted prices for identical assets in active markets.

Derivatives are classified in Level 2 since they are measured at fair value using observable market inputs obtained from major international financial institutions.

Equity financial assets and debt financial assets classified in Level 3 are unlisted equity securities and measured at fair value using methods such as the comparable company comparison method with the earnings before interest and tax

("EBIT") ratio (from 1.7 to 15.1), etc. As the EBIT ratio increases (decreases), the fair values on those equity financial assets increase (decrease).

Transfers between levels are recognized at the end of the reporting periods when such transfers occur. There were no significant transfers of financial instruments between the levels for the year ended December 31, 2022.

In addition, the Parent Company has acquired additional shares of Escorts Ltd. (currently, Escorts Kubota Ltd.) during three months ended June 30, 2022, and EKL became a subsidiary of the Company. The ¥36,264 million equity interest in EKL as of the fiscal year ended December 31, 2021, is included in equity financial assets classified as Level 1 of financial assets measured at fair value through other comprehensive income.

The following table presents reconciliation of financial instruments classified in Level 3:

(Unit: millions of yen)				
Years ended December 31:		2022		2021
Balance as of the beginning of the year	¥	10,018	¥	5,782
Gains or losses				
Profit or loss (Note 1)		862		426
Other comprehensive income (Note 2)		(1,811)		1,206
Purchases		1,682		2,621
Sales		(89)		(17)
Balance as of the end of the year	¥	10,662	¥	10,018

(Notes)

1. Gains or losses are recognized as *finance income* or *finance costs* in the Consolidated Statement of Profit or Loss. Of the total gain or loss, the amount related to financial instruments held at December 31, 2022 was ¥966 million.
2. Gains or losses are recognized as *Net change in fair value of financial assets measured at fair value through other comprehensive income* in the consolidated statement of comprehensive income.

## (2) Financial instruments measured at amortized cost

The following table summarizes the carrying amount and fair value of financial instruments measured at amortized cost:

(Unit: millions of yen)					
December 31:	2022		2021		
	Carrying amount	Fair value	Carrying amount	Fair value	
Finance receivables:					
Retail finance receivables	¥ 1,290,077	¥ 1,198,251	¥ 1,079,628	¥ 1,071,340	
Finance lease receivables	394,437	449,136	330,725	387,669	
Long-term trade accounts receivables	65,608	69,441	67,429	71,853	
Debt financial assets	44,132	42,892	—	—	
Written put option liabilities over noncontrolling interests	3,238	3,238	—	—	
Bonds and borrowings	1,611,105	1,556,033	1,094,509	1,087,720	

The fair value of finance receivables, long-term trade accounts receivables, and bonds and borrowings is stated at the present value of future cash flows discounted by the current market rate and classified as Level 2. Long-term trade accounts receivables above includes the current portion included in trade receivables in the consolidated statement of financial position.

The fair value of debt financial assets is measured using quoted prices for identical assets in active markets and classified as Level 1.

The fair value of written put option liabilities over noncontrolling interests is the present value of estimated future cash flows discounted using a discount rate that takes into account inherent risks and classified as Level 3.

The carrying amounts of cash and cash equivalents, trade receivables (excluding the current portion of long-term trade accounts receivables), other financial assets (excluding debt financial assets measured at fair value, equity financial assets, and derivatives), trade payables, and other financial liabilities (excluding lease liabilities, derivatives and written put option liabilities over noncontrolling interests) approximate their fair values due to their short-term maturity.

## Offsetting Financial Assets and Liabilities

The amount of financial assets and liabilities not offset but subject to enforceable master netting agreements or similar agreements because they do not satisfy part or all of requirements for offsetting of financial assets and financial liabilities was not material.

## 29. MAJOR SUBSIDIARIES

### Major Subsidiaries

The Company's major subsidiaries as of December 31, 2022 are as follows:

Company name	Location	Principal business activities	Ownership percentage of voting rights (%)
Kubota Tractor Corporation	Texas, USA	Sales of tractors, outdoor power equipment, construction machinery, and implements	(100) 100
Kubota Credit Corporation U.S.A.	Texas, USA	Retail financing to purchasers of tractors, outdoor power equipment, construction machinery, and implements	(90) 100
SIAM KUBOTA Corporation Co., Ltd.	Pathumthani, Thailand	Manufacturing and sales of tractors, combine harvesters, implements, and horizontal type diesel engines, and sales of construction machinery	60
Siam Kubota Leasing Co., Ltd.	Pathumthani, Thailand	Retail financing to purchasers of tractors and combine harvesters, etc.	(100) 100
Escorts Kubota Ltd.	Haryana, INDIA	Manufacturing and sales of tractors, construction machinery, and other products	44.8

(Note)

Figures in parentheses indicate indirect holdings.

### Subsidiary with Material Noncontrolling Interests

The following is the condensed financial statements of subsidiaries which the Company recognizes significant noncontrolling interests:

#### Escorts Kubota Ltd. (India)

(Unit: millions of yen)

December 31:	2022	2021
Shareholding ratio of noncontrolling interests	55.2%	—

(Unit: millions of yen)

December 31:	2022	2021
Current assets	¥ 75,400	¥ —
Noncurrent assets	216,256	—
Current liabilities	25,607	—
Noncurrent liabilities	2,221	—
Equity	263,828	—
Cumulative amount of noncontrolling interests	69,231	—

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Revenue	¥ 104,076	¥ —
Profit for the year	7,046	—
Comprehensive income for the year	7,088	—
Profit attributable to noncontrolling interests	4,013	—
Dividends paid to noncontrolling interests	708	—

(Notes)

Escorts Kubota Ltd. is a consolidated subsidiary acquired through a business combination, and the condensed financial information reflects the effect of the acquisition method of accounting. Noncontrolling interests are recognized at the proportion of the fair value of the identifiable assets and liabilities of the acquiree. Furthermore, above information is based on provisional estimates since the allocation of acquisition cost has not been completed as of December 31, 2022.

### SIAM KUBOTA Corporation Co., Ltd. (Thailand)

(Unit: millions of yen)

<b>December 31:</b>	<b>2022</b>	<b>2021</b>
Shareholding ratio of noncontrolling interests	40.0%	40.0%

(Unit: millions of yen)

<b>December 31:</b>	<b>2022</b>	<b>2021</b>
Current assets	¥ 138,231	¥ 126,870
Noncurrent assets	65,912	63,942
Current liabilities	43,788	50,734
Noncurrent liabilities	3,171	3,007
Equity	157,184	137,071
Cumulative amount of noncontrolling interests	62,239	53,854

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Revenue	¥ 218,052	¥ 211,852
Profit for the year	21,053	21,470
Comprehensive income for the year	21,053	21,470
Profit attributable to noncontrolling interests	8,745	8,539
Dividends paid to noncontrolling interests	5,868	6,478

### 30. RELATED-PARTY TRANSACTIONS

The aggregate compensation paid by the Parent Company for the year ended December 31, 2022, to the Directors, including the Outside Directors, was as follows:

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2022</b>	<b>2021</b>
Basic remunerations and bonuses	¥ 679	¥ 699
Share-based payments	168	103
Total	¥ 847	¥ 802

## 31. COMMITMENTS AND CONTINGENT LIABILITIES

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### Commitments

Commitments for acquisition of property, plant, and equipment were ¥74,003 million and ¥66,764 million at December 31, 2022 and 2021, respectively. Commitments for acquisition of intangible assets were ¥1,575 million and ¥837 million at December 31, 2022 and 2021, respectively.

Commitments at December 31, 2022, were primarily associated with the investments for BCP, while commitments at December 31, 2021, were primarily associated with the establishment of new R&D bases.

### Guarantees

The Company is contingently liable as guarantor of the indebtedness of distributors, including associates and customers, for their borrowings from financial institutions. These guarantees obligate the Company to make payments in the event of default by the distributor, including associates and customers. The terms of these guarantees are from one to four years. The maximum potential amounts of undiscounted future payments of these financial guarantees were ¥4,263 million and ¥3,539 million at December 31, 2022 and 2021, respectively. However, the probability of incurrence of a loss is remote.

### Legal Proceedings

Since May 2007, the Company has been subject to 59 asbestos-related lawsuits in Japan, which were filed against the Company or defendant parties consisting of the Japanese government and asbestos-related companies, including the Company. With regard to the six lawsuits consolidating 18 cases, the Supreme Court has concluded proceedings and ruled that the government and a part of asbestos using companies were liable for compensation. However, all claims against the Company were rejected.

Other 41 lawsuits are still ongoing, and the total claims for compensation of all lawsuits aggregate to ¥22,494 million, which relate to 641 construction workers who suffered from asbestos-related diseases. Of these ongoing lawsuits, three first instance judgements have been rendered in eight lawsuits, and the Company was ordered to pay compensation damages of ¥2 million in one lawsuit and other two lawsuits were decided in favor of the Company. These three cases are being heard on the second instance. The court in the second instance rendered a judgement to support the opinion of the first instance for one of the two lawsuits that were decided in favor of the Company. This lawsuit has been appealed to a higher court.

The Company continues to review the status of lawsuits, including consultation with a third-party legal counsel regarding the progress of lawsuits and the likely final outcome. However, the Company believes that it is currently unable to predict the ultimate outcome of lawsuits.

The Company does not have any cost-sharing arrangements with other potentially responsible parties, including the government, for all of these lawsuits.

### Matters Related to the Health Hazards of Asbestos

The Company's plant in Amagasaki, Hyogo Prefecture, Japan, previously produced asbestos-related products. The Company decided to make voluntary consolation payments in June 2005 and established a relief payment program in April 2006 as a voluntary consolation payment to patients of asbestos-related diseases near the plant. With regard to the current and former employees who suffered and are suffering from asbestos-related diseases, the Company provides compensation which is not required by law, but is made in accordance with the Company's internal policies.

In an effort to estimate future asbestos-related expenditures, the Company has considered all available data, including a time series data of historical claims and payments, the incidence rate of asbestos-related disease, and other public information related to asbestos-related disease. However, since the health hazards of asbestos tend to have a longer incubation period, reliable statistics to estimate the incidence rate of asbestos-related disease are not available to the Company. Furthermore, there are no cases where final conclusions are made to the cause and the incidence rate of asbestos-related health hazard at other asbestos-related companies. Hence, the Company believes there is no information to determine the range of the final possible outcome in the future. For these reasons, the Company believes it is not possible to reliably estimate the amount of its ultimate liability, and the Company does not accrue on this contingency.

The Law for the Relief of Patients Suffering from Asbestos-Related Diseases (the "New Asbestos Law") was established by the Japanese government in March 2006. The purpose of this law is to provide prompt relief to persons

who sustain asbestos-related diseases but are not relieved by compensation for accidents under worker's compensation insurance. Contributions under this law are made by the Japanese government, local authorities and business entities. Contributions by business entities commenced from the year ended March 31, 2008, and these include special contributions by business entities which operated a business closely to asbestos.

The Company accrues asbestos-related expenses when the Company receives claims on voluntary consolation payment, relief payment, compensation for current and former employees, and the special contribution in accordance with the New Asbestos Law. The accrued balances for asbestos-related expenses are ¥138 million and ¥125 million at December 31, 2022 and 2021, respectively. The asbestos-related expenses recognized for the twelve months ended December 31, 2022 and 2021, were ¥379 million and ¥626 million, respectively.

#### **Other Contingent Liabilities**

The Company has various outstanding tax matters with tax authorities, primarily in India. The outstanding matters mostly relate to interpretation and application of law. The Company believes that, due to the existence of multiple legal issues and large number of parties involved, it is currently unable to predict the ultimate outcome of matters.

### **32. SUBSEQUENT EVENTS**

#### **Issuance of bonds**

Based on the resolution of the Board of Directors of the Parent Company on February 14, 2023, the Parent Company has issued straight bonds as follows:

Name	Issue Date	Issue Amount (millions of yen)	Coupon rate (%)	Maturity date
16 <sup>th</sup> Japanese Yen Unsecured Bonds	April 20, 2023	¥ 70,000	0.479	April 20, 2028
17 <sup>th</sup> Japanese Yen Unsecured Bonds	April 20, 2023	50,000	0.950	April 20, 2033

#### **Acquisition of Treasury Shares**

On April 19, 2023, the Board of Directors of the Parent Company resolved, in accordance with the provisions of Articles of Incorporation under Article 165, paragraph 2 of the Companies Act of Japan, to acquire up to 13 million outstanding common shares of the Parent Company from the market during the period from April 20, 2023, to December 18, 2023, at an acquisition cost not exceeding ¥20,000 million.

### **33. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved on May 10, 2023, by Yuichi Kitao, President and Representative Director of the Parent Company, and Masato Yoshikawa, Representative Director and Executive Vice President, General Manager of Planning and Control Headquarters of the Parent Company.



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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Kubota Corporation:

### **Opinion**

We have audited the consolidated financial statements of Kubota Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

### **Basis for Opinion**

We conducted our audits 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matter**

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Assessment of the allowance for doubtful accounts on finance receivables at the finance subsidiaries	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 7 to the consolidated financial statements, ¥20,671 million of the allowance for doubtful accounts corresponding to ¥1,083,738 million of retail finance receivables and ¥347,286 million of finance lease receivables (collectively, finance receivables) was recorded in the consolidated statement of financial position as of December 31, 2021 of the Group. In addition, as described in Note 27 to the consolidated financial statements, the balance of financial receivables and allowance for doubtful accounts in the consolidated statement of financial position mainly consists of the balances of finance subsidiaries in North America and Thailand.</p> <p>The allowance for doubtful accounts for expected credit losses on finance receivables is measured based on basic information, such as the status of collection at the end of the reporting period and historical credit loss experience, estimates in solvency of debtors and collateral value, and assumptions for forward-looking information of the economic conditions, after grouping finance receivables by the past due days and determining whether a significant increase in credit risk since initial recognition exists.</p> <p>If these management estimates and assumptions used do not appropriately reflect the credit risk of the debtor, there is a risk that the allowance for doubtful accounts is not properly determined. In addition, the audit effort included the involvement of professionals with specialized skills and knowledge to assist in performing audit procedures since the evaluation of assumptions for future economic conditions involves a high degree of auditor's judgment.</p> <p>As such, we identified the assumptions management used in estimating the allowance for doubtful accounts on financial receivables at the finance subsidiaries as a key audit matter.</p>	<p>With the assistance of the auditors of the finance subsidiaries in North America and Thailand, we performed the following audit procedures to evaluate the allowance for doubtful accounts on finance receivables, among others:</p> <p>(1) Internal control testing</p> <p>We evaluated the design and operating effectiveness of certain internal controls related to the allowance for doubtful accounts on finance receivables, which included the following controls:</p> <ul style="list-style-type: none"> <li>• Basic information used to estimate expected credit losses</li> <li>• Determining key assumptions used to estimate expected credit losses</li> </ul> <p>(2) Assessment of the reasonableness of estimates in allowance for doubtful accounts on finance receivables</p> <ul style="list-style-type: none"> <li>• We evaluated the appropriateness of the grouping of finance receivables and tested the accuracy and completeness of the basic information used to estimate expected credit losses.</li> <li>• We evaluated the grouping of finance receivables with shared credit risk characteristics.</li> <li>• We evaluated management's conclusion on whether a significant increase in credit risk since initial recognition exists.</li> <li>• We performed a trend analysis of the outstanding finance receivables balance to the allowance for doubtful accounts by groups.</li> <li>• We evaluated the reasonableness of estimates related to the probability of a default and the value of collateral.</li> <li>• With the assistance of professionals with specialized skills and knowledge, we evaluated the reasonableness of the assumptions of future economic conditions used by the management.</li> </ul>

## **Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over 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 an 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. The procedures selected depend on the auditor's judgment. In addition, we 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing 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 overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as 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 Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board 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.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners 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.

/s/Deloitte Touche Tohmatsu LLC  
Osaka, Japan  
May 12, 2023

# Consolidated Financial Statements

Kubota Corporation and Its Subsidiaries

## (1) Consolidated Statements of Financial Position

(Unit: millions of yen)

December 31:	Note	2021	2020
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	5	¥ 258,639	¥ 222,919
Trade receivables	6	574,349	592,027
Finance receivables	7, 13	380,865	317,626
Other financial assets	8	50,875	49,967
Inventories	9	510,065	373,998
Income taxes receivable		8,430	9,700
Other current assets		83,822	72,305
Total current assets		1,867,045	1,638,542
<b>Noncurrent assets:</b>			
Investments accounted for using the equity method	10	43,768	36,124
Finance receivables	7, 13	1,029,488	807,342
Other financial assets	8	154,781	138,583
Property, plant, and equipment	11, 13	496,312	424,672
Goodwill and intangible assets	12	95,884	72,539
Deferred tax assets	24	50,423	43,641
Other noncurrent assets	18	35,809	27,874
Total noncurrent assets		1,906,465	1,550,775
<b>Total assets</b>		¥ 3,773,510	¥ 3,189,317

(Unit: millions of yen)

December 31:	Note	2021	2020
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Bonds and borrowings	14	¥ 504,335	¥ 366,038
Trade payables	15	392,331	323,607
Other financial liabilities	13, 16	96,740	87,445
Income taxes payable		33,546	14,676
Provisions	17	52,208	39,736
Other current liabilities	19	234,579	194,924
Total current liabilities		1,313,739	1,026,426
<b>Noncurrent liabilities:</b>			
Bonds and borrowings	14	590,174	508,398
Other financial liabilities	13, 16	33,375	31,537
Retirement benefit liabilities	18	14,899	16,144
Deferred tax liabilities	24	31,027	28,088
Other noncurrent liabilities	17, 19	5,323	4,539
Total noncurrent liabilities		674,798	588,706
<b>Total liabilities</b>		<b>1,988,537</b>	<b>1,615,132</b>
<b>Equity:</b>			
Equity attributable to owners of the parent:	20		
Share capital		84,130	84,130
Share premium		84,886	84,943
Retained earnings		1,439,560	1,325,764
Other components of equity		69,515	(18,162)
Treasury shares		(134)	(636)
Total equity attributable to owners of the parent		1,677,957	1,476,039
Noncontrolling interests		107,016	98,146
<b>Total equity</b>		<b>1,784,973</b>	<b>1,574,185</b>
<b>Total liabilities and equity</b>		<b>¥ 3,773,510</b>	<b>¥ 3,189,317</b>

See notes to consolidated financial statements.

(2) Consolidated Statements of Profit or Loss and  
Consolidated Statements of Comprehensive Income

Consolidated Statements of Profit or Loss

(Unit: millions of yen, except earnings per share)

Years ended December 31:	Note	2021	%	2020	%
Revenue	21	¥ 2,196,766	100.0	¥ 1,853,234	100.0
Cost of sales	9, 11, 12, 18	(1,564,960)		(1,318,384)	
Selling, general, and administrative expenses	11, 12, 18	(390,449)		(356,092)	
Other income	22	10,638		6,950	
Other expenses	22	(5,788)		(10,424)	
Operating profit		246,207	11.2	175,284	9.5
Finance income	23	9,341		12,294	
Finance costs	23	(2,989)		(1,679)	
Profit before income taxes		252,559	11.5	185,899	10.0
Income tax expenses	24	(64,869)		(47,027)	
Share of profits of investments accounted for using the equity method	10	3,042		2,528	
Profit for the year		¥ 190,732	8.7	¥ 141,400	7.6
Profit attributable to:					
Owners of the parent		¥ 175,637	8.0	¥ 128,524	6.9
Noncontrolling interests		¥ 15,095	0.7	¥ 12,876	0.7
Earnings per share attributable to owners of the parent:					
Basic	25	¥ 145.52		¥ 105.85	
Diluted		¥ —		¥ —	

Consolidated Statements of Comprehensive Income

(Unit: millions of yen)

Years ended December 31:	Note	2021	2020
Profit for the year		¥ 190,732	¥ 141,400
Other comprehensive income, net of income tax:	20		
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans		4,085	3,078
Net change in fair value of financial assets measured at fair value through other comprehensive income		12,682	(180)
Items that may be reclassified subsequently to profit or loss:			
Exchange rate differences on translating foreign operations		78,140	(38,949)
Total other comprehensive income, net of income tax		94,907	(36,051)
Comprehensive income for the year		¥ 285,639	¥ 105,349
Comprehensive income attributable to:			
Owners of the parent		¥ 270,034	¥ 96,656
Noncontrolling interests		¥ 15,605	¥ 8,693

See notes to consolidated financial statements.



### (3) Consolidated Statements of Changes in Equity

(Unit: millions of yen)

	Note	Equity attributable to owners of the parent					Total equity attributable to owners of the parent	Noncontrolling interests	Total equity
		Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares			
<b>Balance as of January 1, 2020</b>		¥ 84,130	¥ 84,671	¥ 1,238,824	¥ 35,849	¥ (637)	¥ 1,442,837	¥ 94,377	¥ 1,537,214
Profit for the year				128,524			128,524	12,876	141,400
Total other comprehensive income, net of income tax	20				(31,868)		(31,868)	(4,183)	(36,051)
Comprehensive income for the year				128,524	(31,868)		96,656	8,693	105,349
Transfer to retained earnings				22,158	(22,158)		—		—
Dividends paid	20			(43,853)			(43,853)	(4,503)	(48,356)
Purchases and sales of treasury shares						(20,002)	(20,002)		(20,002)
Retirement of treasury shares				(19,854)		19,854	—		—
Share-based payments with transfer restrictions			(4)	(35)		149	110		110
Changes in ownership interests in subsidiaries			276		15		291	(421)	(130)
<b>Balance as of December 31, 2020</b>		¥ 84,130	¥ 84,943	¥ 1,325,764	¥ (18,162)	¥ (636)	¥ 1,476,039	¥ 98,146	¥ 1,574,185
Profit for the year				175,637			175,637	15,095	190,732
Total other comprehensive income, net of income tax	20				94,397		94,397	510	94,907
Comprehensive income for the year				175,637	94,397		270,034	15,605	285,639
Transfer to retained earnings				6,718	(6,718)		—		—
Dividends paid	20			(48,333)			(48,333)	(6,706)	(55,039)
Purchases and sales of treasury shares						(20,003)	(20,003)		(20,003)
Retirement of treasury shares			(95)	(20,226)		20,321	—		—
Share-based payments with transfer restrictions			98			184	282		282
Changes in ownership interests in subsidiaries			(60)		(2)		(62)	(29)	(91)
<b>Balance as of December 31, 2021</b>		¥ 84,130	¥ 84,886	¥ 1,439,560	¥ 69,515	¥ (134)	¥ 1,677,957	¥ 107,016	¥ 1,784,973

See notes to consolidated financial statements.

#### (4) Consolidated Statements of Cash Flows

(Unit: millions of yen)

Years ended December 31:	Note	2021	2020
<b>Cash flows from operating activities:</b>			
Profit for the year		¥ 190,732	¥ 141,400
Depreciation and amortization		71,701	67,336
Finance income and costs		(6,455)	(10,218)
Income tax expenses		64,869	47,027
Share of profits of investments accounted for using the equity method		(3,042)	(2,528)
Decrease in trade receivables		30,366	71,497
Increase in finance receivables		(180,782)	(185,256)
(Increase) decrease in inventories		(109,017)	1,042
(Increase) decrease in other assets		(15,051)	12,482
Increase in trade payables		59,694	37,881
Increase in other liabilities		41,302	14,203
Net changes in retirement benefit assets and liabilities		(3,033)	1,838
Other, net		1,839	(1,772)
Interest received		2,071	4,013
Dividends received		2,234	2,414
Interest paid		(1,838)	(1,035)
Income taxes paid, net		(53,079)	(57,405)
Net cash provided by operating activities		92,511	142,919
<b>Cash flows from investing activities:</b>			
Payments for acquisition of property, plant, and equipment		(97,434)	(60,913)
Payments for acquisition of intangible assets		(28,289)	(23,840)
Proceeds from sales of property, plant, and equipment		4,294	8,051
Payments for acquisition of securities		(2,584)	(18,153)
Proceeds from sales and redemptions of securities		4,240	34,537
Payments for loans receivable to associates		(19,040)	(35,500)
Collection of loans receivable from associates		19,590	35,601
Payments for time deposits		(35,352)	(56,737)
Proceeds from withdrawal of time deposits		46,282	64,529
Net decrease (increase) in restricted cash		9,894	(435)
Payments for acquisition of short-term investments		(689)	(2,733)
Proceeds from sales and redemptions of short-term investments		—	10,378
Other, net		(28,232)	(1,918)
Net cash used in investing activities		(127,370)	(47,133)
<b>Cash flows from financing activities:</b>			
Funding from bonds and long-term borrowings	26	336,100	272,068
Redemptions of bonds and repayments of long-term borrowings	26	(283,146)	(233,935)
Net increase (decrease) in short-term borrowings	26	96,282	(25,629)
Repayments of lease liabilities	26	(19,096)	(14,618)
Dividends paid	20	(48,333)	(43,853)
Purchases of treasury shares		(20,003)	(20,002)
Other, net		(1,218)	(1,218)
Net cash used in financing activities		60,586	(68,354)
<b>Effect of exchange rate changes on cash and cash equivalents</b>		9,993	(4,178)
<b>Net decrease in cash and cash equivalents</b>		35,720	23,254
<b>Cash and cash equivalents, at the beginning of the year</b>	5	222,919	199,665
<b>Cash and cash equivalents, at the end of the year</b>	5	¥ 258,639	¥ 222,919

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Kubota Corporation and Its Subsidiaries

## 1. REPORTING ENTITY

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Kubota Corporation (the “Parent Company”) is an entity located in Japan. The Parent Company and its subsidiaries (the “Company”) manufacture and sell a comprehensive range of machinery and other industrial and consumer products, including farm equipment, agricultural-related products, engines, construction machinery, pipe-related products, social infrastructure-related products, and environment-related products.

The Company manufactures its products not only in Japan, but also in overseas countries, including the United States, France, Germany, China, Thailand, and other countries, and sells its products in Japan, North America, Europe, Asia, and other countries.

## 2. BASIS OF FINANCIAL STATEMENTS

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### Compliance with International Financial Reporting Standards (“IFRS”)

The consolidated financial statements of the Company are prepared in accordance with IFRS, as permitted by the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (the “Ordinance”) since the Company is fully qualified as a *Specified Company under Designated International Financial Reporting Standards* pursuant to the provision of Article 1-2 of the Ordinance.

### Basis of Measurement

Except for the items stated in Note 3. SIGNIFICANT ACCOUNTING POLICIES, the Company’s consolidated financial statements are prepared on a historical cost basis.

### Functional Currency and Presentation Currency

The consolidated financial statements of the Company are presented in Japanese yen, which is the Parent Company’s functional currency, and figures are rounded to the nearest million yen.

### Significant Accounting Judgements, Estimates, and Assumptions

The consolidated financial statements of the Company are prepared by using judgements, estimates, and assumptions relating to the application of accounting policies and reporting of assets, liabilities, revenue, and expenses. Actual results could differ from those accounting estimates and assumptions.

The estimates and assumptions are continually reviewed. The effects of a change in accounting estimates, if any, are recognized in the reporting period in which the change is made and in the future periods.

The judgements made in applying accounting policies, which could have a material impact on the Company’s consolidated financial statements, are as follows:

- (a) Scope of consolidated subsidiaries, associates, and joint ventures (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Basis of Consolidation)
- (b) Classification of financial instruments (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Financial Instruments)
- (c) Timing of satisfaction of performance obligations (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Revenue Recognition)

The information related to risks and uncertainties arising from assumptions and estimates that could result in material adjustments after the financial statement date is as follows:

- (a) Impairment of financial assets measured at amortized cost (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Financial Instruments and Note 27. FINANCIAL INSTRUMENTS)
- (b) Impairment of nonfinancial assets (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Impairment of Nonfinancial Assets and Note 11. PROPERTY, PLANT, AND EQUIPMENT and Note 12. GOODWILL AND INTANGIBLE ASSETS)
- (c) Measurement of provisions (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Provisions and Note 17. PROVISIONS)

- (d) Measurement of defined benefit liabilities (refer to Note 3. SIGNIFICANT ACCOUNTING POLICIES, Postemployment Benefits and Note 18. EMPLOYEE BENEFITS)
- (e) Contingent liabilities (refer to Note 30. COMMITMENTS AND CONTINGENT LIABILITIES)

Although the effect of COVID-19 is still unpredictable, the Company estimates the impact of COVID-19 on business activities will recover in the following fiscal year. Therefore, as of the end of the reporting period, COVID-19 has no material impact on the Company's accounting judgements, estimates, and assumptions.

### 3. SIGNIFICANT ACCOUNTING POLICIES

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#### **Basis of Consolidation**

##### **(1) Subsidiaries and structured entities**

Subsidiaries are entities that are controlled by the Company. The Company controls an entity when the Company has power over the entity, is exposed or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. To determine whether or not the Company controls an entity, the Company considers all relevant factors indicating that it may have power over the entity, such as the status of voting rights or similar rights, contractual agreements, whether the directors and/or employees dispatched from the Company account for a majority of the board of directors of the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when the Company obtains control over the subsidiary until the date when it loses control of the subsidiary. Necessary adjustments are made to the financial statements of subsidiaries if their accounting policies differ from those of the Company. Balances of receivables and payables, and unrealized profit or loss arising from intercompany transactions are eliminated in the preparation of the consolidated financial statements. Any change in ownership interests in a subsidiary that does not result in a loss of control of the subsidiary is accounted for as an equity transaction. When control over a subsidiary is lost, the investment retained after the loss of control is re-measured at fair value as of the date of the loss of control, and any gains or losses arising from such re-measurement are recognized in profit or loss.

Structured entities are entities designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. For fundraising purposes, the Company enters into securitization transactions by transferring a pool of certain finance receivables into newly formed structured entities. After the transfer, the Company has both the power to direct the activities that most significantly affect those structured entities' economic performance through its role in managing and controlling its past due or default receivables and the obligation to absorb losses or receive benefits that could potentially be significant to them through the Company's retention of the residual interest in them. Accordingly, the Company consolidates such structured entities.

##### **(2) Associates and joint ventures**

Associates are entities over which the Company has a significant influence over the decisions on financial and operating policy decisions, but does not have control or joint control of those policies. If the Company holds, directly or indirectly, 20% or more and less than 50% of the voting rights of the entity, it is presumed that the Company has significant influence over the entity unless it can be clearly demonstrated that this is not the case.

Joint ventures are joint arrangements whereby the parties, including the Company, that have joint control of the arrangements have rights to the net assets of the arrangements. Joint arrangements are arrangements in which two or more parties have joint control, and joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method from the date when the investees are determined as associates or joint ventures until the date that they cease to be classified as associates or joint ventures. When an entity no longer meets the criteria for an associate or joint venture and the application of the equity method is discontinued, the investment retained after the discontinuation of the equity method is re-measured at fair value, and any gains or losses arising from such re-measurement are recognized in profit or loss, unless the entity meets the criteria for a subsidiary.

If there is any objective evidence of impairment on investments in associates or joint ventures, the Company conducts impairment tests on those investments as one asset group.

## Foreign Currency Translation

### (1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each company using the exchange rate at the date of the transactions or a rate that approximates such rate.

At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency using the closing rate, and nonmonetary items denominated in foreign currencies measured at fair value are translated into the functional currency using the exchange rate at the date when the fair value is measured. Exchange rate differences arising from the translation or settlement are recognized in profit or loss.

### (2) Translation of foreign operations

Assets and liabilities of foreign operations are translated at the closing rate, while their income and expenses are translated at the average rate during the period. Exchange differences arising from translation are recognized in other comprehensive income.

When control or significant influence of foreign operations is lost due to the disposal of those operations, cumulative translation differences arising from those operations are reclassified to profit or loss at the time of disposal as part of gain or loss on the disposal of foreign operations.

## Financial Instruments

### (1) Financial assets (excluding derivatives)

#### Initial recognition

The Company initially recognizes trade receivables and other receivables on the date such receivables arise and recognizes other financial assets as of the transaction date, on which the Company becomes a party to the agreement, at the fair value plus transaction costs that are directly attributable to the acquisition. However, trade receivables that do not include significant financial components are measured at the transaction price.

#### Classification and subsequent measurement

Financial assets are classified as financial assets measured at amortized cost, debt financial assets measured at fair value through other comprehensive income, equity financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss.

#### *Financial assets measured at amortized cost*

Financial assets are subsequently measured at amortized cost using the effective interest method if both of the following conditions are met. Specifically, the amount measured at initial recognition is reduced by repayment of principal by adjusting for the accumulated amortized amount, which is calculated by the effective interest method on the differences between initially recognized amount and maturity amount. This amount is also adjusted by an allowance for doubtful accounts for related financial assets.

- (a) The financial assets are held within a business model with the objective of collecting contractual cash flows, and
- (b) The contractual terms of the financial assets provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

#### *Debt financial assets measured at fair value through other comprehensive income*

Financial assets are classified as debt financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) The financial assets are held within a business model with the objective of both collecting contractual cash flows and selling financial assets, and
- (b) The contractual terms of the financial assets provide cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

#### *Equity financial assets measured at fair value through other comprehensive income*

With regard to equity financial assets, the Company has elected to recognize changes in fair value in other comprehensive income.

The accumulated amounts of net changes in the fair value of the equity financial assets are transferred to retained earnings, not to profit or loss, when the equity financial assets are derecognized or the fair value of equity financial assets declines from the acquisition cost and its decline is deemed to be more than temporary.

Dividends on equity financial assets measured at fair value through other comprehensive income are recognized in profit or loss as finance income unless the dividend clearly represents a recovery of part of the cost of the investment.

#### *Financial assets measured at fair value through profit or loss*

Financial assets that are not classified as financial assets measured at amortized cost, debt financial assets measured at fair value through other comprehensive income, or equity financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. Subsequent changes in fair value related to financial assets measured at fair value through profit or loss are recognized in profit or loss.

#### Derecognition

Financial assets are derecognized when contractual rights to cash flows from the financial assets expire or when contractual rights to receive the cash flows are transferred, and substantially all risks and rewards of ownership of the financial assets are transferred.

#### Impairment of financial assets measured at amortized cost

The Company evaluates and recognizes an allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost at the end of each reporting period, reflecting the collection status of these financial assets, historical credit loss experience, economic trends, customers' ability to repay, collateral values, and other factors. If the credit risk on financial assets is deemed to be low at the end of the reporting period, the credit risk is deemed not to have significantly increased since the initial recognition, and an allowance for doubtful accounts is recognized for the 12-month expected credit losses. The Company considers that the credit risk on them has increased significantly since initial recognition when contractual payments are more than 30 days past due and recognizes an allowance for doubtful accounts for the lifetime expected credit losses, unless there is reasonable contradictory evidence. With regard to trade receivables, contract assets, long-term trade accounts receivable, and lease receivables, an allowance for doubtful accounts is always recognized for the lifetime expected credit losses. The provision of an allowance for doubtful accounts or reversal of a previously recognized allowance is recognized in profit or loss, and included within selling, general, and administrative expenses. The Company directly writes off the gross carrying amount of receivables when the Company has no reasonable expectation of recovering the contractual cash flows from them. The Company defines a default on financial assets as a loss of the debtor's ability to repay.

#### (2) Financial liabilities (excluding derivatives)

##### Initial recognition

The Company initially recognizes financial liabilities on the transaction date, which is when the Company becomes party to an agreement, at fair value less directly attributable transaction costs.

##### Classification and subsequent measurement

Financial liabilities are classified as financial liabilities measured at amortized cost. They are subsequently measured at amortized cost using the effective interest method. Amortization calculated using the effective interest method and gains or losses arising from derecognition are recognized in profit or loss.

##### Derecognition

Financial liabilities are derecognized when they are extinguished due to satisfaction of contractual obligations related to the financial liabilities.

#### (3) Derivatives and hedge accounting

In order to hedge foreign currency risk and interest rate risk, the Company uses derivative financial instruments, such as foreign exchange forward contracts and interest rate swap contracts. Since these derivatives do not meet the requirements for hedge accounting, hedge accounting is not applied. The Company initially recognizes these derivatives at fair value at the date the contracts are entered into and subsequently re-measures them at fair value. Changes to the fair value of these derivatives are recognized in profit or loss.

#### (4) Fair value measurements

Fair value measurements are classified into the following three levels by inputs used for measurements:

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. These are measured using the entity's own assumptions and inputs that are reasonably available or inputs many market participants use with reasonable confidence

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits withdrawable at any time, and short-term investments with a maturity of three months or less from the acquisition date that are readily convertible to cash and are subject to insignificant risk of changes in value.

#### **Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs include purchase costs, direct labor costs, other direct costs, related production overheads based on the normal capacity of the production facilities, and all expenses required to bring the inventories to the present location and condition, principally determined by the moving average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and those necessary to sell the inventories.

#### **Property, Plant, and Equipment**

Property, plant, and equipment are measured based on the cost model and are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include the costs directly attributable to the acquisition of assets; costs of dismantling, removing, and restoration of assets; and borrowing costs that meet certain criteria for capitalization.

Property, plant, and equipment, except land and construction in progress, are principally depreciated using the straight-line method based on the estimated useful lives of the assets. The estimated useful lives range from 10 to 50 years for buildings and structures, and from two to 14 years for machinery and other equipment. Estimated useful lives, the depreciation method, and residual value of the assets are reviewed at least at each fiscal year end. Any changes in the useful life, depreciation method, and residual value are accounted for prospectively as a change in estimates.

#### **Intangible Assets**

Intangible assets are measured based on the cost model and are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost less accumulated impairment losses.

Expenditures on development activities are recognized as intangible assets only if they meet all of the following requirements:

- (a) technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) the Company's intention to complete the intangible asset and use or sell it;
- (c) the Company's ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits;
- (e) the availability of adequate technical, financial, and other resources to complete development and to use or sell the intangible asset; and

- (f) the Company's ability to measure reliably the expenditures attributable to the intangible asset during its development.

Expenditures on development activities that do not meet the above conditions are expensed as incurred.

Intangible assets with definite useful lives are amortized by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are mainly five years for software for internal use and capitalized development costs. Estimated useful lives and the amortization method are reviewed at least at each fiscal year end. Any changes in the useful life and amortization method are accounted for prospectively as a change in estimates.

## **Leases**

### As lessee

The Company recognizes a right-of-use asset and a lease liability at the commencement date of lease contract.

As for short-term leases (with a lease term of 12 months or less) and leases of low-value assets, the Company does not recognize a right-of-use asset and a lease liability. Instead, the Company elects to recognize related expenses in profit or loss by using the straight-line method over the lease term.

The Company applies a cost model and measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses, and the amounts are included in property, plant, and equipment in the consolidated statement of financial position. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, any initial direct costs incurred by the lessee, and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. The Company depreciates the right-of-use assets using the straight line method from the commencement date to the shorter of the end of lease term or the end of estimated useful life of the underlying asset.

The Company measures the lease liability at the present value of the lease payments that are not paid by discounting with the lessee's incremental borrowing rate at the commencement date. At the commencement date, the lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, the exercise price of a purchase option and payments of penalties for terminating the lease term. After the commencement date, the Company recognizes a constant periodic rate of interest on the lease liability in profit or loss and measures the lease liability by reducing the carrying amount to reflect the lease payments made. Lease liabilities are included in other financial liabilities (current) and other financial liabilities (noncurrent) in the consolidated statement of financial position.

The lease term is determined as the non-cancellable period of a lease together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

After the commencement date, the Company re-measures the lease liability by discounting the revised lease payments using a revised discount rate. Re-measurement takes place when there has been either a change in the lease term or a change in the Company's assessment of an option to purchase the underlying asset.

As a practical expedient, the Company elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

### As lessor

The Company classifies a lease as a finance lease if it transfers substantially all the risks and rewards of ownership of an underlying asset. All other leases are classified as operating leases.

The Company recognizes assets held under a finance lease and present them as a receivable at an amount equal to the net investment in the lease. The Company recognizes finance income over the lease term in the consolidated statement of profit or loss based on a pattern which reflects the contractual periodic rate of return on the lessor's net investment in the lease.

## **Impairment of Nonfinancial Assets**

The carrying amounts of nonfinancial assets other than inventories and deferred tax assets are assessed to determine whether or not there is any indication of impairment at the end of each reporting period based on an individual asset or the cash-generating unit (CGU) to which an asset belongs. If such an indication exists, a recoverable amount of the asset



or CGU is estimated.

Goodwill, intangible assets with indefinite useful lives, and intangible assets that are not yet available for use are tested for impairment annually or whenever there is an indication that the asset may be impaired or circumstances change.

The recoverable amount of an individual asset or a CGU is the higher of the fair value less costs of disposal and value in use. Value in use is determined by discounting the estimated future cash flows expected to be derived from an individual asset or CGU to its present value, using a pretax discount rate that reflects the time value of money and risks specific to that individual asset or CGU.

A CGU is determined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the CGU to which the asset belongs is determined.

Since corporate assets do not generate separate cash inflows, if there are any indications that corporate assets may be impaired, they are tested for impairment based on the recoverable amount of the CGU to which the corporate assets belong.

If the recoverable amount of the asset or CGU is less than its carrying amount, the carrying amount is reduced to the recoverable amount, and the difference between the recoverable amount and the carrying amount is recognized as an impairment loss in profit or loss. An impairment loss for a CGU is allocated to the assets of the unit, pro-rated across the respective carrying amounts of each asset in the CGU.

Individual assets other than goodwill or CGUs for which impairment losses were recognized in prior periods are assessed to determine whether or not there is any indication that such impairment losses may no longer exist or may have decreased at the end of each reporting period. If such an indication exists, the recoverable amount of the asset or the CGU is estimated, and if the recoverable amount exceeds the carrying amount of the asset or CGU, the impairment loss is reversed. The amount of reversal is recognized in profit or loss to the extent of the carrying amount, net of amortization or depreciation, that would have been determined if no impairment loss had been recognized in prior periods.

### **Provisions**

Provisions are recognized when the Company has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

Provisions are measured based on the best estimate of expenditure required to settle the present obligation at the end of the reporting period. When the effect of the time value of money is material, a provision is measured at the present value of the expenditures required to settle the obligation.

### **Postemployment Benefits**

The Company has defined benefit pension plans and defined contribution pension plans as postemployment benefits for employees.

#### **(1) Defined benefit pension plans**

The Parent Company and most subsidiaries mainly located in Japan have defined benefit corporate pension plans and/or lump-sum severance indemnity plans. The net defined benefit liability and asset in the consolidated statement of financial position is measured as the difference between the present value of the defined benefit obligation and the fair value of plan assets.

If the defined benefit pension plan has a surplus, the net defined benefit asset is limited to the present value of any future economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The defined benefit obligation is determined using the projected unit credit method, and its present value is calculated by discounting future estimated cash outflows. The discount rate is determined based on market yields on high-quality corporate bonds as of the end of the reporting period, reflecting the estimated timing and amount of benefit payment.

Prior service costs resulting from plan amendments are recognized in profit or loss when the plan is amended.

Re-measurement of the net defined liability and asset is recognized in other comprehensive income when such re-measurement is made and transferred immediately to retained earnings.

(2) Defined contribution pension plans

The Parent Company and certain subsidiaries have defined contribution plans. Contributions to defined contribution plans for the period when employees render the related services are recognized as employee benefit expenses in profit or loss.

**Revenue Recognition**

(1) Revenue from contracts with customers

The Company recognizes revenue, excluding income from retail finance and finance leases, from contracts with customers based on the following five steps:

Step 1: Identify the contract(s) 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 Company engages in various fields of businesses and industries by providing products and services as described in Note 1. REPORTING ENTITY.

The Company has determined that control over the products is transferred to customers, and that the Company satisfies a performance obligation when the products are delivered to customers, considering indicators of the transfer of control, such as the transfer of significant risks and rewards of physical possession and ownership of products. Accordingly, revenue from sales of products is recognized at that point in time.

The Company has construction contracts with customers. The Company considers that its satisfaction of performance obligations under the contracts does not create an asset with an alternative use to the Company, the Company has an enforceable right to payment for performance completed to date, and it transfers the control over the assets to customers over time. Accordingly, revenue is recognized over the construction period based on its progress towards complete satisfaction of performance obligations measured at the end of the reporting period. Since the Company considers that it is possible to develop reasonable estimates of the total contract cost and to reasonably estimate the extent of progress towards complete satisfaction of performance obligations under the contracts, the Company uses the input method to measure the extent of progress towards completion based on the costs incurred relative to the total expected costs by contract.

Revenue is measured at the consideration promised in contracts with customers, less discounts, rebates depending on sales volume, and other items. Variable consideration, including discounts, rebates, and other payments, is estimated considering all the information (historical, current, and forecast) that is reasonably available to the Company, and revenue is recognized only to the extent that it is highly probable that a significant reversal of recognized revenue will not occur.

When two or more performance obligations are identified in the contract, the transaction price is primarily allocated to each of the performance obligations on a relative observable stand-alone selling price basis.

(2) Income from retail finance and finance leases

The Company provides retail finance and finance leases to end users who purchase the Company's products, such as farm equipment, etc., through dealers.

With regard to finance receivables arising from retail finance operations, interest income is recognized using the effective interest method over the contractual period and included in revenue in the consolidated statement of profit or loss.

**Income Taxes**

Income taxes, which is comprised of current taxes and deferred taxes, are recognized in profit or loss, except to the extent that they relate to business combinations or items recognized in other comprehensive income or directly in equity.

Current taxes are measured at the expected amount of income taxes payable to or recoverable from the tax authorities, using the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end

of the reporting period.

Deferred taxes are recognized based on temporary differences between the carrying amount of assets or liabilities in the consolidated statement of financial position and the tax bases of the assets or liabilities, and carryforwards of unused tax losses and tax credits.

Deferred tax assets are recognized only to the extent that it is probable that taxable profits will be available against the deductible temporary differences, unused tax losses, and unused tax credits. Deferred tax liabilities are recognized essentially for all taxable temporary differences.

However, deferred tax liabilities for taxable temporary differences related to investments in subsidiaries, associates, and joint ventures are not recognized if the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future. Deferred tax assets for deductible temporary differences related to investments in subsidiaries, associates, and joint ventures are recognized to the extent that it is probable that taxable profits will be available against which the temporary differences can be utilized, and the differences will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the assets are realized or the liabilities are settled, based on the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period.

The Company reviews the carrying amount of deferred tax assets at the end of the reporting period and does not recognize the deferred tax assets to the extent that it is no longer probable that taxable profits will be sufficient to allow the benefit of part or all of those deferred tax assets to be realized.

Deferred tax assets and deferred tax liabilities are offset, only when the Company has a legally enforceable right to offset current tax assets against current liabilities, and the same taxation authority levies income taxes either on the same taxable entity or on different taxable entity which intends either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously.

The Company reflects the effect of uncertainty in determining the related taxable profit, etc. if the Company concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

### Earnings per Share

Basic earnings per share attributable to owners of the parent are calculated based on profit attributable to common shareholders of the parent by the weighted-average number of issued common shares during the period. Diluted earnings per share attributable to owners of the parent are calculated by adjusting the effects of all dilutive potential common share.

### Accounting Standards and Interpretation Newly Issued or Amended but Not Yet Adopted

The following table presents major accounting standards and interpretations that were newly issued or amended prior to the date of approval of the consolidated financial statements but were not yet adopted by the Company as of December 31, 2021 as the standards and interpretations were not yet effective:

Standards and interpretations	Title	Effective date (from the fiscal year beginning on or after)	Scheduled adoption by the Company	Description of new or amended standards and interpretations
IFRS 17	Insurance Contracts	January 1, 2023	Year ending December 31, 2023	Establishment of consistent accounting treatment for insurance contracts

The Company is currently evaluating the impact of IFRS 17 on the consolidated financial statements and therefore is not able to estimate the impact.

#### 4. SEGMENT INFORMATION

The Company engages in various fields of business and industries by providing products and services that are categorized into the following three segments: Farm & Industrial Machinery, Water & Environment, and Other. The Farm & Industrial Machinery segment manufactures and distributes farm equipment, agricultural-related products, engines, and construction machinery. The Water & Environment segment manufactures and distributes pipe- and infrastructure-related products (ductile iron pipes, plastic pipes, valves for public sector, industrial castings, ceramics, spiral welded steel pipes, air conditioning equipment, and other products), environment-related products (environmental control plants, pumps, valves for private sector and other products). The Other segment offers a variety of services.

Financial information of the segments is utilized on a regular basis by the chief operating decision-maker in determining how to allocate the Company's resources and evaluate performance. The segments also represent the Company's organizational structure, which is principally based on the nature of products and services. The accounting policies for the reportable segments are consistent with the accounting policies used in the Company's consolidated financial statements.

Beginning with the current consolidated fiscal year, in conformity with the change in the business structure of the Company, the amounts related to "Financial services business" are reported in the "Farm & Industrial Machinery" segment, whereas they were formerly reported in the "Other" segment. In addition, in conformity with the change in the management system of the Company, certain assets previously included in "Farm & Industrial Machinery," "Water & Environment," and "Other" segments are now included in corporate assets. The information for the same period in the prior year has been retrospectively adjusted to conform to the current fiscal year's presentation. Information by reportable segment is summarized as follows:

	Farm & Industrial Machinery	Water & Environment	Other	Adjustments	Consolidated
(Unit: millions of yen)					
<b>Year ended December 31, 2021:</b>					
Revenue:					
External customers	¥ 1,864,803	¥ 305,380	¥ 26,583	¥ —	¥ 2,196,766
Intersegment	244	1,523	31,083	(32,850)	—
Total	¥ 1,865,047	¥ 306,903	¥ 57,666	¥ (32,850)	¥ 2,196,766
Operating profit	¥ 250,435	¥ 22,270	¥ 3,700	¥ (30,198)	¥ 246,207
Depreciation and amortization	54,586	7,228	4,513	5,374	71,701
Addition to noncurrent assets	109,611	11,656	5,934	20,173	147,374
<b>December 31, 2021:</b>					
Assets	¥ 3,115,567	¥ 291,059	¥ 78,490	¥ 288,394	¥ 3,773,510
Investments accounted for using the equity method	12,521	5,007	26,240	—	43,768
<b>Year ended December 31, 2020:</b>					
Revenue:					
External customers	¥ 1,509,089	¥ 315,774	¥ 28,371	¥ —	¥ 1,853,234
Intersegment	252	1,383	27,948	(29,583)	—
Total	¥ 1,509,341	¥ 317,157	¥ 56,319	¥ (29,583)	¥ 1,853,234
Operating profit	¥ 180,008	¥ 25,920	¥ 3,461	¥ (34,105)	¥ 175,284
Depreciation and amortization	50,735	7,379	4,394	4,828	67,336
Addition to noncurrent assets	78,467	9,057	6,686	16,010	110,220
<b>December 31, 2020:</b>					
Assets	¥ 2,595,496	¥ 287,919	¥ 78,752	¥ 227,150	¥ 3,189,317
Investments accounted for using the equity method	11,778	39	24,307	—	36,124

(Notes)

1. *Adjustments* include items, such as the elimination of intersegment transfers, corporate expenses, and corporate assets, which are not allocated to any particular reportable segment. The corporate expenses included in *Adjustments* amounted to ¥30,198 million and ¥34,105 million for the years ended December 31, 2021 and 2020, respectively. The corporate expenses included in *Adjustments* consist mainly of administration department expenses, basic research expenses, and foreign exchange gains or losses incurred by the Parent Company. The corporate assets included in *Adjustments* amounted to ¥317,016 million and ¥256,074 million at December 31, 2021 and 2020, respectively, which consists mainly of cash and cash equivalents, securities, and corporate properties held or used by the administration department of the Parent Company.

2. The aggregated amounts of operating profit are equal to those presented in the consolidated statement of profit or loss. Refer to the consolidated statement of profit or loss for the reconciliation of operating profit to profit before income taxes.
3. Intersegment transfers are recorded at values that approximate market prices.
4. Noncurrent assets do not include financial instruments, deferred tax assets, nor net defined benefit assets.

## Revenue from External Customers by Product Group

Information about revenue from external customers by product group is summarized as follows:

(Unit: millions of yen)			
Years ended December 31:		2021	2020
<b>Farm &amp; Industrial Machinery:</b>			
Farm equipment and engines	¥	1,474,428	¥ 1,219,168
Construction machinery		390,375	289,921
Subtotal		1,864,803	1,509,089
<b>Water &amp; Environment:</b>			
Pipe- and infrastructure-related products		184,584	193,090
Environment-related products		120,796	122,684
Subtotal		305,380	315,774
<b>Other</b>		26,583	28,371
Total	¥	2,196,766	¥ 1,853,234

(Note)

Beginning with the current consolidated fiscal year, the amounts related to “Financial services business” are reported in the “Farm & Industrial Machinery” segment, whereas they were formerly reported in the “Other” segment. The information for the same period in the prior year has been retrospectively adjusted to conform to the current fiscal year’s presentation.

## Geographic Information

Information about revenue from external customers by location is summarized as follows:

(Unit: millions of yen)			
Years ended December 31:		2021	2020
Japan	¥	602,783	¥ 595,188
North America		819,813	647,158
Europe		285,651	217,720
Asia outside Japan		406,884	334,186
Other areas		81,635	58,982
Total	¥	2,196,766	¥ 1,853,234

(Notes)

1. Revenue from North America includes that from the United States of ¥721,398 million and ¥586,705 million for the years ended December 31, 2021 and 2020, respectively.
2. There were no sales to specific customers that exceed 10% of consolidated revenue of the Company.

Information about noncurrent assets based on physical location is summarized as follows:

(Unit: millions of yen)			
December 31:		2021	2020
Japan	¥	378,632	¥ 324,173
North America		110,289	78,029
Europe		55,305	50,704
Asia outside Japan		60,940	56,545
Other areas		3,649	3,900
Total	¥	608,815	¥ 513,351

(Notes)

1. Noncurrent assets do not include financial instruments, deferred tax assets, and net defined benefit assets.
2. Noncurrent assets of North America include those in the United States of ¥92,900 million and ¥71,322 million as of December 31, 2021 and 2020, respectively.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

Cash and cash equivalents are categorized as financial assets measured at amortized cost.

(Unit: millions of yen)

December 31:		2021		2020
Cash and deposits	¥	207,681	¥	182,638
Short-term investments		50,958		40,281
Total	¥	258,639	¥	222,919

(Note)

The balance on the consolidated statement of financial position is equal to the balance on the consolidated statement of cash flows.

## 6. TRADE RECEIVABLES

Trade receivables are composed of the following:

Trade receivables are categorized as financial assets measured at amortized cost.

(Unit: millions of yen)

December 31:		2021		2020
Trade notes	¥	85,019	¥	84,470
Trade accounts receivable		492,388		510,365
Allowance for doubtful accounts		(3,058)		(2,808)
Total	¥	574,349	¥	592,027

## 7. FINANCE RECEIVABLES

Finance receivables are composed of the following:

Finance receivables are categorized as financial assets measured at amortized cost.

(Unit: millions of yen)

December 31:		2021		2020
Retail finance receivables	¥	1,083,738	¥	836,306
Finance lease receivables		347,286		312,791
Allowance for doubtful accounts		(20,671)		(24,129)
Total	¥	1,410,353	¥	1,124,968
Current assets		380,865		317,626
Noncurrent assets		1,029,488		807,342

## 8. OTHER FINANCIAL ASSETS

Other financial assets are composed of the following:

(Unit: millions of yen)				
December 31:		2021		2020
Financial assets measured at amortized cost:				
Long-term trade accounts receivable	¥	37,013	¥	37,873
Time deposits		12,054		22,063
Restricted cash*		5,651		13,177
Others		33,709		16,599
Financial assets measured at fair value through other comprehensive income:				
Debt financial assets		686		—
Equity financial assets		106,328		97,906
Financial assets measured at fair value through profit or loss:				
Debt financial assets		5,245		—
Derivatives		4,970		932
Total	¥	205,656	¥	188,550
Current assets		50,875		49,967
Noncurrent assets		154,781		138,583

(Note)

\* Deposits pledged as collateral that are restricted from withdrawal and advances received for public works that are restricted from usage.

The Company holds equity financial assets mainly for the purpose of maintaining and enhancing business relationships and has elected to classify them as equity financial assets measured at fair value through other comprehensive income. The fair value of equity financial assets by issue is as follows:

(Unit: millions of yen)				
Issue		2021		2020
December 31:				
Escorts Ltd.	¥	36,264	¥	21,938
Shin-Etsu Chemical Co., Ltd.		9,255		8,381
Daikin Industries, Ltd.		9,147		8,036
Sumitomo Mitsui Trust Holdings, Inc.		8,695		7,189
Sumitomo Mitsui Financial Group, Inc.		6,884		5,566
Osaka Gas Co., Ltd.		5,942		6,602
Toho Gas Co., Ltd.		4,216		9,831
Mitsubishi UFJ Financial Group, Inc.		3,789		2,767
Hulic Co., Ltd.		2,184		2,266
AKTIO Corporation		1,930		780
Others		18,022		24,550

The Company sold and derecognized certain equity financial assets measured at fair value through other comprehensive income following reviews on those business relationships. As of the derecognition date, the fair values and the accumulated gains or losses before income taxes, which were reclassified from other components of equity to retained earnings, were as follows:

(Unit: millions of yen)				
Years ended December 31:		2021		2020
Fair value as of derecognition	¥	4,240	¥	34,537
Accumulated gains (losses)		3,810		27,534

## 9. INVENTORIES

Inventories are composed of the following:

(Unit: millions of yen)

December 31:		2021		2020
Finished products	¥	300,041	¥	213,205
Spare parts		74,090		61,476
Work in process		61,793		50,641
Raw materials and supplies		74,141		48,676
Total	¥	510,065	¥	373,998

Inventories recognized as an expense for the years ended December 31, 2021 and 2020, were ¥1,435,255 million and ¥1,198,396 million, respectively. The write-downs of inventories recognized as an expense for the years ended December 31, 2021 and 2020, were ¥1,746 million and ¥2,197 million, respectively.

## 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Investments in and Loans Receivable from Associates and Transactions with Associates

The following table presents trade receivables (trade notes and trade accounts receivable), loans receivable, investments, and deposits received related to transactions with associates:

(Unit: millions of yen)

December 31:		2021		2020
Trade receivables	¥	18,301	¥	17,564
Loans receivable		1,550		1,650
Investments		17,501		11,790
Deposits received		6,652		2,637

Aggregate revenue from associates was ¥50,426 million and ¥47,038 million for the years ended December 31, 2021 and 2020, respectively.

There are no associates that are individually material to the Company. The Company's share of profit of associates that are not individually material was ¥902 million and ¥876 million for the years ended December 31, 2021 and 2020, respectively.

### Investments in and Loans Receivable from Joint Ventures and Transactions with Joint Ventures

The following table presents trade receivables (trade notes and trade accounts receivable), loans receivable, investments, and deposits received related to transactions with joint ventures:

(Unit: millions of yen)

December 31:		2021		2020
Trade receivables	¥	519	¥	464
Loans receivable		—		—
Investments		26,267		24,334
Deposits received		11,029		9,817

Aggregate revenue from joint ventures was ¥5,521 million and ¥5,315 million for the years ended December 31, 2021 and 2020, respectively.

There are no joint ventures that are individually material to the Company. The Company's share of profit related to joint ventures that are not individually material was ¥2,140 million and ¥1,652 million for the years ended December 31, 2021 and 2020, respectively.



## 11. PROPERTY, PLANT, AND EQUIPMENT

### Reconciliation

The following table presents reconciliation of acquisition cost, accumulated depreciation and accumulated impairment losses, and balances of the carrying amount of the Company's property, plant, and equipment:

### Acquisition Costs

(Unit: millions of yen)

	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
<b>January 1, 2020</b>	¥ 102,205	¥ 366,765	¥ 555,223	¥ 19,864	¥ 1,044,057
Acquisition	565	16,913	19,445	54,045	90,968
Sales or disposal	(580)	(6,049)	(29,653)	(44)	(36,326)
Exchange rate differences on foreign currencies	(644)	(3,017)	(5,445)	(67)	(9,173)
Transfers between accounts	2,147	7,335	29,515	(38,997)	—
Others	371	(172)	2,826	(1,611)	1,414
<b>December 31, 2020</b>	¥ 104,064	¥ 381,775	¥ 571,911	¥ 33,190	¥ 1,090,940
Acquisition	779	19,847	21,795	87,412	129,833
Sales or disposal	(186)	(8,647)	(21,636)	(2,506)	(32,975)
Exchange rate differences on foreign currencies	1,648	7,181	11,212	1,277	21,318
Transfers between accounts	1,567	24,440	33,658	(59,665)	—
Others	22	(454)	551	(343)	(224)
<b>December 31, 2021</b>	¥ 107,894	¥ 424,142	¥ 617,491	¥ 59,365	¥ 1,208,892

### Accumulated Depreciation and Accumulated Impairment Losses

(Unit: millions of yen)

	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
<b>January 1, 2020</b>	¥ 1,094	¥ 206,463	¥ 431,151	¥ —	¥ 638,708
Depreciation	304	20,254	34,948	—	55,506
Impairment losses	—	77	345	—	422
Sales or disposal	(19)	(3,259)	(24,434)	—	(27,712)
Exchange rate differences on foreign currencies	(2)	(786)	(3,684)	—	(4,472)
Others	60	224	3,532	—	3,816
<b>December 31, 2020</b>	¥ 1,437	¥ 222,973	¥ 441,858	¥ —	¥ 666,268
Depreciation	241	21,482	36,016	—	57,739
Impairment losses	—	76	604	63	743
Sales or disposal	(2)	(7,257)	(14,613)	—	(21,872)
Exchange rate differences on foreign currencies	5	1,757	6,500	—	8,262
Others	3	601	836	—	1,440
<b>December 31, 2021</b>	¥ 1,684	¥ 239,632	¥ 471,201	¥ 63	¥ 712,580

### Balances of Carrying Amount

(Unit: millions of yen)

	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
<b>January 1, 2020</b>	¥ 101,111	¥ 160,302	¥ 124,072	¥ 19,864	¥ 405,349
<b>December 31, 2020</b>	¥ 102,627	¥ 158,802	¥ 130,053	¥ 33,190	¥ 424,672
<b>December 31, 2021</b>	¥ 106,210	¥ 184,510	¥ 146,290	¥ 59,302	¥ 496,312

The depreciation expense for property, plant, and equipment is included in cost of sales as well as in selling, general, and administrative expenses in the consolidated statement of profit or loss. Impairment losses on property, plant, and equipment are included in other expenses in the consolidated statement of profit or loss.

## 12. GOODWILL AND INTANGIBLE ASSETS

The following table presents reconciliation of acquisition cost, accumulated amortization and accumulated impairment losses, and balances of carrying amount of the Company's intangible assets:

### Acquisition Costs

(Unit: millions of yen)

	Software	Intangible assets through business combination	Capitalized development costs	Other	Total
<b>January 1, 2020</b>	¥ 45,588	¥ 32,373	¥ 23,781	¥ 11,101	¥ 112,843
Acquisition	14,329	—	—	344	14,673
Internal development	2,287	—	6,814	—	9,101
Sales and disposal	(4,128)	(270)	(355)	(278)	(5,031)
Exchange rate differences on foreign currencies	(307)	(444)	259	8	(484)
Others	1,007	—	(921)	(316)	(230)
<b>December 31, 2020</b>	¥ 58,776	¥ 31,659	¥ 29,578	¥ 10,859	¥ 130,872
Acquisition	15,963	—	—	1,075	17,038
Internal development	2,188	—	7,106	—	9,294
Sales and disposal	(4,137)	—	(1,316)	(664)	(6,117)
Acquisition through business combination	—	—	—	6,914	6,914
Exchange rate differences on foreign currencies	1,083	2,106	257	875	4,321
Others	2,547	—	(70)	(1,022)	1,455
<b>December 31, 2021</b>	¥ 76,420	¥ 33,765	¥ 35,555	¥ 18,037	¥ 163,777

### Accumulated Amortization and Accumulated Impairment Losses

(Unit: millions of yen)

	Software	Intangible assets through business combination	Capitalized development costs	Other	Total
<b>January 1, 2020</b>	¥ 22,298	¥ 16,358	¥ 6,898	¥ 6,303	¥ 51,857
Amortization	5,892	1,671	3,755	512	11,830
Sales and disposal	(3,888)	(270)	(260)	(277)	(4,695)
Exchange rate differences on foreign currencies	(103)	168	150	59	274
Others	(1,075)	—	43	99	(933)
<b>December 31, 2020</b>	¥ 23,124	¥ 17,927	¥ 10,586	¥ 6,696	¥ 58,333
Amortization	6,639	1,727	4,925	671	13,962
Sales and disposal	(4,118)	—	(1,311)	(759)	(6,188)
Exchange rate differences on foreign currencies	465	956	146	371	1,938
Others	(787)	—	607	28	(152)
<b>December 31, 2021</b>	¥ 25,323	¥ 20,610	¥ 14,953	¥ 7,007	¥ 67,893

### Balances of Carrying Amount

(Unit: millions of yen)

	Software	Intangible assets through business combination	Capitalized development costs	Other	Total
<b>January 1, 2020</b>	¥ 23,290	¥ 16,015	¥ 16,883	¥ 4,798	¥ 60,986
<b>December 31, 2020</b>	¥ 35,652	¥ 13,732	¥ 18,992	¥ 4,163	¥ 72,539
<b>December 31, 2021</b>	¥ 51,097	¥ 13,155	¥ 20,602	¥ 11,030	¥ 95,884

Intangible assets acquired through business combination include items such as customer relationships, trademarks, and technology know-how.

The amortization expense for intangible assets is included in cost of sales as well as in selling, general, and administrative expenses in the consolidated statement of profit or loss.

The following table presents the expenditures relating to research and development that were expensed during the years:

(Unit: millions of yen)

Years ended December 31:		2021		2020
Amounts incurred	¥	67,469	¥	58,394
Amounts transferred to capitalized development costs		(7,106)		(6,814)
Capitalized development costs amortized		4,925		3,755
Total	¥	65,288	¥	55,335

“Others” column in the above tables includes goodwill and intangible assets with indefinite useful lives. The following table presents the carrying amount of goodwill allocated to the CGUs:

(Unit: millions of yen)

	December 31, 2021	December 31, 2020
Farm & Industrial Machinery	¥ 3,441	¥ 3,298

The recoverable amount of the CGU to which goodwill is allocated is measured using the value in use. The value in use is calculated by discounting the estimated future cash flows to present value based on a five-year business plan reflecting past performance. The estimated future cash flows for the periods over the next five years approved by management are calculated by using the market growth rate (from 2.1% to 3.0%), considering the long-term average growth rate in each country or market in which the CGU belongs. The discount rate is based on the pre-tax weighted average cost of capital on each of CGUs (from 8.3% to 9.0%).

Since the value in use is well above the carrying amount of the CGU, the Company has concluded that even if the two inputs to which value in use is most sensitive, which are growth rate and discount rate, moved within a reasonable range of values, it would not be probable that a material impairment would be recorded.

Since the initial accounting for the business combination has not been completed, the amount of goodwill and intangible assets with indefinite useful lives that have not been allocated to CGU is not material.

### 13. LEASES

#### As Lessee

The Company leases certain office space, manufacturing equipment, and employee housing under the lease contracts.

The following table presents a reconciliation of carrying amount of right-of-use assets as lessee:

The Company re-measures the lease liability when there is a change in the lease term and recognizes such amount as an adjustment to the right-of-use asset.

(Unit: millions of yen)

		Land	Buildings and structures	Machinery and equipment and others	Total
January 1, 2020	¥	3,866	¥ 31,424	¥ 9,893	¥ 45,183
Increase		318	14,172	5,695	20,185
Depreciation		(365)	(11,152)	(3,991)	(15,508)
Decrease		(17)	(2,132)	(1,036)	(3,185)
December 31, 2020	¥	3,802	¥ 32,312	¥ 10,561	¥ 46,675
Increase		660	15,965	12,097	28,722
Depreciation		(236)	(11,495)	(4,400)	(16,131)
Decrease		—	(1,050)	(1,158)	(2,208)
December 31, 2021	¥	4,226	¥ 35,732	¥ 17,100	¥ 57,058

The following table presents the amounts recognized in profit or loss:

(Unit: millions of yen)

Year ended December 31:		2021		2020
Interest expense related to lease liabilities	¥	101	¥	197
Expenses related to short-term leases		462		200
Expenses related to leases of low-value assets		1,882		1,586

Total cash outflows for leases was ¥21,541 million and ¥16,601 million for the year ended December 31, 2021 and 2020, respectively.

The Company depends on each of affiliates' own judgements when it comes to entering into lease contracts. In cases where the lessee is able to exercise an extension option without the lessor's consent, it is considered that the lessee has an extension option. In case where the lessee is able to terminate its lease contract in the middle of the contract, it is considered that the lessee has a termination option. Each of the affiliates exercises these options as necessary.

The following table presents maturity analyses for lease liabilities as of December 31, 2021 and 2020:

(Unit: millions of yen)				
<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Within 1 year	¥	16,374	¥	14,672
Between 1 and 5 years		28,266		24,182
Later than 5 years		3,296		3,771
Undiscounted lease liabilities	¥	47,936	¥	42,625
Less:				
Interest equivalent		(473)		(497)
Present value of lease liabilities	¥	47,463	¥	42,128

#### As Lessor

The Company provides finance leases to end users related to the Company's products, such as farm equipment, and others. The Company regularly monitors risks related to underlying assets and accumulates sales information in the used market in order to mitigate risks.

The following table presents finance income on the net investment in the lease.

(Unit: millions of yen)				
<b>Years ended December 31:</b>		<b>2021</b>		<b>2020</b>
Finance income on the net investment in the lease	¥	28,368	¥	24,422

The following table presents maturity analyses for lease receivables

(Unit: millions of yen)				
<b>Years ended December 31:</b>		<b>2021</b>		<b>2020</b>
Within 1 year	¥	119,123	¥	116,746
Between 1 and 2 years		102,796		88,163
Between 2 and 3 years		75,735		65,690
Between 3 and 4 years		54,981		49,495
Between 4 and 5 years		34,981		30,450
Later than 5 years		25,646		19,424
Undiscounted lease receivables	¥	413,262	¥	369,968
Less:				
Unearned finance income		(65,976)		(57,177)
Net investment in the lease	¥	347,286	¥	312,791

#### 14. BONDS AND BORROWINGS

##### Bonds and Borrowings

Bonds and borrowings are composed of the following:

(Unit: millions of yen)

December 31:	2021	2020
Short-term borrowings* <sup>1</sup>	¥ 263,242	¥ 157,900
Long-term borrowings* <sup>2</sup>	831,267	716,536
Total	¥ 1,094,509	¥ 874,436
Current liabilities	504,335	366,038
Noncurrent liabilities	590,174	508,398

(Notes)

- \*1. Short-term borrowings consist of notes payable to banks and commercial paper. The weighted-average interest rate on short-term borrowings at December 31, 2021, was 0.43%.
- \*2. Long-term borrowings include their current portions.

Long-term borrowings (including current portions) are composed of the following:

(Unit: millions of yen)

December 31:	2021	2020
<b>Long-term borrowings maturing on various dates through 2026 (1.50%):</b>		
Secured	265,945	189,075
Unsecured	565,322	527,461
Total	¥ 831,267	¥ 716,536
Current portion	241,093	208,138

(Note)

An interest rate in the parentheses is that of the weighted-average interest rate at December 31, 2021.

Bonds and borrowings are categorized as financial liabilities measured at amortized cost.

##### Assets Pledged as Collateral

The following table presents assets pledged as collateral:

(Unit: millions of yen)

December 31:	2021	2020
Trade receivables	¥ 17	¥ 187
Finance receivables (current)* <sup>1</sup>	114,140	86,278
Other financial assets (current) * <sup>2</sup>	4,011	12,981
Finance receivables (noncurrent)* <sup>1</sup>	191,908	128,827
Property, plant, and equipment	931	1,364
Total	¥ 311,007	¥ 229,637

(Notes)

- \*1. Finance receivables (current) and finance receivables (noncurrent) are pledged in accordance with the terms of securitization transactions.
- \*2. Other financial assets (current) represent restricted cash, which is pledged in accordance with the terms of borrowings.

Both short-term and long-term bank loans are made under general agreements, which provide that security and guarantees for future indebtedness will be given upon request from the bank and that the bank has the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Long-term agreements with lenders other than banks also generally provide that the Company must give additional security upon request from the lender.

## 15. TRADE PAYABLES

Trade payables are composed of the following:

Trade payable are categorized as financial liabilities measured at amortized cost.

(Unit: millions of yen)

<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Trade notes payable	¥	245,836	¥	196,520
Trade accounts payable		146,495		127,087
Total	¥	392,331	¥	323,607

## 16. OTHER FINANCIAL LIABILITIES

Other financial liabilities are composed of the following:

(Unit: millions of yen)

<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Financial liabilities measured at amortized cost:				
Lease liabilities	¥	47,463	¥	42,128
Notes and accounts payable for capital expenditures		37,072		35,184
Deposits received		27,922		22,627
Others		12,361		13,474
Financial liabilities measured at fair value through profit or loss:				
Derivatives		5,297		5,569
Total	¥	130,115	¥	118,982
Current liabilities		96,740		87,445
Noncurrent liabilities		33,375		31,537

## 17. PROVISIONS

The following table presents a reconciliation of provisions by items:

(Unit: millions of yen)

	Product warranty	Other provisions	Total
<b>January 1, 2021</b>	¥ 35,281	¥ 5,718	¥ 40,999
Additions	37,228	2,733	39,961
Utilized	(24,472)	(3,159)	(27,631)
Reversal	(1,342)	(59)	(1,401)
Others	1,874	(216)	1,658
<b>December 31, 2021</b>	¥ 48,569	¥ 5,017	¥ 53,586

The Company provides contractual product warranties under which it generally guarantees the performance of products sold according to a product specification which the Company and its customers have mutually agreed on. The cost of free repairs expected to be incurred in the future is recorded as a provision for product warranties. The provision for product warranties includes expenditures estimated based on historical costs of product warranties, as well as expenditures estimated individually for recalls and voluntary free repairs based on unit repair costs and the number of units to be repaired. The outflow of economic benefits is expected to occur generally within one year to five years.

Other provision includes provisions for loss on orders received and provisions for assets retirement obligation.

The following table presents the breakdown of provision by current and noncurrent categories:

(Unit: millions of yen)

<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Current liabilities	¥	52,208	¥	39,736
Noncurrent liabilities		1,378		1,263
Total	¥	53,586	¥	40,999

Provisions categorized as noncurrent liabilities are included in *Other noncurrent liabilities* in the consolidated statement of financial position.

## 18. EMPLOYEE BENEFITS

### Postemployment Benefits

The Parent Company and most subsidiaries mainly in Japan have defined benefit corporate pension plans and/or lump-sum severance indemnity plans covering substantially all of their employees as defined benefit pension plans. At the Parent Company and certain subsidiaries, employees who terminate their employment have the option to receive benefits in the form of a lump-sum payment or annuity payments from defined benefit pension plans. The benefits are mainly calculated based on accumulated *points* under the point-based benefits system. The *points* consist of *service period points*, which are attributed to the length of service, *job title points*, which are attributed to the job title of each employee, and *performance points*, which are attributed to the annual performance evaluation of each employee.

Defined benefit corporate pension plans are run by Kubota Pension Fund, which is a separate legal entity from the Parent Company, in compliance with laws and regulations. Such laws and regulations require the Board of Kubota Pension Fund and the pension investment organization to execute their duties in the best interest for the participants in defined benefit pension plans and to assume responsibility on the management of their plan assets in conformity with predetermined policies.

In addition, the Parent Company and certain domestic subsidiaries employ defined contribution pension plans for most of their employees.

In November 2021, the Parent Company decided to extend mandatory retirement age of some employees from 60 to 65, and to revise the defined benefit corporate pension plans and retirement allowance plans on April 1, 2022, in order to diversify employment options for employees. In addition, part of the defined benefit corporate pension plans will be terminated and the past accumulations will be transferred to a defined contribution plan.

As a result of the amendment of the plan, the defined benefit plan obligation was reduced and the same amount of past service cost was recognized in profit or loss. The prior service cost recognized in profit or loss for the year ended December 31, 2021 was ¥5,547 million while cost of sales and selling, general, and administrative expenses in the consolidated statements of profit or loss were reduced by ¥3,933 million and ¥1,614 million, respectively.

#### (1) Defined benefit liabilities or assets recognized in the consolidated statement of financial position

The following table presents net defined benefit liabilities and assets, and a status of defined benefit obligation and plan assets:

(Unit: millions of yen)				
<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Present value of defined benefit obligation	¥	232,588	¥	234,192
Fair value of plan assets		243,722		232,086
Effect of asset ceiling		6,843		2,304
Net defined pension liabilities	¥	(4,291)	¥	4,410
Amount recognized in the consolidated statement of financial position:				
Other noncurrent assets	¥	19,190	¥	11,734
Retirement benefit liabilities		14,899		16,144
Net amount recognized in the consolidated statement of financial position	¥	(4,291)	¥	4,410

#### (2) Present value of defined benefit obligation

The following table presents a reconciliation of the present value of defined benefit obligation:

(Unit: millions of yen)

<b>Years ended December 31:</b>		<b>2021</b>		<b>2020</b>
Balance at the beginning of the year	¥	234,192	¥	227,948
Service costs		10,131		11,091
Interest costs		1,771		1,493
Past service costs		(5,547)		—
Remeasurement of defined benefit obligation:				
Actuarial gains and losses arising from changes in demographic assumptions		(6)		4,406
Actuarial gains and losses arising from changes in financial assumptions		(828)		(2,226)
Others		1,662		1,351
Benefits paid (lump-sum payment)		(4,077)		(3,687)
Benefits paid (annuity payment)		(5,924)		(5,860)
Changes in scope of consolidation		—		(57)
Exchange rate differences on foreign currencies		1,214		(267)
Balance at the end of the year	¥	232,588	¥	234,192

The weighted-average duration of defined benefit obligation at December 31, 2021 and 2020, was 17 years and 16 years, respectively.

### (3) Fair value of plan assets

The following table presents a reconciliation of the fair value of plan assets:

(Unit: millions of yen)

<b>Years ended December 31:</b>		<b>2021</b>		<b>2020</b>
Balance at the beginning of the year	¥	232,086	¥	222,644
Interest income		1,874		1,689
Return from remeasurement of plan assets		11,474		8,289
Employer contributions		4,797		6,742
Benefits paid (lump-sum payment)		(1,576)		(1,384)
Benefits paid (annuity payment)		(5,924)		(5,860)
Exchange rate differences on foreign currencies		991		(34)
Balance at the end of the year	¥	243,722	¥	232,086

The Company plans to make contributions of ¥6,300 million to the defined benefit corporate pension plan for the year ending December 31, 2022.

### (4) Effect of asset ceiling

When the defined benefit plan is in surplus, the amount of defined benefit assets recorded in the consolidated statement of financial position is limited to a ceiling defined by the present value of any future economic benefits available in the form of returns from the defined benefit pension plan and reductions in future contributions to the defined benefit plan.

The following table presents a reconciliation of the effect of the asset ceiling:

(Unit: millions of yen)

<b>Years ended December 31:</b>		<b>2021</b>		<b>2020</b>
Balance at the beginning of the year	¥	2,304	¥	1,554
Interest income		88		1
Remeasurement of defined benefit pension plan:				
Changes in effect of asset ceiling		4,451		749
Balance at the end of the year	¥	6,843	¥	2,304

### (5) Actuarial assumptions

The following table presents significant actuarial assumptions used for calculating the present value of defined benefit



obligation:

<b>December 31:</b>	<b>2021</b>	<b>2020</b>
Discount rate	0.8%	0.8%

The rate of compensation increase is not used in the calculations of defined benefit obligation under the point-based benefits system.

(6) Breakdown of plan assets by item

The plan assets are composed of the following:

(Units: millions of yen)				
<b>December 31, 2021</b>	With quoted price in an active market	With no quoted price in an active market	Total	
Equity securities:				
Financial institutions (Japanese equity securities)	¥ 7,137	¥ —	¥	7,137
Other industries (Japanese equity securities)	13,371	—		13,371
Pooled funds (Japanese equity securities)	—	23,016		23,016
Pooled funds (Foreign equity securities)	—	34,139		34,139
Debt securities:				
Pooled funds (Japanese debt securities)	—	63,486		63,486
Pooled funds (Foreign debt securities)	—	51,953		51,953
Cash and short-term investments	711	2,575		3,286
General accounts of insurance companies	—	27,387		27,387
Other assets	—	19,947		19,947
<b>Total</b>	<b>¥ 21,219</b>	<b>¥ 222,503</b>	<b>¥</b>	<b>243,722</b>

(Units: millions of yen)				
<b>December 31, 2020</b>	With quoted price in an active market	With no quoted price in an active market	Total	
Equity securities:				
Financial institutions (Japanese equity securities)	¥ 5,820	¥ —	¥	5,820
Other industries (Japanese equity securities)	13,503	—		13,503
Pooled funds (Japanese equity securities)	—	26,121		26,121
Pooled funds (Foreign equity securities)	—	35,134		35,134
Debt securities:				
Pooled funds (Japanese debt securities)	—	55,309		55,309
Pooled funds (Foreign debt securities)	—	46,558		46,558
Cash and short-term investments	2,404	1,485		3,889
General accounts of insurance companies	—	28,309		28,309
Other assets	—	17,443		17,443
<b>Total</b>	<b>¥ 21,727</b>	<b>¥ 210,359</b>	<b>¥</b>	<b>232,086</b>

The Company's policy and objective for plan asset management is to maximize returns on plan assets to meet future benefit payment requirements under risks which the Company considers permissible. To mitigate any potential concentration risk, careful consideration is given to balancing the portfolio among industry sectors, companies, and geographies, taking into account interest rate sensitivity, dependence on economic growth, currency, and other factors that affect investment returns. The Company's target allocation is 35% of equity securities and foreign debt securities subject to foreign currency exchange rate risks and 65% of other investment vehicles, mainly consisting of Japanese debt securities, foreign debt securities not subject to foreign currency exchange rate risks, cash, short-term investments, and the general accounts of insurance companies.

A large portion of the plan assets is managed by trust banks and investment advisors. Those fund managers are bound by the Company's plan asset management guidelines, which are established to achieve the optimized asset compositions in terms of long-term overall plan asset management, and the fund managers' performance is measured against specific benchmarks.

To measure the performance of the plan asset management, the Company establishes benchmark return rates for each individual investment, combines these individual benchmark rates based on the asset composition ratios within

each asset category, and compares the combined rates with the corresponding actual return rates on each asset category.

(7) Sensitivity analysis of significant actuarial assumptions

The following table presents a sensitivity analysis of significant actuarial assumptions on defined benefit liabilities:

(Unit: millions of yen)

<b>December 31:</b>	<b>2021</b>	<b>2020</b>
Discount rate (0.5% increase)	¥ 12,337 (decrease)	¥ 12,935 (decrease)
Discount rate (0.5% decrease)	13,988 (increase)	14,619 (increase)

The above sensitivity analysis assumes that assumptions other than discount rate remain unchanged, and therefore the actual results may differ from the above, since other assumptions in fact would change in relation to each other.

The above sensitivity analysis was made by the same method used for calculating defined benefit obligation recognized in the consolidated statement of financial position.

(8) Defined contribution pension plans

Costs recognized for defined contribution pension plans for the years ended December 31, 2021 and 2020, were ¥4,987 million and ¥4,504 million, respectively. The above amounts include costs recognized for public pension plans.

**Employee Benefit Expenses**

Employee benefit expenses included in the consolidated statement of profit or loss were ¥344,148 million and ¥320,862 million for the years ended December 31, 2021 and 2020, respectively.

Employee benefit expenses include expenses such as salaries, bonus, welfare, and postemployment benefits for employees. Compensation for the Directors is also included in employee benefit expenses (refer Note 29. RELATED-PARTY TRANSACTIONS).

Employee benefit expenses are included in cost of sales and selling, general, and administrative expenses in the consolidated statement of profit or loss.

**19. OTHER LIABILITIES**

The following table presents the Company's other liabilities:

(Unit: millions of yen)

<b>December 31:</b>	<b>2021</b>	<b>2020</b>
Employment benefit obligation	¥ 50,377	¥ 46,791
Accrued expenses	51,075	40,028
Refund liabilities	36,323	31,999
Contract liabilities	23,402	17,810
Others	78,725	62,835
Total	¥ 239,902	¥ 199,463
Current liabilities	234,579	194,924
Noncurrent liabilities	5,323	4,539

**20. EQUITY**

**Number of Shares Authorized to Be Issued and Number of Issued Shares**

The total number of shares authorized to be issued was 1,874,700,000 shares as of December 31, 2021 and 2020. All

shares issued by the Company are common stock without par value. Issued shares have been fully paid.

The following table presents a reconciliation of the number of issued shares:

(Unit: thousands of shares)		
Years ended December 31:	2021	2020
Number of issued shares:		
Balance at the beginning of the year	1,208,577	1,220,557
Increase during the year	—	—
Decrease during the year *1	(8,330)	(12,000)
Balance at the end of the year	1,200,247	1,208,577

(Note)

\*1 The decreases in the years ended December 31, 2021 and 2020, were due to retirement of treasury shares.

The number of treasury shares included in the above number of issued shares, including those held by associates, is 339,000 shares, and 644,000 shares at December 31, 2021 and 2020, respectively.

### Share Premium and Retained Earnings

#### (1) Share premium

Share premium is composed of a surplus which is derived from equity transactions but is not recorded as share capital, and it is mainly composed of capital reserves. The Act provides that no less than 50% of the paid-in amount or proceeds of issuance of shares should be incorporated in share capital and that the remaining should be appropriated as capital reserve within share premium. Capital reserve may be appropriated as share capital with the approval of the General Meeting of Shareholders.

#### (2) Retained earnings

Retained earnings are composed of a legal reserve and other accumulated earnings. The Act provides that an amount equal to 10% of cash dividends from retained earnings should be appropriated as a capital reserve or a legal reserve until the aggregated amount of capital reserve and legal reserve equals 25% of share capital. The legal reserve may be used to compensate for deficits or may be reversed with the approval of the General Meeting of Shareholders.

### Dividends

#### (1) Dividends paid

##### Year ended December 31, 2021

Resolution	Class of shares	Dividends (millions of yen)	Dividends per common share	Record date	Effective date
Meeting of the Board of Directors on February 15, 2021	Common shares	¥ 22,957	¥ 19.00	December 31, 2020	March 22, 2021
Meeting of the Board of Directors on August 3, 2021	Common shares	¥ 25,376	¥ 21.00	June 30, 2021	September 1, 2021

##### Year ended December 31, 2020

Resolution	Class of shares	Dividends (millions of yen)	Dividends per common share	Record date	Effective date
Meeting of the Board of Directors on February 14, 2020	Common shares	¥ 23,185	¥ 19.00	December 31, 2019	March 23, 2020
Meeting of the Board of Directors on August 4, 2020	Common shares	¥ 20,668	¥ 17.00	June 30, 2020	September 1, 2020

#### (2) Dividends with the record date falling in the year ended December 31, 2021, but the effective date falling in the following year

Resolution	Class of shares	Dividends (millions of yen)	Dividends per common share	Record date	Effective date
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# Other Components of Equity

The following table presents a reconciliation of other components of equity by item:

(Unit: millions of yen)

	Remeasurement of defined benefit pension plans	Net change in fair value of financial assets measured at fair value through other comprehensive income	Exchange rate differences on translating foreign operations	Total
<b>January 1, 2020</b>	¥ —	¥ 55,007	¥ (19,158)	¥ 35,849
Total other comprehensive income, net of income tax	3,075	(57)	(34,886)	(31,868)
Transfer to retained earnings	(3,090)	(19,068)	—	(22,158)
Changes in ownership interests in subsidiaries	15	—	—	15
<b>December 31, 2020</b>	¥ —	¥ 35,882	¥ (54,044)	¥ (18,162)
Total other comprehensive income, net of income tax	4,075	12,698	77,624	94,397
Transfer to retained earnings	(4,073)	(2,645)	—	(6,718)
Changes in ownership interests in subsidiaries	(2)	—	—	(2)
<b>December 31, 2021</b>	¥ —	¥ 45,935	¥ 23,580	¥ 69,515

The following table presents the breakdown of total other comprehensive income, net of income tax, by item and related tax effects (including noncontrolling interests).

(Unit: millions of yen)

Years ended December 31:	2021			2020		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Remeasurement of defined benefit pension plans:						
Increase (decrease) during the year	¥ 5,900	¥ (1,815)	¥ 4,085	¥ 4,495	¥ (1,417)	¥ 3,078
	5,900	(1,815)	4,085	4,495	(1,417)	3,078
Net change in fair value of financial assets measured at fair value through other comprehensive income:						
Increase (decrease) during the year	15,547	(2,865)	12,682	(241)	61	(180)
	15,547	(2,865)	12,682	(241)	61	(180)
Exchange rate differences on translating foreign operations:						
Increase (decrease) during the year	80,039	(1,899)	78,140	(40,038)	1,089	(38,949)
	80,039	(1,899)	78,140	(40,038)	1,089	(38,949)
<b>Total</b>	<b>¥ 101,486</b>	<b>¥ (6,579)</b>	<b>¥ 94,907</b>	<b>¥ (35,784)</b>	<b>¥ (267)</b>	<b>¥ (36,051)</b>

The following table presents the breakdown of total other comprehensive income, net of income tax, which is included in noncontrolling interests:

(Unit: millions of yen)

<b>Years ended December 31:</b>		<b>2021</b>		<b>2020</b>
Remeasurement of defined benefit pension plans	¥	10	¥	3
Net change in fair value of financial assets measured at fair value through other comprehensive income		(16)		(123)
Exchange rate differences on translating foreign operations		516		(4,063)
Total	¥	510	¥	(4,183)

## 21. REVENUE

### Disaggregation of Revenue

The following table presents the Company's revenue recognized from contracts with customers and other sources of revenue by product group and location:

(Unit: millions of yen)

Year ended December 31, 2021	Japan	North America	Europe	Asia outside Japan	Other areas	Total
Farm equipment and engines	¥ 267,514	¥ 535,439	¥ 186,283	¥ 339,337	¥ 55,934	¥ 1,384,507
Construction machinery	40,015	214,969	96,552	21,766	17,073	390,375
<b>Farm &amp; Industrial Machinery</b>	<b>307,529</b>	<b>750,408</b>	<b>282,835</b>	<b>361,103</b>	<b>73,007</b>	<b>1,774,882</b>
Pipe- and Infrastructure-related products	157,641	7,754	1,705	12,445	5,039	184,584
Environment-related products	108,088	1,682	1,110	7,660	2,256	120,796
<b>Water &amp; Environment</b>	<b>265,729</b>	<b>9,436</b>	<b>2,815</b>	<b>20,105</b>	<b>7,295</b>	<b>305,380</b>
<b>Other</b>	<b>26,551</b>	<b>7</b>	<b>1</b>	<b>22</b>	<b>2</b>	<b>26,583</b>
Revenue recognized from:						
Contracts with customers	599,809	759,851	285,651	381,230	80,304	2,106,845
Other sources of revenue	2,974	59,962	—	25,654	1,331	89,921
<b>Total</b>	<b>¥ 602,783</b>	<b>¥ 819,813</b>	<b>¥ 285,651</b>	<b>¥ 406,884</b>	<b>¥ 81,635</b>	<b>¥ 2,196,766</b>

(Unit: millions of yen)

Year ended December 31, 2020	Japan	North America	Europe	Asia outside Japan	Other areas	Total
Farm equipment and engines	¥ 252,957	¥ 431,618	¥ 144,084	¥ 271,300	¥ 39,948	¥ 1,139,907
Construction machinery	36,809	151,028	71,382	20,352	10,350	289,921
<b>Farm &amp; Industrial Machinery</b>	<b>289,766</b>	<b>582,646</b>	<b>215,466</b>	<b>291,652</b>	<b>50,298</b>	<b>1,429,828</b>
Pipe- and Infrastructure-related products	163,885	9,707	1,647	11,943	5,908	193,090
Environment-related products	110,071	2,174	605	8,396	1,438	122,684
<b>Water &amp; Environment</b>	<b>273,956</b>	<b>11,881</b>	<b>2,252</b>	<b>20,339</b>	<b>7,346</b>	<b>315,774</b>
<b>Other</b>	<b>28,343</b>	<b>10</b>	<b>2</b>	<b>11</b>	<b>5</b>	<b>28,371</b>
Revenue recognized from:						
Contracts with customers	592,065	594,537	217,720	312,002	57,649	1,773,973
Other sources of revenue	3,123	52,621	—	22,184	1,333	79,261
<b>Total</b>	<b>¥ 595,188</b>	<b>¥ 647,158</b>	<b>¥ 217,720</b>	<b>¥ 334,186</b>	<b>¥ 58,982</b>	<b>¥ 1,853,234</b>

Revenue recognized from other sources of revenue includes revenue from retail finance calculated using effective interest rate method and revenue from finance leases. The amounts of the above revenue were ¥62,819 million and ¥57,431 million for the years ended December 31, 2021 and 2020, respectively.

The Company engages in various fields of business and industries by providing products and services which are categorized mainly into the Farm & Industrial Machinery business and the Water & Environment business.

Performance obligations for each business are as follows:

#### (1) Farm & Industrial Machinery

In the Farm & Industrial Machinery business, the Company manufactures products such as farm equipment, agricultural-related products, engines, and construction machinery in Japan and overseas countries and sells those products to the corporate dealers and individual and corporate end users in those areas. The Company has determined that performance obligations are satisfied when the products are delivered to customers, and therefore, revenue from the sale of products is recognized at that time. The Company does not adjust the promised amount of consideration for the effects of a significant financing component as a practical expedient since the customers pay for those products within one year. Revenue is measured at the consideration promised in contracts with customers less discounts, rebates depending on sales volume, and other items. The Company recognizes the consideration received from a customer as a liability when the Company expects to refund it in the future.

There are no significant obligations for returns to customers.

The Company provides product warranties to cover free replacement and/or repairs on malfunctions resulting from product defects for a certain period after the sale. The warranties generally guarantee to customers the performance of the products sold according to product specifications which the Company and its customers have mutually agreed on. The Company recognizes provisions for product warranties.

## (2) Water & Environment

In the Water & Environment business, the Company manufactures and sells pipe-related products, environment-related products, and social infrastructure-related products and constructions. The main customers are national/local government of Japan and corporation in/outside of Japan. The Company has determined that performance obligations are satisfied when the products are delivered to customers, and therefore, revenue from the sale of products is recognized at that time. For construction contracts, revenue is recognized over a construction period since a performance obligation is satisfied in accordance with the progress of construction. The Company uses the input method which is based on the costs incurred relative to the total expected costs of individual contracts, as the method to measure the extent of progress towards completion. The Company does not adjust the promised amount of consideration for the effects of a significant financing component as a practical expedient since the customers pay for those products within one year. Revenue is measured at the consideration promised in a contract with customers, less discounts, rebates depending on sales volume, and other items. The Company recognizes the consideration received from a customer as a liability when the Company expects to refund it in the future.

There are no significant obligations for return to customers.

The Company provides product warranties to cover free replacements and/or repairs on defects found for a certain period after the sale. The warranties generally guarantee to customers the performance of the products sold according to product specifications or services rendered according to an intention of service, which the Company and its customers have mutually agreed on. The Company recognizes provisions for product warranties.

## Contract Balances

The following table presents the balances of receivables, contract assets, and contract liabilities from contracts with customers:

(Unit: millions of yen)				
<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Receivables	¥	611,119	¥	629,598
Contract assets		24,707		32,091
Contract liabilities		23,402		17,810

Receivables arising from contracts with customers are composed of trade notes and long-term trade accounts receivable, which are included in other financial assets—noncurrent in the consolidated statement of financial position.

Contract assets are the Company's rights to consideration, excluding any amounts presented as a receivable, in exchange for services rendered under the construction contracts in the Water & Environment business, in which revenue is recognized over time by measuring the progress toward complete satisfaction. Contract assets are included in other current assets in the consolidated statement of financial position and reclassified into receivables at the time when the Company's right to consideration becomes an unconditional right to payment before its payment due date.

Contract liabilities include accounts such as advances from customers.

The following table presents the significant changes in the balances of contract assets and contract liabilities:

	<b>2021</b>		<b>2020</b>	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
<b>Years ended December 31:</b>				
Increase by revenue recognition	¥ 65,967	¥ —	¥ 76,443	¥ —
Decrease by transfer to receivables	(71,870)	—	(89,288)	—
Increase by receipt of cash	—	112,855	—	101,697
Decrease by recognition of revenue	—	(105,936)	—	(98,450)

The amounts of revenue recognized during the reporting period, which were included in the beginning balance of contract liabilities, were ¥7,481 million and ¥10,006 million for the years ended December 31, 2021 and 2020, respectively.

The amounts of revenue recognized from performance obligations which had been satisfied or partially satisfied in

the past were not material for the years ended December 31, 2021 and 2020.

#### Transaction Price Allocated to Remaining Performance Obligation

The aggregate amount of the transaction price allocated to the performance obligations that were unsatisfied (or partially unsatisfied) were ¥146,832 million and ¥121,216 million for the years ended December 31, 2021 and 2020, respectively. These performance obligations are related to construction contracts in the Water & Environment business and are deemed to be recognized as revenue within approximately five years, in accordance with the progress of construction.

As a practical expedient, the above amount does not include a transaction price allocated to the performance obligation of a contract where that performance obligation has an original expected duration of one year or less.

There was no significant consideration from contracts with customers which was not included in the transaction price.

## 22. OTHER INCOME AND OTHER EXPENSES

Other income and other expenses are composed of the following:

(Unit: millions of yen)				
Years ended December 31:		2021		2020
Other income:				
Foreign exchange gains	¥	7,266	¥	—
Royalty income		1,019		1,041
Profit from disposal of property, plant, and equipment and intangible assets		272		2,704
Insurance proceeds		915		1,411
Other		1,166		1,794
Total	¥	10,638	¥	6,950
Other expense:				
Foreign exchange losses	¥	—	¥	(4,265)
Loss from disposal of property, plant, and equipment and intangible assets		(3,465)		(2,376)
Loss resulting from disaster		(329)		(2,826)
Other		(1,994)		(957)
Total	¥	(5,788)	¥	(10,424)

## 23. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs are composed of the following:

(Unit: millions of yen)				
Years ended December 31:		2021		2020
Finance income:				
Interest income:				
Financial assets measured at amortized cost	¥	2,420	¥	4,037
Dividend income:				
Equity financial assets measured at fair value through other comprehensive income		2,234		2,414
Other		4,687		5,843
Total	¥	9,341	¥	12,294
Finance costs:				
Interest expenses:				
Financial liabilities measured at amortized cost	¥	(992)	¥	(1,039)
Other		(1,997)		(640)
Total	¥	(2,989)	¥	(1,679)

Dividend income from which equity financial assets were derecognized during the reporting period was not material.



## 24. INCOME TAXES

### Income Tax Expenses

Income tax expenses are composed of the following:

(Unit: millions of yen)				
Years ended December 31:	2021		2020	
Current tax expenses:				
Tax expenses recognized for the current taxable income	¥	72,932	¥	41,305
Subtotal		72,932		41,305
Deferred tax expenses:				
Temporary differences originated and reversed		(7,980)		5,285
Changes in realizability of deferred tax assets		(83)		437
Subtotal		(8,063)		5,722
Total	¥	64,869	¥	47,027

The Parent Company and domestic affiliates are subject to the Japanese corporate tax, an inhabitant tax, and business tax. The aggregated combined statutory income tax rates for the years ended December 31, 2021 and 2020, were both 30.6 %. Subsidiaries located in foreign countries are subject to those local taxes.

A reconciliation of the Japanese statutory tax rates and the average effective tax rates is as follows:

Years ended December 31:	2021	2020
Japanese statutory tax rates applied to profit before income taxes	30.6%	30.6%
Increase (decrease) in taxes resulting from:		
Changes in realizability of deferred tax assets	0.0	0.0
Permanently nondeductible expenses	0.2	0.4
Tax effect on unremitted earnings of foreign affiliates	0.7	1.4
Extra tax deduction on expenses for research and development	(2.9)	(2.7)
Difference in statutory tax rates of foreign subsidiaries	(3.2)	(4.7)
Other—net	0.3	0.3
Effective income tax rates applied to profit before income taxes	25.7%	25.3%

### Deferred Tax Assets and Deferred Tax Liabilities

The significant components of deferred tax assets and liabilities are as follows:

(Unit: millions of yen)				
December 31:	2021		2020	
<b>Deferred tax assets:</b>				
Allowance for doubtful accounts	¥	5,219	¥	5,792
Intercompany profits		19,384		11,180
Financial assets measured at fair value through other comprehensive income		2,850		2,866
Write-downs of inventories; property, plant, and equipment; and intangible assets		2,474		2,657
Depreciation and amortization		5,267		4,939
Accrued bonuses		4,547		4,094
Retirement benefit liabilities		5,059		8,058
Refund liabilities		4,290		5,141
Accrued expenses		3,048		2,983
Product warranty		11,140		8,925
Tax loss and credit carryforwards		1,382		1,756
Other temporary differences		23,235		18,977
Gross deferred tax assets		87,895		77,368
<b>Deferred tax liabilities:</b>				
Financial assets measured at fair value through other comprehensive income		19,706		17,878
Unremitted earnings of foreign affiliates		35,307		31,691
Other temporary differences		13,486		12,246
Gross deferred tax liabilities		68,499		61,815
<b>Net deferred tax assets</b>	¥	19,396	¥	15,553

The following table presents a reconciliation of deferred tax assets—net:

(Unit: millions of yen)

<b>Years ended December 31:</b>		<b>2021</b>		<b>2020</b>
Balance as of the beginning of the year	¥	15,553	¥	14,000
Amounts recognized through profit or loss:				
Elimination of intercompany profit included in assets		8,225		1,313
Depreciation and amortization		(1,662)		(1,370)
Refund liabilities		(851)		(1,925)
Accrued expenses		65		(1,595)
Unremitted earnings of foreign affiliates		(3,616)		(1,514)
Provisions for product warranties		2,215		2,318
Other		4,585		(2,416)
Subtotal		8,961		(5,189)
Amounts recognized through other comprehensive income:				
Net change in fair value of financial assets measured at fair value through other comprehensive income		(2,865)		61
Re-measurement of defined benefit pension plans		(1,815)		(1,417)
Other		(1,899)		1,089
Subtotal		(6,579)		(267)
Other changes		1,461		7,009
Balance as of the end of the year	¥	19,396	¥	15,553

(Note)

The difference between amounts recognized through profit or loss and income taxes—deferred is due to fluctuation of exchange rate changes.

The following table presents deductible temporary differences, carryforward of unused tax losses, and carryforward of unused tax credit for which deferred tax assets are not recognized:

(Unit: millions of yen)

<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Deductible temporary differences	¥	3,313	¥	2,350
Carryforward of unused tax losses		21,064		19,169
Carryforward of unused tax credit		—		—

Carryforward of unused tax losses for which deferred tax assets are not recognized will expire as follows:

(Unit: millions of yen)

<b>December 31:</b>		<b>2021</b>		<b>2020</b>
Within 1 year	¥	594	¥	734
Between 1 and 5 years		1,340		943
Later than 5 years		2,642		1,842
Indefinite years		16,488		15,650
Total	¥	21,064	¥	19,169

The aggregate amounts of temporary differences relating to investments in associates for which deferred tax liabilities are not recognized were ¥20,884 million and ¥8,643 million at December 31, 2021 and 2020, respectively. The above deferred tax liabilities are not recognized since it is possible for the Company to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in foreseeable periods.

The Company reflects the effect of uncertainty in determining the related taxable profit, etc., if the Company concludes it is not probable that the taxation authority will accept an uncertain tax treatment. The amounts of such effect were not material at December 31, 2021 and 2020.

## 25. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The Company adopted a restricted stock compensation plan (the “Plan”) for the Company’s Directors. Among the new shares granted under the Plan, contingently returnable shares are distinguished as participating equity instruments from common shares.

Each common share and participating equity instrument have the same right to profit attributable to owners of the parent.

The numerator and denominator used to calculate basic earnings per share attributable to owners of the parent are presented in the following table.

Years ended December 31:	2021	2020
	(Unit: millions of yen)	
Profit attributable to owners of the parent	¥ 175,637	¥ 128,524
Profit attributable to participating equity instruments	5	4
Profit attributable to common shareholders	¥ 175,632	¥ 128,520
	(Unit: thousands of shares)	
Weighted-average number of common shares issued	1,206,967	1,214,215
Weighted-average number of participating equity instruments	37	41
Weighted-average number of common shares outstanding	1,206,930	1,214,174

Earnings per share attributable to owners of the parent—Diluted for the years ended December 31, 2021 and 2020 are not stated because Kubota Corporation did not have potentially dilutive common shares that were outstanding during those years.

## 26. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in Liabilities Arising from Financing Activities

The following table presents the reconciliation of liabilities arising from financing activities:

(Unit: millions of yen)

	Short-term borrowings	Long-term borrowings*	Bonds	Lease liabilities	Total
<b>January 1, 2020</b>	¥ 180,479	¥ 702,506	¥ 19,996	¥ 40,811	¥ 943,792
Changes arising from cash flows	(25,629)	58,133	(20,000)	(14,618)	(2,114)
Non-cash changes:	(9,117)	(31,936)	4	15,935	(25,114)
Exchange rate differences on foreign currencies	(8,364)	(31,936)	—	47	(40,253)
Other	(753)	—	4	15,888	15,139
<b>December 31, 2020</b>	¥ 145,733	¥ 728,703	¥ —	¥ 42,128	¥ 916,564
Changes arising from cash flows	96,282	52,954	—	(19,096)	130,140
Non-cash changes:	13,610	57,227	—	24,431	95,268
Exchange rate differences on foreign currencies	13,610	57,227	—	273	71,110
Other	—	—	—	24,158	24,158
<b>December 31, 2021</b>	¥ 255,625	¥ 838,884	¥ —	¥ 47,463	¥ 1,141,972

(Note)

Borrowings with a term of more than three months are classified as long-term borrowings.

### Non-cash Transaction

Non-cash transaction is composed of the following:

(Unit: millions of yen)

Years ended December 31:	2021	2020
Retirement of treasury shares	¥ 20,321	¥ 19,854
Acquisition of assets by means of a lease	¥ 28,722	¥ 20,224

## 27. FINANCIAL INSTRUMENTS

### Capital Management

The Company considers equity attributable to owners of the parent to be its own capital within equity.

The Company puts the highest priority on stable and sustainable enhancement of corporate value. In order to enhance sustainable growth of corporate value, the Company has established basic capital policies to make full use of its capital for further enhancement in profitability, to ensure adequate financing and liquidity for its expansion of business, and to realize greater profit distribution to its shareholders.

Based on the above basic policies, the Company decides on how to allocate its retained earnings, whilst giving consideration to the maintenance of sound business operations, accommodating the future business environment and delivering stable, increasing dividends to return profits to shareholders.

There are no significant restrictions subject to the Company's capital except for those generally stipulated in the Act etc.

### Credit Risk

The Company is exposed to the credit risk of its customers regarding its trade receivables, contract assets, long-term trade accounts receivable, and finance receivables in cases where customers become unable to satisfy their debt obligations.

With regard to trade receivables and contract assets, the Company determines a maximum credit limit of its customers individually, considering the customer's credit rating, details of transactions, and financial conditions, and monitors them on a regular basis in order to mitigate the credit risk. The Company obtains guarantee deposits, collaterals, and bank guarantees, if necessary. With regard to finance receivables and long-term trade accounts receivable, the Company performs credit research on its customers by referring to information for internal use and external credit reporting services at the time of entering into contracts with them. After the commencement of transactions, the Company manages and monitors due dates and performs collection activities, including reminders through calls, emails, and letters; visits to customers; and repossessions of products sold or leased, depending on the number of day past-due dates.

The carrying amount of these financial assets, net of impairment losses, stated in the consolidated statement of financial position is the Company's maximum exposures of credit risk on financial assets.

These receivables arise from sales of the Company's products to a large number of dealers and to retail end users. The Company considers there to be no credit risk due to specific dealers or customers with significant transaction volumes.

The Company is exposed to the credit risk of issuers of financial assets, which are held by the Company to invest excess funds, and derivatives, which are utilized by the Company to mitigate foreign currency risk.

To prevent these credit risks, the Company raises funds mainly through bonds with low risk and conducts transactions only with financial institutions with high credit ratings.

(1) Measurement of credit risk on trade receivables, contract assets, long-term trade accounts receivable

Long-term trade accounts receivable are generated mainly from direct sales to individual end users in the farm equipment market in Japan.

The Company always measures an allowance for doubtful accounts for trade receivables, contract assets, and long-term trade accounts receivable at an amount equal to the lifetime expected credit losses. The Company measures the expected credit losses on these financial assets in a group with similar risk characteristics considering historical credit loss experience, current conditions and forecasts of future economic conditions. The Company also measures the expected credit losses on credit-impaired financial assets individually. The Company determines whether they are credit-impaired based on observable events, such as significant financial difficulty of the debtor, long-term past due, bankruptcy, or other financial reorganization of the debtor. Expected credit losses on contract assets are not material.

The following table presents balances of carrying amounts of trade receivables and long-term trade accounts receivable (before an allowance for doubtful accounts) by risk classification:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
<b>December 31:</b>			
<b>2020</b>	¥ 629,893	¥ 3,166	¥ 633,059
<b>2021</b>	¥ 612,020	¥ 2,773	¥ 614,793

The following table presents reconciliation of an allowance for doubtful accounts for the above receivables:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
<b>January 1, 2020</b>	¥ 2,104	¥ 1,103	¥ 3,207
Remeasurement	235	165	400
Collection	(27)	—	(27)
Write-off	(54)	(54)	(108)
Other	11	(22)	(11)
<b>December 31, 2020</b>	¥ 2,269	¥ 1,192	¥ 3,461
Remeasurement	265	(38)	227
Collection	(9)	—	(9)
Write-off	(106)	(3)	(109)
Other	56	48	104
<b>December 31, 2021</b>	¥ 2,475	¥ 1,199	¥ 3,674

(2) Measurement of credit risk on lease receivables

The Company provides finance leases mainly in Thailand. These lease receivables relate to the Company's products, such as farm equipment, etc., leased to individual and corporate end users. These lease receivables are recorded at the aggregate of minimum lease payments receivable plus the estimated residual value of the leased property, less unearned finance income and an allowance for doubtful accounts.

The Company always measures an allowance for doubtful accounts for lease receivables at an amount equal to the lifetime expected credit losses. The Company measures the expected credit losses on lease receivables in a group mainly based on locations and past due days, considering historical credit loss experience, current status and projected future economic conditions. The Company also measures the expected credit losses on credit-impaired financial assets individually. The Company determines whether lease receivables are credit-impaired based on observable events, such as long-term past due and the debtor's bankruptcy, etc. The Company does not regard past due lease receivables as credit-impaired financial assets when the Company determines that the past due resulted from a temporary shortage in funds of the debtor, the risk of default is considered low, and the debtor has a strong capacity to meet its contractual cash flow obligation in the near term. The Company held ¥4,467 million and ¥4,294 million of its products as of December 31, 2021 and 2020, respectively, for credit enhancements on credit-impaired financial assets.

The following table presents balances of carrying amounts of lease receivables (before an allowance for doubtful accounts) by risk classification:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
<b>December 31:</b>			
<b>2020</b>	¥ 295,089	¥ 17,702	¥ 312,791
<b>2021</b>	¥ 332,754	¥ 14,532	¥ 347,286

The following table presents an aging analysis of past due lease receivables:

(Unit: millions of yen)

	Within 30 days past due	From 31 to 60 days past due	From 61 to 90 days past due	Longer than 90 days past due	Total past due	Current	Total
<b>December 31:</b>							
<b>2020</b>	¥ 18,781	¥ 5,157	¥ 3,082	¥ 9,141	¥ 36,161	¥ 276,630	¥ 312,791
<b>2021</b>	¥ 19,412	¥ 4,713	¥ 2,403	¥ 9,691	¥ 36,219	¥ 311,067	¥ 347,286

The following table presents a reconciliation of the allowance for doubtful accounts for the above receivables:

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
<b>January 1, 2020</b>	¥ 8,594	¥ 13,648	¥ 22,242
Remeasurement	(297)	3,139	2,842
Collection	—	(1,706)	(1,706)
Write-off	(102)	(2,916)	(3,018)
Other	(30)	33	3
<b>December 31, 2020</b>	¥ 8,165	¥ 12,198	¥ 20,363
Remeasurement	(816)	4,720	3,904
Collection	—	(1,179)	(1,179)
Write-off	(65)	(7,275)	(7,340)
Other	(1)	814	813
<b>December 31, 2021</b>	¥ 7,283	¥ 9,278	¥ 16,561

### (3) Measurement of credit risk of retail finance receivables

The Company provides retail finance to customers who purchase the Company's products, such as farm equipment, etc., from dealers mainly in North America. Retail finance receivables are purchased under agreements between the Company and dealers in relation to the products offered to individual and corporate end users. These receivables are recorded at amortized cost, less any allowance for credit losses.

The Company measures an allowance for doubtful accounts for retail finance receivables at an amount equal to 12-month expected credit losses when the credit risk on these receivables at the end of the reporting period has not significantly increased since initial recognition, and at an amount equal to life-time expected credit losses when the credit risk on these receivables at the end of the reporting period has significantly increased since initial recognition.

When the credit risk on these receivables at the end of the reporting period has not increased significantly since initial recognition, the Company measures the 12-month expected credit losses in a group mainly based on past due days considering historical credit loss experience, current conditions, and forecasts of future economic conditions.

When the credit risk has increased significantly since initial recognition, the Company measures an allowance for doubtful accounts for retail finance receivables at an amount equal to the lifetime expected credit losses considering historical credit loss experience, current conditions, forecasts of future economic conditions, and recoverable amounts from repossession of products sold. The Company determines whether retail finance receivables are credit-impaired financial assets mainly based on past due information over a certain period and objective evidence, such as the debtor's bankruptcy. The Company held ¥1,379 million and ¥1,050 million of its products as of December 31, 2021 and 2020, respectively, for credit enhancements on credit-impaired financial assets.

The following table presents balances of carrying amounts of retail finance receivables (before an allowance for doubtful accounts) by risk classification:

(Unit: millions of yen)								
	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses		Financial assets for which an allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses					
			Financial assets on which credit risk increased significantly since initial recognition, but that are not credit-impaired	Credit-impaired financial assets		Total		
December 31:								
2020	¥	832,401	¥	1,947	¥	1,958	¥	836,306
2021	¥	1,079,366	¥	2,646	¥	1,726	¥	1,083,738

The following table presents an aging analysis of past due retail finance receivables as of December 31, 2021 and 2020:

(Unit: millions of yen)

	Within 30 days past due	From 31 to 60 days past due	From 61 to 90 days past due	Longer than 90 days past due	Total past due	Current	Total
<b>December 31:</b>							
<b>2020</b>	¥ 46,505	¥ 4,211	¥ 1,411	¥ 1,233	¥ 53,360	¥ 782,946	¥ 836,306
<b>2021</b>	¥ 49,848	¥ 5,511	¥ 1,512	¥ 1,567	¥ 58,438	¥ 1,025,300	¥1,083,738

The following table presents a reconciliation of an allowance for doubtful accounts for the above receivables:

(Unit: millions of yen)

(Unit: millions of yen)

	Financial assets for which an allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses		Financial assets for which an allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses					
			Financial assets on which credit risk increased significantly since initial recognition, but that are not credit-impaired		Credit-impaired financial assets	Total		
January 1, 2020	¥	1,790	¥	417	¥	264	¥	2,471
Remeasurement		1,335		306		1,792		3,433
Write-off		(44)		(1)		(1,883)		(1,928)
Other		(272)		(31)		93		(210)
December 31, 2020	¥	2,809	¥	691	¥	266	¥	3,766
Remeasurement		(14)		99		1,619		1,704
Write-off		(58)		(8)		(1,759)		(1,825)
Other		227		78		160		465
December 31, 2021	¥	2,964	¥	860	¥	286	¥	4,110

### Liquidity Risk

The Company is exposed to liquidity risk that the Company may have difficulties in satisfying payment obligations. The Company manages liquidity risk by maintaining retained earnings at an appropriate level and monitoring cash flow plans and actual results.

The following table presents financial liabilities by due date:

(Unit: millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
<b>December 31, 2021:</b>					
Trade payables	¥ 392,331	¥ 392,331	¥ 392,331	¥ —	¥ —
Other financial liabilities	124,818	125,291	92,164	29,831	3,296
Bonds and borrowings	1,094,509	1,113,345	514,210	599,135	—
Derivative liabilities	5,297	5,297	4,716	581	—

(Unit: millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
<b>December 31, 2020:</b>					
Trade payables	¥ 323,607	¥ 323,607	¥ 323,607	¥ —	¥ —
Other financial liabilities	113,413	113,910	84,168	25,971	3,771
Bonds and borrowings	874,436	896,203	377,329	518,874	—
Derivative liabilities	5,569	5,569	3,402	2,167	—

### Market Risk

#### (1) Foreign currency exchange rate risks

The Company's exposure to foreign currency risk relates primarily to assets and liabilities denominated in foreign currencies associated with international operations. The Company enters into forward foreign exchange contracts, cross-currency swap contracts, and cross-currency interest rate swap contracts, which are designated to mitigate its exposure to foreign currency exchange rate risk.

For financial instruments denominated in foreign currencies held by the Company as of each reporting date, if the Japanese yen appreciates by 1% against the currencies in the following table, impacts to profit before income taxes in the consolidated statement of profit or loss are stated in the table below.

The table below does not include impacts of translating financial instruments denominated in Japanese yen and assets, liabilities, income, and expenses of foreign operations into Japanese yen. In addition, currencies other than those stated in the following table are assumed to remain unchanged.



(Unit: millions of yen)

December 31:		2021		2020
US dollar	¥	(693)	¥	(587)
Euro		(382)		(132)
Thai baht		(111)		33
Chinese yuan		(26)		(106)

## (2) Interest rate risk

The Company is exposed to interest rate risk mainly inherent in its debt obligations with both fixed and variable rates. In order to hedge interest rate risk, the Company enters into interest rate swap contracts and cross-currency interest rate swap contracts to manage the risk of interest rate exposures, and therefore, the exposure to interest rate risk is not material to the Company's cash flows.

**Derivative and Hedge Accounting**

As stated in Note 3. SIGNIFICANT ACCOUNTING POLICIES, Financial Instruments, (3) Derivatives and hedge accounting, hedge accounting was not applied to derivatives.

**Fair Value of Financial Instruments**

## (1) Financial instruments measured at fair value

The following table presents fair values of financial instruments measured at fair value:

(Unit: millions of yen)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets measured at fair value through other comprehensive income:				
Debt financial assets	686	—	—	686
Equity financial assets	101,555	—	4,773	106,328
Financial assets measured at fair value through profit or loss:				
Debt financial assets	—	—	5,245	5,245
Derivatives:				
Foreign exchange contracts	—	4,114	—	4,114
Interest swap contracts	—	10	—	10
Cross-currency interest rate swap contracts	—	846	—	846
Total	¥ 102,241	¥ 4,970	¥ 10,018	¥ 117,229
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 2,598	¥ —	¥ 2,598
Stock forward contracts	—	1,325	—	1,325
Interest swap contracts	—	809	—	809
Cross-currency interest rate swap contracts	—	565	—	565
Total	¥ —	¥ 5,297	¥ —	¥ 5,297

(Unit: millions of yen)

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets measured at fair value through other comprehensive income:				
Equity financial assets	92,124	—	5,782	97,906
Financial assets measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	—	817	—	817
Cross-currency interest rate swap contracts	—	115	—	115
<b>Total</b>	<b>¥ 92,124</b>	<b>¥ 932</b>	<b>¥ 5,782</b>	<b>¥ 98,838</b>
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 873	¥ —	¥ 873
Interest swap contracts	—	1,803	—	1,803
Cross-currency interest rate swap contracts	—	2,893	—	2,893
<b>Total</b>	<b>¥ —</b>	<b>¥ 5,569</b>	<b>¥ —</b>	<b>¥ 5,569</b>

Debt financial assets and equity financial assets classified in Level 1 are measured at fair value using quoted prices for identical assets in active markets.

Derivatives are classified in Level 2 since they are measured at fair value using observable market inputs obtained from major international financial institutions.

Equity financial assets and debt financial assets classified in Level 3 are unlisted equity securities and measured at fair value using methods such as the comparable company comparison method with the earnings before interest and tax ("EBIT") ratio (from 4.7 to 15.2), etc. As the EBIT ratio increases (decreases), the fair values on those equity financial assets increase (decrease).

Transfers between levels are recognized at the end of the reporting periods when such transfers occur. There were no significant transfers of financial instruments between the levels for the year ended December 31, 2021.

The following table presents reconciliation of financial instruments classified in Level 3:

(Unit: millions of yen)

<b>Years ended December 31:</b>	<b>2021</b>	<b>2020</b>
Balance as of the beginning of the year	¥ 5,782	¥ 2,632
Gains or losses		
Profit or loss *1	426	—
Other comprehensive income *2	1,206	860
Purchases	2,621	2,424
Sales	(17)	(134)
Balance as of the end of the year	¥ 10,018	¥ 5,782

(Note)

\*1 Gains or losses are recognized as *finance income or finance costs* in the Consolidated Statement of Profit or Loss. Of the total gain or loss, the amount related to financial instruments held at December 31, 2021 was ¥699 million.

\*2 Gains or losses are recognized as *Net change in fair value of financial assets measured at fair value through other comprehensive income* in the Consolidated Statement of Comprehensive Income.

(2) Financial instruments measured at amortized cost

The following table summarizes the carrying amount and fair value of financial instruments measured at amortized cost:

(Unit: millions of yen)

December 31:	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Finance receivables:				
Retail finance receivables	¥	¥	¥ 832,540	¥ 840,907
Finance lease receivables	330,725	387,669	292,428	345,581
Long-term trade accounts receivable	67,429	71,853	70,767	75,464
Bonds and borrowings			874,436	883,983

The fair value of finance receivables, long-term trade accounts receivable, and bonds and borrowings is stated at the present value of future cash flows discounted by the current market rate and classified as Level 2. Long-term trade accounts receivable in the above table includes the current portion, which is included in trade receivables in the consolidated statement of financial position.

The carrying amounts of cash and cash equivalents, trade receivables (excluding the current portion of long-term trade accounts receivable), other financial assets (excluding debt financial assets measured at fair value, equity financial assets, and derivatives), trade payables, and other financial liabilities (excluding derivatives) approximate their fair values due to their short-term maturity.

### Offsetting Financial Assets and Liabilities

The amount of financial assets and liabilities not offset but subject to enforceable master netting agreements or similar agreements because they do not satisfy part or all of requirements for offsetting of financial assets and financial liabilities was not material.

## 28. MAJOR SUBSIDIARIES

### Major Subsidiaries

The Company's major subsidiaries as of December 31, 2021 are as follows:

Company name	Location	Principal business activities	Ownership percentage of voting rights (%)
Kubota Tractor Corporation	Texas, USA	Sales of tractors, outdoor power equipment, construction machinery, and implements	(100) 100
Kubota Credit Corporation U.S.A.	Texas, USA	Retail financing to purchasers of tractors, outdoor power equipment, construction machinery, and implements	(90) 100
SIAM KUBOTA Corporation Co., Ltd.	Pathumthani, Thailand	Manufacturing and sales of tractors, combine harvesters, implements, and horizontal type diesel engines, and sales of construction machinery	60
Siam Kubota Leasing Co., Ltd.	Pathumthani, Thailand	Retail financing to purchasers of tractors and combine harvesters, etc.	(100) 100

(Note)

Figures in parentheses indicate indirect holdings.

### Subsidiary with Material Noncontrolling Interests

The condensed financial statements of the subsidiary with material noncontrolling interests, SIAM KUBOTA Corporation Co., Ltd., located in Thailand were as follows:

(Unit: millions of yen)

December 31:	2021	2020
Shareholding ratio of noncontrolling interests	40.0%	40.0%

(Unit: millions of yen)

December 31:	2021	2020
Current assets	¥ 126,870	¥ 108,378
Noncurrent assets	63,942	62,632
Current liabilities	50,734	35,942
Noncurrent liabilities	3,007	2,917
Equity	137,071	132,151
Cumulative amount of noncontrolling interests	53,854	55,460

(Unit: millions of yen)

Years ended December 31:	2021	2020
Revenue	¥ 221,852	¥ 169,105
Profit for the year	21,470	18,334
Comprehensive income for the year	21,470	18,334
Profit attributable to noncontrolling interests	8,539	7,209
Dividends paid to noncontrolling interests	6,478	4,436

### 29. RELATED-PARTY TRANSACTIONS

The aggregate compensation paid by the Parent Company for the year ended December 31, 2021, to the Directors, including the Outside Directors, was as follows:

(Unit: millions of yen)

Years ended December 31:	2021	2020
Remunerations and bonuses	¥ 699	¥ 758
Restricted stock compensation	103	108
Total	¥ 802	¥ 866

### 30. COMMITMENTS AND CONTINGENT LIABILITIES

#### Commitments

Commitments for acquisition of property, plant, and equipment were ¥66,764 million and ¥72,758 million at December 31, 2021 and 2020, respectively. Commitments for acquisition of intangible assets were ¥837 million and ¥2,089 million at December 31, 2021 and 2020, respectively.

Commitments for acquisition of property, plant, and equipment at December 31, 2021 and 2020, were primarily in respect of building a new R&D hub.

#### Guarantees

The Company is contingently liable as guarantor of the indebtedness of distributors, including associates and customers, for their borrowings from financial institutions. These guarantees obligate the Company to make payments in the event of default by the distributor, including associates and customers. The term of these guarantees are from one to four years. The maximum potential amounts of undiscounted future payments of these financial guarantees were ¥3,539 million and ¥3,442 million at December 31, 2021 and 2020, respectively. The fair values of these financial guarantees were not material, and the probability of incurrence of a loss is remote.

## **Legal Proceedings**

Since May 2007, the Company has been subject to 51 asbestos-related lawsuits in Japan, which were filed against the Company or defendant parties consisting of the Japanese government and asbestos-related companies, including the Company. By May 2021, with regard to the four lawsuits consolidating 14 cases, the Supreme Court has concluded proceedings and ruled that the government and a part of asbestos using companies were liable for compensation. However, all claims against the Company were rejected.

Other 37 cases are still ongoing, and the total claims for compensation of all lawsuits aggregate to ¥21,421 million, which relate to 578 construction workers who suffered from asbestos-related diseases. 10 among 37 lawsuits were compiled into four cases and the first instance ordered the Company to pay compensation damages of ¥2 million under judgement for one case, and other cases were decided in favor of the Company. All four cases were appealed to the appellate court. Two appellate courts ruled in favor of the Company, but the plaintiffs of these two cases appealed to the supreme courts.

The Company reviews the status of each lawsuit on a regular basis by consulting with a third-party legal counsel. However, the Company believes that it is currently unable to predict the ultimate outcome of lawsuits.

The Company does not have any cost-sharing arrangements with other potentially responsible parties, including the government, for all of these lawsuits.

## **Matters Related to the Health Hazards of Asbestos**

The Company's plant in Amagasaki, Hyogo Prefecture, Japan, previously produced asbestos-related products. The Company decided to make voluntary consolation payments in June 2005 and established a relief payment program in April 2006 as a voluntary consolation payment to patients of asbestos-related diseases near the plant. With regard to the current and former employees who suffered and are suffering from asbestos-related diseases, the Company provides compensation which is not required by law, but is made in accordance with the Company's internal policies.

In an effort to estimate future asbestos-related expenditures, the Company has considered all available data, including a time series data of historical claims and payments, the incidence rate of asbestos-related disease, and other public information related to asbestos-related disease. However, since the health hazards of asbestos tend to have a longer incubation period, reliable statistics to estimate the incidence rate of asbestos-related disease are not available to the Company. Furthermore, there are no cases where final conclusions are made to the cause and the incidence rate of asbestos-related health hazard at other asbestos-related companies. Hence, the Company believes there is no information to determine the range of the final possible outcome in the future. For these reasons, the Company believes it is not possible to reliably estimate the amount of its ultimate liability, and the Company does not accrue on this contingency.

The Law for the Relief of Patients Suffering from Asbestos-Related Diseases (the "New Asbestos Law") was established by the Japanese government in March 2006. The purpose of this law is to provide prompt relief to persons who sustain asbestos-related diseases but are not relieved by compensation for accidents under worker's compensation insurance. Contributions under this law are made by the Japanese government, local authorities and business entities.

Contributions by business entities commenced from the year ended March 31, 2008, and these include special contributions by business entities which operated a business closely to asbestos.

The Company accrues asbestos-related expenses when the Company receives claims on voluntary consolation payment, relief payment, compensation for current and former employees, and the special contribution in accordance with the New Asbestos Law. The accrued balances for asbestos-related expenses are ¥125 million and ¥222 million at December 31, 2021 and 2020, respectively. The asbestos-related expenses recognized for the twelve months ended December 31, 2021 and 2020, were ¥626 million and ¥817 million, respectively.

## **31. SUBSEQUENT EVENTS**

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Not applicable.

## 32. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

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The consolidated financial statements were approved on May 10, 2023, by Yuichi Kitao, President and Representative Director of the Parent Company, and Masato Yoshikawa, Executive Vice President and Representative Director, General Manager of Planning & Control Headquarters of the Parent Company.

**INDEX TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS OF THE COMPANY**

	<b>Page</b>
Independent Accountant's Interim Review Report.....	Q-3
Condensed Interim Consolidated Statements of Financial Position as of March 31, 2023 and December 31, 2022.....	Q-6
Condensed Interim Consolidated Statements of Profit or Loss for the three months ended March 31, 2023 and 2022 .....	Q-8
Condensed Interim Consolidated Statements of Comprehensive Income for the three months ended March 31, 2023 and 2022 .....	Q-8
Condensed Interim Consolidated Statements of Changes in Equity for the three months ended March 31, 2023 and 2022 .....	Q-9
Condensed Interim Consolidated Statements of Cash Flows for the three months ended March 31, 2023 and 2022 .....	Q-10
Notes to Condensed Interim Consolidated Financial Statements .....	Q-11

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## **INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Directors of Kubota Corporation:

### **Accountant's Conclusion**

We have reviewed the condensed interim consolidated financial statements of Kubota Corporation and its consolidated subsidiaries (the "Group"), which comprise the condensed interim consolidated statement of financial position as of March 31, 2023, the condensed interim consolidated statement of profit or loss, condensed interim consolidated statement of comprehensive income, the condensed interim consolidated statement of changes in equity and condensed interim consolidated statement of cash flows for the three-month period then ended, and the related notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the three-month period then ended in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting."

### **Basis for Accountant's Conclusion**

We conducted our review in accordance with quarterly review standards generally accepted in Japan. Our responsibility under those standards is further described in the Accountant's Responsibility for the Review of the Condensed Interim Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as accountants. We believe that we have obtained the evidence to provide a basis for our review conclusion.

### **Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Condensed Interim Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the condensed interim consolidated financial statements in accordance with IAS 34, and for such internal control as management determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed interim 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 paragraph 4 of IAS 1 "Presentation of Financial Statements" and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

## **Accountant's Responsibility for the Review of the Condensed Interim Consolidated Financial Statements**

Our objective is to issue an accountant's report that includes our conclusion.

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

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
- Conclude whether nothing has come to our attention, based on the evidence obtained, related to going concern that causes us to believe that the condensed interim consolidated financial statements are not fairly presented, in all material respects, in accordance with paragraph 4 of IAS 1, if we conclude that 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 accountant's report to the related disclosures in the condensed interim consolidated financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our accountant's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether nothing has come to our attention that causes us to believe that the overall presentation and disclosures of the condensed interim consolidated financial statements are not in accordance with IAS 34, as well as the overall presentation, structure and content of the condensed interim consolidated financial statements, including the disclosures, and whether nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements do not represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain evidence regarding the financial information of the entities or business activities within the Group to express a conclusion on the condensed interim consolidated financial statements. We are responsible for the direction, supervision and performance of the review of the condensed interim consolidated financial statements. We remain solely responsible for our conclusion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding the planned scope and timing of the review and significant findings that we identify during our review.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board 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, actions taken to eliminate threats or safeguards applied.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners 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.

/s/Deloitte Touche Tohmatsu LLC  
Osaka, Japan  
May 17, 2023

## Condensed Interim Consolidated Financial Statements

Kubota Corporation and Its Subsidiaries

### (1) Condensed Interim Consolidated Statement of Financial Position (Unaudited)

(Unit: millions of yen)

	Notes	March 31, 2023	December 31, 2022
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		¥ 181,097	¥ 225,799
Trade receivables		935,204	779,385
Finance receivables		476,440	480,658
Other financial assets	6	72,047	71,516
Contract assets		17,419	28,018
Inventories		647,250	644,471
Income taxes receivable		2,301	2,710
Other current assets		69,363	55,223
Total current assets		2,401,121	2,287,780
<b>Noncurrent assets:</b>			
Investments accounted for using the equity method		46,961	46,492
Finance receivables		1,223,299	1,203,856
Other financial assets	6	172,987	165,438
Property, plant, and equipment		656,405	644,245
Goodwill		138,652	134,597
Intangible assets		185,631	184,291
Deferred tax assets		69,584	75,827
Other noncurrent assets		22,180	22,527
Total noncurrent assets		2,515,699	2,477,273
<b>Total assets</b>		¥ 4,916,820	¥ 4,765,053

(Unit: millions of yen)

	Notes	March 31, 2023	December 31, 2022
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Bonds and borrowings		¥ 733,192	¥ 640,889
Trade payables		348,160	454,780
Other financial liabilities	7	95,986	106,096
Insurance contract liabilities		50,716	50,792
Income taxes payable		37,496	24,646
Provisions		68,078	65,823
Contract liabilities		37,659	33,509
Other current liabilities	8	225,978	207,040
Total current liabilities		1,597,265	1,583,575
<b>Noncurrent liabilities:</b>			
Bonds and borrowings		1,027,491	970,216
Other financial liabilities	7	40,036	41,135
Retirement benefit liabilities		14,531	14,293
Deferred tax liabilities		47,737	46,673
Other noncurrent liabilities	8	7,135	6,673
Total noncurrent liabilities		1,136,930	1,078,990
<b>Total liabilities</b>		<b>2,734,195</b>	<b>2,662,565</b>
<b>Equity:</b>			
Equity attributable to owners of the parent:			
Share capital		84,130	84,130
Share premium		79,629	79,247
Retained earnings		1,572,177	1,529,248
Other components of equity		211,036	185,422
Treasury shares		(3,558)	(3,557)
Total equity attributable to owners of the parent		1,943,414	1,874,490
Noncontrolling interests		239,211	227,998
<b>Total equity</b>		<b>2,182,625</b>	<b>2,102,488</b>
<b>Total liabilities and equity</b>		<b>¥ 4,916,820</b>	<b>¥ 4,765,053</b>

See notes to condensed interim consolidated financial statements.

(2) Condensed Interim Consolidated Statement of Profit or Loss and  
Condensed Interim Consolidated Statement of Comprehensive Income

Three months ended March 31, 2023

Condensed Interim Consolidated Statement of Profit or Loss (Unaudited)

(Unit: millions of yen, except earnings per share)

	Notes	2023	%	2022	%
Revenue	9	¥ 781,563	100.~	¥ 592,792	100.~
Cost of sales		(551,394)		(433,333)	
Selling, general, and administrative expenses		(126,798)		(100,634)	
Other income		1,060		8,679	
Other expenses		(1,183)		(725)	
Operating profit		103,248	13.2	66,779	11.3
Finance income		3,293		8,184	
Finance costs		(1,046)		(126)	
Profit before income taxes		105,495	13.5	74,837	12.6
Income tax expenses		(30,290)		(19,870)	
Share of profits of investments accounted for using the equity method		113		521	
Profit for the period		¥ 75,318	9.6	¥ 55,488	9.4
Profit attributable to:					
Owners of the parent		¥ 69,100	8.8	¥ 50,571	8.5
Noncontrolling interests		¥ 6,218	0.8	¥ 4,917	0.9
Earnings per share attributable to owners of the parent:	10				
Basic		¥ 58.11		¥ 42.15	
Diluted		¥ —		¥ —	

Condensed Interim Consolidated Statement of Comprehensive Income (Unaudited)

(Unit: millions of yen)

	Notes	2023	2022
Profit for the period		¥ 75,318	¥ 55,488
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans		(4)	430
Net change in fair value of financial assets measured at fair value through other comprehensive income		3,290	6,529
Items that may be reclassified subsequently to profit or loss:			
Exchange rate differences on translating foreign operations		27,245	73,271
Total other comprehensive income, net of income tax		30,531	80,230
Comprehensive income for the period		¥ 105,849	¥ 135,718
Comprehensive income attributable to:			
Owners of the parent		¥ 94,712	¥ 123,749
Noncontrolling interests		¥ 11,137	¥ 11,969

See notes to condensed interim consolidated financial statements.

### (3) Condensed Interim Consolidated Statement of Changes in Equity (Unaudited)

(Unit: millions of yen)

	Notes	Equity attributable to owners of the parent					Noncontrolling interests	Total equity
		Share capital	Share premium	Retained earnings	Other component of equity	Treasury shares		
<b>Balance as of January 1, 2023</b>		¥ 84,130	¥ 79,247	¥ 1,529,248	¥ 185,422	¥ (3,557)	¥ 227,998	¥ 2,102,488
Profit for the period				69,100			6,218	75,318
Total comprehensive income, net of income					25,612		4,919	30,531
Comprehensive income for the period				69,100	25,612		11,137	105,849
Transfer to retained earnings				(2)	2			
Dividends paid	11			(26,169)			(58)	(26,227)
Purchases and sales of treasury shares						(1)		(1)
Share-based payment transactions			382					382
Changes in ownership interests in subsidiaries							134	134
<b>Balance as of March 31, 2023</b>		¥ 84,130	¥ 79,629	¥ 1,572,177	¥ 211,036	¥ (3,558)	¥ 239,211	¥ 2,182,625
<b>Balance as of January 1, 2022</b>		¥ 84,130	¥ 84,886	¥ 1,439,631	¥ 69,522	¥ (134)	¥ 107,074	¥ 1,785,109
Cumulative effect of change in accounting policies				(6,157)	(279)			(6,436)
Profit for the period				50,571			4,917	55,488
Total comprehensive income, net of income					73,178		7,052	80,230
Comprehensive income for the period				50,571	73,178		11,969	135,718
Transfer to retained earnings				18,496	(18,496)			
Dividends paid	11			(25,205)			(50)	(25,255)
Share-based payments with transfer restrictions			25					25
Changes in ownership interests in subsidiaries			(25)				402	377
<b>Balance as of March 31, 2022</b>		¥ 84,130	¥ 84,886	¥ 1,477,336	¥ 123,925	¥ (134)	¥ 119,395	¥ 1,889,538

See notes to condensed interim consolidated financial statements.

## (4) Condensed Interim Consolidated Statement of Cash Flows (Unaudited)

(Unit: millions of yen)

Three months ended March 31:	Notes	2023	2022
<b>Cash flows from operating activities:</b>			
Profit for the period		¥ 75,318	¥ 55,488
Depreciation and amortization		25,359	18,620
Loss from disposal of property, plant, and equipment and intangible assets, net		536	458
Finance income and costs		(1,247)	(7,238)
Income tax expenses		30,290	19,870
Share of profits of investments accounted for using the equity method		(113)	(521)
Increase in trade receivables		(147,865)	(90,181)
Decrease (increase) in finance receivables		2,184	(264)
Decrease (increase) in inventories		6,142	(39,212)
Decrease in other assets		342	3,871
Decrease in trade payables		(110,609)	(23,699)
Increase in other liabilities		24,196	7,010
Net changes in retirement benefit assets and liabilities		114	203
Other, net		471	(899)
Interest received		2,503	87
Dividends received		27	48
Interest paid		(524)	(509)
Income taxes paid, net		(12,171)	(27,392)
Net cash used in operating activities		(105,047)	(84,260)
<b>Cash flows from investing activities:</b>			
Payments for acquisition of property, plant, and equipment		(38,075)	(29,110)
Payments for acquisition of intangible assets		(5,231)	(4,808)
Proceeds from sales of property, plant, and equipment		751	958
Purchase of investments accounted for using the equity method		(339)	(28,856)
Payments for loans receivable from associates		(6,650)	(7,300)
Collection of loans receivable from associates		5,098	5,850
Payments for time deposits		(2,114)	(2,289)
Proceeds from withdrawal of time deposits		1,555	5,298
Net decrease (increase) in restricted cash		67	(5,228)
Payments for acquisition of short-term investments		(1,796)	—
Proceeds from sales and redemptions of short-term investments		1,190	703
Other, net		(1,627)	(9,117)
Net cash used in investing activities		(47,171)	(73,899)
<b>Cash flows from financing activities:</b>			
Funding from bonds and long-term borrowings		178,021	164,640
Redemptions of bonds and repayments of long-term borrowings		(145,209)	(96,275)
Net increase in short-term borrowings		104,090	159,837
Repayments for lease liabilities		(4,066)	(4,692)
Dividends paid	11	(26,169)	(25,205)
Other, net		(890)	(1,524)
Net cash provided by financing activities		105,777	196,781
Effect of exchange rate changes on cash and cash equivalents		1,739	8,663
Net (decrease) increase in cash and cash equivalents		(44,702)	47,285
Cash and cash equivalents, at the beginning of the period		225,799	258,639
Cash and cash equivalents, at the end of the period		¥ 181,097	¥ 305,924

See notes to condensed interim consolidated financial statements.



## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Kubota Corporation and Its Subsidiaries

### 1. REPORTING ENTITY

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Kubota Corporation (the “Parent Company”) is an entity located in Japan. The Parent Company and its subsidiaries (the “Company”) manufacture and sell a comprehensive range of machinery and other industrial and consumer products, including farm equipment, engines, construction machinery, pipe system-related products, industrial products, and environment-related products.

The Company manufactures its products not only in Japan, but also in overseas countries, including the United States, France, Germany, China, Thailand and India, and sells its products in Japan, North America, Europe, Asia outside Japan, and other area.

### 2. BASIS OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### **Compliance with International Financial Reporting Standards (IFRS)**

The condensed interim consolidated financial statements of the Company are prepared in accordance with International Accounting Standard 34 pursuant to the Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (the “Ordinance”), since the Company meets the requirements for a *Specified Company under Designated International Financial Reporting Standards* as prescribed in Article 1-2 of the Ordinance. The condensed interim consolidated financial statements do not contain all the information and disclosures required for a complete set of financial statements and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2022.

#### **Basis of Measurement**

The Company’s condensed interim consolidated financial statements are prepared on a historical cost basis, except for certain financial instruments, etc. that are measured at fair value.

#### **Functional Currency and Presentation Currency**

The condensed interim consolidated financial statements of the Company are presented in Japanese yen, which is the Parent Company’s functional currency, and figures are rounded to the nearest million yen.

#### **Significant Accounting Judgements, Estimates, and Assumptions**

The condensed interim consolidated financial statements of the Company are prepared by using judgements, estimates, and assumptions that affect the application of accounting policies and reporting of assets, liabilities, revenue, and expenses. Actual results of operations could differ from those accounting estimates and assumptions.

The estimates and assumptions are continually reviewed. The effects of a change in accounting estimates, if any, are recognized in the reporting period in which the change is made and in the future periods.

The significant accounting judgements, estimates, and assumptions made in preparing the condensed interim consolidated financial statements are consistent with those made in preparing the consolidated financial statements for the year ended December 31, 2022.

At the end of the reporting period, the Company estimates that the impact of COVID-19 on the Company's results of operations is not material. However, the future impact of COVID-19 remains uncertain, and if the situation worsens in the future, accounting judgements, estimates, and assumptions of the Company may be affected significantly.

### 3. MATERIAL ACCOUNTING POLICIES

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The accounting policies applied on the condensed interim consolidated financial statements are consistent with those applied on the consolidated financial statements for the year ended December 31, 2022, except for those described in changes in accounting policy section below.

Income taxes for the condensed interim consolidated financial statements are calculated based on the estimated annual effective tax rate.

#### **Changes in Accounting Policy**

Effective from the current consolidated fiscal year, the Company has adopted IFRS 17 *Insurance Contracts*.

The Company has retrospectively applied IFRS 17 with a transition date of January 1, 2022. The retrospective application of IFRS 17 is in accordance with the following transitional provisions stipulated in the standard.

- Identify, recognize and measure each group of insurance contracts as if IFRS 17 had always applied
- Identify, recognize and measure any assets for insurance acquisition cash flows as if IFRS 17 had always applied (recoverability assessment before the transition date is not required)
- Derecognize any existing balances that would not exist had IFRS 17 always applied
- Recognize any resulting net difference in equity

In accordance with the application of IFRS 17, liabilities related to insurance contracts are presented separately as "Insurance contract liabilities" in the condensed interim consolidated statement of financial position.

Following is the accounting policy for insurance contracts after the adoption of IFRS 17.

#### 1) Classification and Level of Aggregation

Contracts under which the Company assumes significant insurance risks are classified as insurance contracts.

The Company recognizes portfolios consisting of multiple insurance contracts that are exposed to similar risks and are managed together, and aggregates as the group of insurance contracts by dividing each annual cohort into groups based on the profitability of the contracts.

#### 2) Recognition

Groups of insurance contracts issued by the Company are recognized from the earliest of the following:

- the beginning of the period for which insurance contract services are provided;
- the date when the first payment from a policyholder in the group becomes due, or if there is no contractual due date, the first payment from the policyholder is received; and
- for a group of onerous contracts, when the group becomes onerous.

### 3) Measurement

The Company, on initial recognition, measures a group of insurance contracts at the total of the fulfillment cash flows and contractual service margin. The fulfillment cash flows is an explicit, unbiased and probability-weighted estimate of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the Company fulfills insurance contracts, including a risk adjustment for non-financial risk. Estimates of future cash flows include all the future cash flows within the boundary of each group of insurance contracts, and all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows are utilized. In calculating the present value of future cash flows, the discount rates that reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts are used. The contractual service margin is the excess of the consideration charged for a group of insurance contracts over the risk-adjusted expected present value of the cash outflows expected to fulfill the group and the insurance earned cash flows incurred prior to the recognition of the group.

The carrying amount of a group of insurance contracts at the end of the reporting period is measured at the total of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage is comprised of the fulfillment cash flows for future services allocated to the group and the contractual service margin that are estimated to reflect conditions as of the end of the reporting period. Changes in such liability is recognized in profit or loss as follows: reduction in the liability resulting from the insurance services provided during the reporting period as insurance revenue; and changes in the liability resulting from the effect of the time value of money and the effect of financial risks as insurance finance income or expenses. The liability for incurred claims is comprised of the fulfillment cash flows related to past service allocated to the group at the end of the reporting period. Changes in such liability is recognized in profit or loss as follows: increase in the liability resulting from claims and expenses incurred during the reporting period, and any subsequent changes in fulfillment cash flows relating to incurred claims and expenses as insurance service expenses; changes in the liability resulting from the effect of the time value of money and the effect of financial risks as insurance finance income or expenses.

Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs are included in the measurement of the group of contracts on initial recognition as insurance acquisition cash flows. Insurance acquisition cash flows are allocated to each reporting period in a systematic way on the basis of the passage of time and the same amount is recognized as insurance service expenses.

In the condensed interim consolidated statement of profit or loss, insurance revenue, insurance service expenses and insurance finance income or expenses are included in "Revenue," "Cost of sales," and "Finance income" or "Finance costs," respectively.

### 4) Derecognition

Insurance contract is derecognized when a contract is extinguished or when a contract is modified in a way that would have significantly changed the accounting of a contract. When derecognized, the fulfillment cash flows are adjusted to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations

that have been derecognized. The contractual service margin of the group is adjusted for the change in fulfillment cash flows, and the number of coverage units for expected remaining insurance contract services which is the basis of the amount recognized in profit or loss for the reporting period is also adjusted to reflect the derecognition.

#### 4. SEGMENT INFORMATION

The Company engages in various fields of business and industries by providing products and services that are categorized into the following three segments: Farm & Industrial Machinery, Water & Environment, and Other. The Farm & Industrial Machinery segment manufactures and distributes farm equipment, agricultural-related products, engines, and construction machinery. The Water & Environment segment manufactures and distributes various products in pipe system business (ductile iron pipes, plastic pipes, and other products), industrial products business (mixing element radian tube, spiral-welded steel pipes, air-conditioning equipment and other products), and environment business (environmental control plants, pumps, and other products). The Other segment offers a variety of services.

Financial information of these segments is utilized on a regular basis by the chief operating decision-maker in determination of resource allocation of the Company and performance evaluation. The segments also represent the Company's organizational structure, which is principally based on the nature of products and services.

The accounting policies for the reportable segments are consistent with the accounting policies used in the Company's condensed interim consolidated financial statements.

Information by reportable segment is summarized as follows:

(Unit: millions of yen)

Three months ended March 31:	Farm & Industrial Machinery	Water & Environment	Other	Adjustments	Consolidated
<b>2023:</b>					
Revenue:					
External customers	¥ 684,999	¥ 90,957	¥ 5,607	¥ —	¥ 781,563
Intersegment	100	2	8,863	(8,965)	—
Total	685,099	90,959	14,470	(8,965)	781,563
Operating profit	¥ 107,750	¥ 9,017	¥ 718	¥ (14,237)	¥ 103,248
<b>2022:</b>					
Revenue:					
External customers	¥ 499,303	¥ 87,508	¥ 5,981	¥ —	¥ 592,792
Intersegment	36	44	8,081	(8,161)	—
Total	499,339	87,552	14,062	(8,161)	592,792
Operating profit	¥ 59,587	¥ 9,537	¥ 1,190	¥ (3,535)	¥ 66,779

(Notes)

1. *Adjustments* include items such as the elimination of intersegment transfers and corporate expenses which are not allocated to any particular reportable segment. The corporate expenses included in *Adjustments* consist mainly of administration department expenses, basic research expenses, and foreign exchange gains or losses incurred by the Parent Company.
2. The aggregated amounts of operating profit are equal to those presented in the condensed interim consolidated statement of profit or loss. Refer to the condensed interim consolidated statement of profit or loss for the reconciliation of operating profit to profit before income taxes.
3. Intersegment transfers are recorded at values that approximate market prices.

## 5. BUSINESS COMBINATION

### Three months ended March 31, 2023

(Finalization of a provisional accounting for business combination)

The allocation of acquisition cost of Escorts Limited (currently, Escorts Kubota Limited), which the Company acquired on April 11, 2022, was not completed as of December 31, 2022, and therefore, a provisional accounting for business combination was applied. However, the allocation of acquisition cost has been completed during the three months ended March 31, 2023, and the amount of goodwill has been adjusted as follows based on the determined allocation of acquisition cost.

Assets Acquired, Liabilities Assumed, Noncontrolling Interests, and Goodwill as of the Acquisition Date

(Unit: millions of yen)	
Adjusted accounts	Amount of goodwill adjusted
Goodwill (before adjustments)	¥ 139,000
Inventories	(1,434)
Property, plant, and equipment	(10,037)
Intangible assets	(72,328)
Other noncurrent assets	(1,313)
Deferred tax liabilities	21,422
Noncontrolling interests	35,156
Goodwill (after adjustments)	¥ 110,466

(Notes)

1. Goodwill reflects the future excess earning power expected from the business development and synergies between the Company and Escorts Kubota Limited.
2. Noncontrolling interests are recognized at the proportion of the fair value of the identifiable assets and liabilities of the acquiree.

In accordance with the finalization of the provisional accounting, the corresponding figures as of December 31, 2022 of the condensed interim consolidated statement of financial position has been retrospectively adjusted. As a result, property, plant, and equipment, intangible assets, deferred tax liabilities, and noncontrolling interests increased by ¥8,545 million, ¥67,956 million, ¥19,577 million, and ¥33,989 million, respectively, while retained earnings and goodwill decreased by ¥1,843 million and ¥27,842 million, respectively, compared with those before retrospective adjustments.

There is no impact on the condensed interim consolidated statement of profit or loss and condensed interim consolidated statement of comprehensive income for the corresponding period.

### Three months ended March 31, 2022

No material matters.

## 6. OTHER FINANCIAL ASSETS

Other financial assets are composed of the following:

(Unit: millions of yen)				
		March 31, 2023		December 31, 2022
Financial assets measured at amortized cost:				
Long-term trade accounts receivable	¥	36,898	¥	36,555
Time deposits		17,441		16,745
Restricted cash (Note)		6,550		5,878
Debt financial assets		45,656		44,132
Others		25,270		18,582
Financial assets measured at fair value through other comprehensive income:				
Equity financial assets		73,281		68,595
Financial assets measured at fair value through profit or loss:				
Debt financial assets		37,582		35,515
Derivatives		2,356		10,952
Total	¥	245,034	¥	236,954
Current assets		72,047		71,516
Noncurrent assets		172,987		165,438

(Note)

*Restricted cash* are deposits pledged as collateral, which are restricted from their withdrawal, and advances received for public work, which are restricted from their usage.

## 7. OTHER FINANCIAL LIABILITIES

Other financial liabilities are composed of the following:

(Unit: millions of yen)				
		March 31, 2023		December 31, 2022
Financial liabilities measured at amortized cost:				
Lease liabilities	¥	51,274	¥	52,376
Notes and accounts payable for capital expenditures		30,206		43,054
Deposits received		26,786		27,617
Others		22,429		21,194
Financial liabilities measured at fair value through profit or loss:				
Derivatives		5,327		2,990
Total	¥	136,022	¥	147,231
Current liabilities		95,986		106,096
Noncurrent liabilities		40,036		41,135

## 8. OTHER LIABILITIES

Other liabilities are composed of the following:

(Unit: millions of yen)

		<b>March 31, 2023</b>	<b>December 31, 2022</b>
Employment benefit obligation	¥	62,401	¥ 55,925
Accrued expenses		56,349	53,012
Refund liabilities		82,412	67,975
Others		31,951	36,801
<b>Total</b>	<b>¥</b>	<b>233,113</b>	<b>¥ 213,713</b>
Current liabilities		225,978	207,040
Noncurrent liabilities		7,135	6,673



## 9. REVENUE

The following table presents the Company's revenue recognized from contracts with customers and other sources of revenue by product group and location:

Effective from the current consolidated fiscal year, in conformity with the change in the business reporting structure of the Company, the former "Materials and urban infrastructure-related products" is renamed to "Industrial products."

(Unit: millions of yen)

Three months ended March 31, 2023	Japan	North America	Europe	Asia outside Japan	Other area	Total
Farm equipment and engines	¥ 69,562	¥ 202,901	¥ 72,062	¥ 134,405	¥ 18,080	¥ 497,010
Construction machinery	9,291	92,741	36,560	11,997	5,062	155,651
<b>Farm &amp; Industrial Machinery</b>	<b>78,853</b>	<b>295,642</b>	<b>108,622</b>	<b>146,402</b>	<b>23,142</b>	<b>652,661</b>
Pipe system	30,351	154	—	825	34	31,364
Industrial products	9,196	3,208	278	2,374	3,331	18,387
Environment	38,934	56	145	1,320	751	41,206
<b>Water &amp; Environment</b>	<b>78,481</b>	<b>3,418</b>	<b>423</b>	<b>4,519</b>	<b>4,116</b>	<b>90,957</b>
<b>Other</b>	<b>5,581</b>	<b>5</b>	<b>7</b>	<b>14</b>	<b>—</b>	<b>5,607</b>
Revenue recognized from:						
Contracts with customers	162,915	299,065	109,052	150,935	27,258	749,225
Other sources of revenue	678	22,871	—	8,308	481	32,338
<b>Total</b>	<b>¥ 163,593</b>	<b>¥ 321,936</b>	<b>¥ 109,052</b>	<b>¥ 159,243</b>	<b>¥ 27,739</b>	<b>¥ 781,563</b>

(Unit: millions of yen)

Three months ended March 31, 2022	Japan	North America	Europe	Asia outside Japan	Other area	Total
Farm equipment and engines	¥ 62,962	¥ 143,673	¥ 47,954	¥ 104,338	¥ 14,650	¥ 373,577
Construction machinery	9,110	55,528	28,519	5,271	3,936	102,364
<b>Farm &amp; Industrial Machinery</b>	<b>72,072</b>	<b>199,201</b>	<b>76,473</b>	<b>109,609</b>	<b>18,586</b>	<b>475,941</b>
Pipe system	28,435	77	—	630	8	29,150
Industrial products	8,896	1,707	384	1,484	1,825	14,296
Environment	40,850	206	316	1,262	1,428	44,062
<b>Water &amp; Environment</b>	<b>78,181</b>	<b>1,990</b>	<b>700</b>	<b>3,376</b>	<b>3,261</b>	<b>87,508</b>
<b>Other</b>	<b>5,968</b>	<b>4</b>	<b>2</b>	<b>7</b>	<b>—</b>	<b>5,981</b>
Revenue recognized from:						
Contracts with customers	156,221	201,195	77,175	112,992	21,847	569,430
Other sources of revenue	671	15,405	—	6,965	321	23,362
<b>Total</b>	<b>¥ 156,892</b>	<b>¥ 216,600</b>	<b>¥ 77,175</b>	<b>¥ 119,957</b>	<b>¥ 22,168</b>	<b>¥ 592,792</b>

Revenue recognized from other sources of revenue includes interest income from retail finance and finance lease calculated using effective interest rate method. The amounts of the above revenue are ¥23,293 million and ¥16,505 million for the three months ended March 31, 2023 and 2022, respectively.

# 10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The numerator and denominator used to calculate basic earnings per share attributable to owners of the parent are presented in the following table.

Among the shares granted under the restricted stock compensation plan for the Company's Directors and Executive Officers, contingently returnable shares are distinguished as participating equity instruments from common shares. Common shares and participating equity instruments have the same right to profit attributable to owners of the parent.

Shares of the Parent Company held by the trust in connection with the stock compensation plan have been deducted, as treasury shares, from *weighted-average number of common shares issued*.

Three months ended March 31:	2023	2022
	(Unit: millions of yen)	
Profit attributable to owners of the parent	¥ 69,100	¥ 50,571
Profit attributable to participating equity instruments	—	—
Profit attributable to common shareholders	¥ 69,100	¥ 50,571
	(Unit: thousands of shares)	
Weighted-average number of common shares issued	1,189,169	1,199,907
Weighted-average number of participating equity instruments	—	3
Weighted-average number of common shares outstanding	1,189,169	1,199,904

*Earnings per share attributable to owners of the parent—Diluted* is not stated since the Parent Company did not have potentially dilutive common shares that were outstanding during the period.

## 11. DIVIDENDS

Dividends paid are as follows:

### Three months ended March 31, 2023

Date of resolution	Class of shares	Dividends (millions of yen)	Dividends per common share (yen)	Record date	Effective date
The Meeting of the Board of Directors on February 14, 2023	Common shares	¥ 26,202	¥ 22.00	December 31, 2022	March 27, 2023

The total amount of dividends includes dividends of ¥33 million for shares of the Parent Company held by the trust in connection with the stock compensation plan.

### Three months ended March 31, 2022

Date of resolution	Class of shares	Dividends (millions of yen)	Dividends per common share (yen)	Record date	Effective date
The Meeting of the Board of Directors on February 14, 2022	Common shares	¥ 25,205	¥ 21.00	December 31, 2021	March 22, 2022

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are classified into the following three levels by inputs used for measurements:

- 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. These are measured using the entity's own assumptions and inputs that are reasonably available or inputs many market participants use with reasonable confidence

## Financial instruments measured at fair value

The following table presents fair values of financial instruments measured at fair value:

(Unit: millions of yen)

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets measured at fair value through other comprehensive income:				
Equity financial assets	¥ 69,808	¥ —	¥ 3,473	¥ 73,281
Financial assets measured at fair value through profit or loss:				
Debt financial assets	29,437	—	8,145	37,582
Derivatives:				
Foreign exchange contracts	—	510	—	510
Interest swap contracts	—	100	—	100
Cross-currency interest rate swap contracts	—	1,746	—	1,746
Total	¥ 99,245	¥ 2,356	¥ 11,618	¥ 113,219
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 2,814	¥ —	¥ 2,814
Interest swap contracts	—	72	—	72
Cross-currency interest rate swap contracts	—	2,441	—	2,441
Total	¥ —	¥ 5,327	¥ —	¥ 5,327

(Unit: millions of yen)

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets measured at fair value through other comprehensive income:				
Equity financial assets	¥ 65,593	¥ —	¥ 3,002	¥ 68,595
Financial assets measured at fair value through profit or loss:				
Debt financial assets	27,855	—	7,660	35,515
Derivatives:				
Foreign exchange contracts	—	9,022	—	9,022
Interest swap contracts	—	92	—	92
Cross-currency swap contracts	—	1,838	—	1,838
Total	¥ 93,448	¥ 10,952	¥ 10,662	¥ 115,062
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives:				
Foreign exchange contracts	¥ —	¥ 736	¥ —	¥ 736
Interest swap contracts	—	108	—	108
Cross-currency interest rate swap contracts	—	2,146	—	2,146
Total	¥ —	¥ 2,990	¥ —	¥ 2,990

Debt financial assets and equity financial assets classified as Level 1 are measured at fair value using quoted prices for identical assets in active markets.

Derivatives are classified as Level 2 since they are measured at fair value using observable market inputs obtained from major international financial institutions.

Equity financial assets and debt financial assets classified as Level 3 are unlisted equity securities, which are measured by the comparable company comparison method, using the earnings before interest and tax (EBIT) ratio (from 1.7 to 15.6) as a multiple, and by other method. As the EBIT ratio increases (decreases), the fair values on those equity financial assets increase (decrease).

Transfers between levels are recognized at the end of the reporting period. There were no significant transfers of financial instruments between the levels for the three months ended March 31, 2023 and the year ended December 31, 2022.

The following table presents reconciliation of financial instruments classified as Level 3:

(Unit: millions of yen)

<b>Three months ended March 31:</b>		<b>2023</b>		<b>2022</b>	
Balance at the beginning of the period	¥	10,662	¥	10,018	
Gains or losses					
Profit or loss (Note 1)		43		324	
Other comprehensive income (Note 2)		471		(84)	
Purchases		442		116	
Sales		—		(19)	
Balance at the end of the period	¥	11,618	¥	10,355	

(Notes)

1. Gains or losses are recognized as *finance income* or *finance costs* in the condensed interim consolidated statement of profit or loss. Of the gains or losses recognized in profit or loss, the amounts related to financial instruments held at March 31, 2023 and 2022, were ¥43 million and ¥324 million, respectively.
2. Gains or losses are recognized as *net change in fair value of financial assets measured at fair value through other comprehensive income* in the condensed interim consolidated statement of comprehensive income.

### Financial instruments measured at amortized cost

The following table summarizes the carrying amount and fair value of financial instruments measured at amortized cost:

(Unit: millions of yen)				
	March 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Finance receivables:				
Retail finance receivables	¥ 1,302,402	¥ 1,218,156	¥ 1,290,077	¥ 1,198,251
Finance lease receivables	397,337	445,802	394,437	449,136
Long-term trade accounts receivable	62,867	66,787	65,608	69,441
Debt financial assets	45,656	44,533	44,132	42,892
Written put option liabilities over noncontrolling interests	3,353	3,353	3,238	3,238
Bonds and borrowings	1,760,683	1,722,847	1,611,105	1,556,033

The fair value of finance receivables, long-term trade accounts receivable, and bonds and borrowings are stated at the present value of future cash flows discounted by the current market interest rate and classified as Level 2. Long-term trade accounts receivables above include the current portion included in trade receivables in the condensed interim consolidated statement of financial position.

The fair value of debt financial assets is measured using quoted prices for identical assets in active markets and classified as Level 1.

The fair value of written put option liabilities over noncontrolling interests is the present value of estimated future cash flows discounted using a discount rate that takes into account inherent risks and classified as Level 3.

The carrying amounts of cash and cash equivalents, trade receivables (excluding the current portion of long-term trade accounts receivable), other financial assets (excluding debt financial assets measured at fair value, equity financial assets, and derivatives), trade payables, and other financial liabilities (excluding lease liabilities, derivatives and written put option liabilities over noncontrolling interests) approximate their fair values due to their short-term maturity.

### 13. COMMITMENTS AND CONTINGENT LIABILITIES

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#### **Commitments**

Commitments for acquisition of property, plant, and equipment were ¥92,089 million and ¥74,003 million at March 31, 2023, and December 31, 2022, respectively.

#### **Legal Proceedings**

Since May 2007, the Company has been subject to 61 asbestos-related lawsuits in Japan, which were filed against the Company or defendant parties consisting of Japanese government and asbestos-related companies, including the Company.

Of these asbestos-related lawsuits, 18 were aggregated into six lawsuits and the Supreme Court has concluded proceedings and ruled that the government and a part of asbestos-related companies were liable for compensation while all claims against the Company were rejected.

Other 43 asbestos-related lawsuits are still ongoing, and the total claims for compensation related to 662 construction workers who suffered from asbestos-related diseases aggregate to ¥23,070 million. Of these ongoing lawsuits, four first instance judgments were rendered for eleven lawsuits. The first instance ordered the Company to pay compensation damages of ¥2 million under judgment for one lawsuit, and the other three lawsuits were decided in favor of the Company. Of these four lawsuits, three are being heard on the second instance. The court in the second instance rendered a judgment to support the opinion of the first instance for one of the two lawsuits that were decided in favor of the Company. This lawsuit has been appealed to a higher court.

The Company continues to review the status of lawsuits, including consultation with a third-party legal counsel regarding the progress of lawsuits and the likely final outcome. However, the Company believes that it is currently unable to predict the ultimate outcome of lawsuits.

The Company does not have any cost-sharing arrangements with other potentially responsible parties, including Japanese government.

#### **Matters Related to the Health Hazards of Asbestos**

The Company's plant in Amagasaki, Hyogo Prefecture, Japan, previously produced asbestos-related products. The Company decided to make voluntary consolation payments in June 2005 and established a relief payment program in April 2006 as a voluntary consolation payment to patients of asbestos-related diseases near the plant. With regard to the current and former employees who suffered and are suffering from asbestos-related diseases, the Company provides compensation, which is not required by law, but is made in accordance with the Company's internal policies.

In an effort to estimate future asbestos-related expenditures, the Company has considered all available data, including a time series data of historical claims and payments, the incidence rate of asbestos-related disease, and other public information related to asbestos-related disease. However, since the health hazards of asbestos tend to have a longer incubation period, reliable statistics to estimate the incidence rate of asbestos-related disease are not available to the Company. Furthermore, there are no cases where final conclusions are made to the cause and the incidence rate of asbestos-related health hazard at other asbestos-related companies. Hence, the Company believes there is no information to determine the range of the final possible outcome in the future. For these reasons, the Company believes it is not possible to reliably estimate the amount of its ultimate liability, and the Company does not accrue on this contingency.

The Law for the Relief of Patients Suffering from Asbestos-Related Diseases (the “New Asbestos Law”) was established by the Japanese government in March 2006. The purpose of this law is to provide prompt relief to persons who sustain asbestos-related diseases but are not relieved by compensation for accidents under workmen's compensation insurance. Contributions under this law are made by the Japanese government, local authorities and business entities. Contributions by business entities commenced from the year ended March 31, 2008, and these include special contributions by business entities which operated a business closely to asbestos.

The Company accrues asbestos-related expenses when the Company receives claims on voluntary consolation payment, relief payment, compensation for current and former employees, and the special contribution in accordance with the New Asbestos Law. The accrued balances for asbestos-related expenses are ¥227 million and ¥138 million at March 31, 2023, and December 31, 2022, respectively. The asbestos-related expenses recognized for the three months ended March 31, 2023 and 2022, were ¥257 million and ¥179 million, respectively.

#### 14. SUBSEQUENT EVENTS

##### Issuance of Bonds

Pursuant to the resolution of the Board of Directors of the Parent Company on February 14, 2023, the following bonds were issued in Japan.

Name	Issue Date		Issue Amount (millions of yen)	Coupon rate (%)	Maturity date
16 <sup>th</sup> Unsecured Bonds	April 20, 2023	¥	70,000	0.479	April 20, 2028
17 <sup>th</sup> Unsecured Bonds	April 20, 2023	¥	50,000	0.950	April 20, 2033

##### Acquisition of Treasury Shares

On April 19, 2023, the Board of Directors of the Parent Company resolved, in accordance with the provisions of Articles of Incorporation under Article 165, paragraph 2 of the Companies Act of Japan, to acquire up to 13.0 million outstanding common shares of the Parent Company from the market during the period from April 20, 2023, to December 18, 2023, at an acquisition cost not exceeding ¥20,000 million.

#### 15. APPROVAL OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements were approved on May 15, 2023, by Yuichi Kitao, President and Representative Director of the Parent Company, and Masato Yoshikawa, Representative Director and Executive Vice President, General Manager of Planning and Control Headquarters of the Parent Company.



# INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER

	<u>Page</u>
<b>Audited Annual Consolidated Financial Statements</b>	
Independent Auditor's Report.....	I-2
<b><i>Fiscal Year Ended December 31, 2022</i></b>	
Consolidated Balance Sheets as of December 31, 2022 and 2021 .....	I-4
Consolidated Statements of Income for the years ended December 31, 2022 and 2021 .....	I-5
Consolidated Statements of Comprehensive Income for the years ended December 31, 2022 and 2021 .....	I-6
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2022 and 2021 .....	I-7
Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021 ...	I-8
Notes to Consolidated Financial Statements .....	I-9
<b><i>Fiscal Year Ended December 31, 2021</i></b>	
Consolidated Balance Sheets as of December 31, 2021 and 2020 .....	I-25
Consolidated Statements of Income for the years ended December 31, 2021 and 2020 .....	I-26
Consolidated Statements of Comprehensive Income for the years ended December 31, 2021 and 2020 .....	I-27
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021 and 2020 .....	I-28
Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020 ...	I-29
Notes to Consolidated Financial Statements .....	I-30

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors and Stockholders of  
Kubota Credit Corporation, U.S.A.  
Grapevine, Texas

### **Opinion**

We have audited the consolidated financial statements of Kubota Credit Corporation, U.S.A. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022, 2021, and 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, 2021, and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

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

Our objectives are to obtain reasonable assurance about whether the 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always

detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

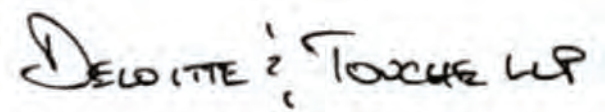
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Emphasis of Matter**

As discussed in Note 2 to the consolidated financial statements, the Company has various transactions and relationships with its parent and affiliates. Accordingly, the accompanying consolidated financial statements may not be indicative of the conditions that would have existed or the results of operations that would have been achieved if the Company had operated without such affiliations.

A handwritten signature in black ink that reads "DELOITTE TOUCHE LLP". The signature is written in a cursive, stylized font.

March 31, 2023

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2022 AND 2021

	2022	2021
<b>ASSETS</b>		
CASH	\$ 12,276,000	\$ 12,291,000
RESTRICTED CASH	30,042,000	34,878,000
FINANCE RECEIVABLES—Net of allowance for credit losses of \$26,519,000 and \$27,028,000 and deferred loan and lease fees and net of origination costs of \$214,000 \$(2,201,000) in 2022 and 2021 respectively	9,371,236,000	8,921,200,000
DUE FROM AFFILIATES	372,917,000	228,055,000
PREPAID INCOME TAXES		14,849,000
DEFERRED INCOME TAXES	17,417,000	31,311,000
INVESTMENT IN OPERATING LEASES—Net	80,541,000	46,186,000
OTHER ASSETS—Net	<u>18,464,000</u>	<u>16,775,000</u>
TOTAL	<u>\$ 9,902,893,000</u>	<u>\$ 9,305,545,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
LIABILITIES:		
Related party debt	\$ 5,860,694,000	\$ 5,773,154,000
Secured debt	2,579,851,000	2,304,087,000
Accounts payable and other liabilities	53,719,000	51,465,000
Payables to affiliates	62,813,000	31,833,000
Income taxes payable	4,118,000	1,702,000
Deferred income subsidy	<u>497,099,000</u>	<u>362,964,000</u>
Total liabilities	<u>9,058,294,000</u>	<u>8,525,205,000</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$1,000 per share par value—authorized, 20,000 shares; issued and outstanding, 8,000 shares	8,000,000	8,000,000
Retained earnings	835,345,000	772,659,000
Accumulated other comprehensive income (loss)	<u>1,254,000</u>	<u>(319,000)</u>
Total stockholders' equity	<u>844,599,000</u>	<u>780,340,000</u>
TOTAL	<u>\$ 9,902,893,000</u>	<u>\$ 9,305,545,000</u>

See notes to consolidated financial statements.

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2022 AND 2021

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	2022	2021
REVENUES:		
Finance income	\$ 298,713,000	\$ 265,110,000
Other revenues	<u>10,823,000</u>	<u>9,462,000</u>
Total revenues	<u>309,536,000</u>	<u>274,572,000</u>
EXPENSES:		
Interest	154,873,000	106,694,000
General and administrative	46,305,000	34,276,000
Provision for credit losses	<u>23,498,000</u>	<u>15,112,000</u>
Total expenses	<u>224,676,000</u>	<u>156,082,000</u>
INCOME BEFORE INCOME TAXES	84,860,000	118,490,000
INCOME TAXES	<u>22,174,000</u>	<u>31,548,000</u>
NET INCOME	<u>\$ 62,686,000</u>	<u>\$ 86,942,000</u>

See notes to consolidated financial statements.

## KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2022 AND 2021

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	2022	2021
NET INCOME	\$ 62,686,000	\$ 86,942,000
OTHER COMPREHENSIVE INCOME—Net of income taxes:		
Unrealized gain on derivatives	<u>1,573,000</u>	<u>349,000</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 64,259,000</u>	<u>\$ 87,291,000</u>

See notes to consolidated financial statements.

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income (Loss)	Total
BALANCE—January 1, 2021	8,000	\$8,000,000	\$685,717,000	\$ (668,000)	\$693,049,000
Net income			86,942,000		86,942,000
Other comprehensive loss— net of income taxes				349,000	349,000
BALANCE—December 31, 2021	8,000	8,000,000	772,659,000	(319,000)	780,340,000
Net income			62,686,000		62,686,000
Other comprehensive loss— net of income taxes				1,573,000	1,573,000
BALANCE—December 31, 2022	<u>8,000</u>	<u>\$8,000,000</u>	<u>\$835,345,000</u>	<u>\$1,254,000</u>	<u>\$844,599,000</u>

See notes to consolidated financial statements.

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 62,686,000	\$ 86,942,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred income subsidy	(238,928,000)	(219,067,000)
Provision for credit losses	23,498,000	15,112,000
Depreciation and amortization	14,259,000	9,134,000
Amortization of deferred loan and lease fees—net of origination costs	784,000	1,054,000
Deferred income taxes	13,328,000	17,116,000
Changes in operating assets and liabilities:		
Due from affiliates	228,201,000	209,232,000
Prepaid income taxes	14,849,000	(3,248,000)
Noncash lease expense	575,000	531,000
Other assets	(1,856,000)	(374,000)
Accounts payable and other liabilities	3,827,000	8,289,000
Payable to affiliates	11,328,000	(2,706,000)
Income taxes payable	2,416,000	(2,573,000)
Net cash provided by operating activities	<u>134,967,000</u>	<u>119,442,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and software	(1,331,000)	(686,000)
Purchase of equipment for leases	(45,584,000)	(43,606,000)
Fixed Assets disposals for lease retirements	2,120,000	
Finance receivables originated	(4,114,783,000)	(4,689,335,000)
Payments received on finance receivables	<u>3,660,117,000</u>	<u>3,331,471,000</u>
Net cash used in investing activities	<u>(499,461,000)</u>	<u>(1,402,156,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from secured debt	1,696,910,000	1,769,236,000
Payments of secured debt	(1,420,106,000)	(1,267,944,000)
Proceeds from related party debt	1,050,000,000	910,000,000
Payments of related party debt	(928,000,000)	(1,460,000,000)
Net change in related party debt (orig. maturities less than 3 mths)	(34,460,000)	1,250,854,000
Debt issuance costs	<u>(4,701,000)</u>	<u>(5,066,000)</u>
Net cash provided by financing activities	<u>359,643,000</u>	<u>1,197,080,000</u>
NET DECREASE IN CASH AND RESTRICTED CASH	(4,851,000)	(85,634,000)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of year	<u>47,169,000</u>	<u>132,803,000</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of year	<u>\$ 42,318,000</u>	<u>\$ 47,169,000</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 135,718,000</u>	<u>\$ 106,207,000</u>
Cash paid for income taxes	<u>\$ 8,418,000</u>	<u>\$ 19,987,000</u>
Interest subsidy receivable from KTC (Note 2)	<u>\$ 373,122,000</u>	<u>\$ 226,458,000</u>

See notes to consolidated financial statements.



# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations**—Kubota Credit Corporation, U.S.A. (KCC) was incorporated under the laws of the State of California in 1982. KCC is a 90%-owned subsidiary of a holding company, Kubota North America Corporation (KNA), which is wholly owned by Kubota Corporation, a Japanese corporation. The remaining 10% ownership of KCC is held by Kubota Corporation. KCC's wholly owned limited-purpose subsidiary, Kubota Receivable Company, LLC (KRC), exists for the purpose of selling finance receivables. KCC's wholly owned subsidiary, Kubota Credit Receivables, LLC (KCR), exists for the purpose of selling finance receivables to its Kubota Credit Owner Trust (KCOT) subsidiaries. These subsidiaries include KCOT 2017-1, KCOT2018-1, KCOT2019-1, KCOT2020-1, KCOT2020-2, KCOT2021-1, KCOT2021-2, KCOT2022-1, and KCOT2022-2. These entities are securitization trusts and are considered to be special-purpose entities (SPE) and variable-interest entities (VIE). KCC is the primary beneficiary of these entities and, as such, consolidates these Trusts. KCOT2018-1 was dissolved in 2022, while KCOT2017-1 was dissolved in 2021. In 2015, KCC formed a wholly owned subsidiary, Kubota Credit Funding, LLC (KCF) for the purpose of obtaining financing from an unrelated third party, which is backed by collections from finance receivables. In 2020, KCC formed a wholly owned subsidiary, Kubota Receivable Lending, LLC (KRL) for the purpose of obtaining financing from an unrelated third party, which is backed by collections from finance receivables. KCC, KRC, KCR, KCF and KRL (collectively, the "Company") are in the business of providing retail financing to purchasers of products primarily distributed by their affiliate, Kubota Tractor Corporation (KTC), through authorized dealers throughout the United States of America. Accordingly, the accompanying consolidated financial statements may not necessarily be indicative of the conditions that would have existed or the results of operations that would have occurred if the Company had operated without such affiliations.

Uncertainties related to the magnitude and duration of the COVID-19 pandemic may significantly adversely affect the Company's business and outlook. These uncertainties include: The duration and impact of the resurgence in COVID-19 cases in any state or region; prolonged reduction or closure of KTC's and the Company's operations, or a delayed recovery in such operations; additional closures as mandated or otherwise made necessary by governmental authorities; increased risk of cyber-attacks on network connections used in remote working arrangements; increased privacy-related risks due to processing health-related personal information; absence of employees due to illness; requests by retail customers for payment deferrals or contract modifications; and the impact of the pandemic on the demand for KTC's products. It is unclear when a sustained economic recovery could occur and what a recovery may look like. All of these factors could materially and adversely affect the Company's business, liquidity, results of operations, and financial position.

The ultimate magnitude of the COVID-19 pandemic effects, including the extent of its impact on the Company's financial and operational results, which could be material, will be determined by the length of time that the pandemic continues, its effect on the demand for the Company's services, as well as the effect of governmental regulations imposed in response to the pandemic. At this time, the Company cannot predict the impact of the COVID-19 pandemic, but it could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

**Principles of Consolidation**—The consolidated financial statements include the accounts of KCC and its wholly owned subsidiaries KRC, KCR, KCF and KRL, KCOT2017-1, KCOT2018-1, KCOT2019-1, KCOT2020-1, KCOT2020-2, KCOT2021-1, KCOT2021-2, KCOT2022-1 and KCOT2022-2 are also consolidated since the Company has both the power to direct the activities that most significantly affect these Trusts' economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to these Trusts (see Note 6). All intercompany transactions and accounts have been eliminated in consolidation. Management regularly reviews and reconsiders its previous conclusion regarding the status of an entity as a variable interest entity and whether consolidation of such VIE is required under The Accounting Standards Codification (ASC) 810.

**Restricted Cash**—In accordance with the terms of the Company's secured debt, the Company holds cash that is deemed restricted as of December 31, 2022 and 2021.

**Finance Income**—Deferred finance income from customers included in other assets and deferred income subsidy included in liabilities on the Company's consolidated balance sheets are amortized to finance income using the interest method. Amortization of deferred income is discontinued when it becomes evident that the amount is uncollectible.

**Allowance for Credit Losses**—Allowance for credit losses is established by charges to expense and maintained at levels that, in management's judgment, are adequate to provide for probable future losses. Management's evaluation of the adequacy of the allowance is based on a review of the Company's historical loss experience and known and inherent risks in the loan portfolio.

**Securitization of Receivables**—Certain finance receivables are periodically transferred to SPEs in securitization transactions (see Note 6). These securitizations qualify as collateral for secured borrowings and no gains or losses are recognized at the time of securitization. The receivables remain in the accompanying consolidated balance sheets in finance receivables. The Company recognizes finance income over the lives of these receivables using the interest method.

**Income Taxes**—The Company files its income tax returns as a member of a consolidated group. In accordance with the KNA tax-sharing methodology, a group member with taxable income obtains an income tax charge from KNA as if the group member filed tax returns on a separate-return basis. A group member with taxable losses obtains an income tax credit based on its proportionate contribution to reducing taxes payable by other members in consolidation. The Company also files tax returns individually in several states.

Deferred income tax assets and liabilities are computed annually for differences between the consolidated financial statements and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

The Company records net tax assets to the extent it is believed these assets will more likely than not be realized. In making such determination, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial operations. In the event it is determined that the Company would be unable to realize these deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would reduce the provision for income taxes.

The Company's policy is to recognize interest to be paid on an underpayment of income taxes and any related statutory penalties in general and administrative expenses in the consolidated statements of income.

**Concentration of Credit Risk**—Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of finance receivables. Credit risk with respect to receivables is generally diversified, as receivables are due from a large number of customers that are geographically dispersed in the United States. The Company performs ongoing credit evaluations of its customers and maintains a reserve for potential losses.

**Fair Value Measurements**—ASC's fair value measurements and disclosures topic establishes a hierarchy that prioritizes the inputs of valuation methods used when measuring and disclosing the fair value. The hierarchy consists of the following three levels that are prioritized based on observable and unobservable inputs. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

**Level 1**—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2**—Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3**—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Derivative Financial Instruments**—The Company recognizes all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion would be recorded in the consolidated statements of income.

The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company uses derivative financial instruments to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings. The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

**Use of Estimates**—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Comprehensive Income**—Comprehensive income refers to the change in an entity's equity during a period resulting from all transactions and events other than capital contributions by and distributions to the entities' owners. For the Company, comprehensive income is equal to net income, plus the unrealized loss on derivatives net of tax.

**New Accounting Standards**—In June 2016 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which requires entities to use a new impairment model based on expected losses. Under this new model, an entity would recognize an impairment allowance equal to its current estimate of credit losses on financial assets measured at amortized cost. ASU 2016-13 is effective for non-public companies for annual reporting periods beginning after December 15, 2022, with early adoption permitted subject to certain limitations. Credit losses under the new model will consider relevant information about past events, current conditions and reasonable and supportable forecasts, resulting in recognition of lifetime expected credit losses upon loan origination as compared to the Company's current accounting that recognizes credit losses as incurred. The Company is currently evaluating new processes to calculate credit losses in accordance with ASU 2016-13 that, once completed, will determine the impact on the Company's consolidated financial statements at the date of adoption.

## **2. TRANSACTIONS WITH AFFILIATES**

In accordance with retail finance agreements between the Company and authorized dealers, certain amounts financed by the Company become payable to KTC for application to dealers' accounts. The balance due to KTC as of December 31, 2022 and 2021, under these agreements for finance receivables originated but not yet funded was \$40,714,000 and \$21,062,000, respectively, which is included within payables to affiliates in the accompanying consolidated balance sheets.

In accordance with an agreement between the Company and KTC for the Company's financing of retail customers, KTC will pay the Company the difference between the actual interest to be realized and the interest that would have been realized if credit had been extended under standard rates (interest rate subvention). Under this agreement, the Company earned \$238,927,000 and \$219,067,000 for the years ended December 31, 2022 and 2021, respectively, which is included in finance income in the accompanying consolidated statements of income. The interest receivable from KTC as of December 31, 2022 and 2021, was \$371,382,000 and \$226,458,000, respectively, which is included in due from affiliates in the accompanying consolidated balance sheets.

In December 2006, KTC and the Company entered into an agreement that KTC will pay the anticipated interest subsidy upfront, equaling the present value of interest receivable from KTC. As such, the Company recorded deferred discount expense of \$1,622,000 and \$4,282,000 as of December 31, 2022 and 2021, respectively, and the Company amortizes the deferred discount expense as a reduction of finance income based on a method that approximates the effective yield method over the remaining average term of the related receivables. Net deferred finance income from interest rate subvention and deferred discount expense as of December 31, 2022 and 2021, is \$497,099,000 and \$361,303,000, respectively, and is included in deferred income subsidy in the accompanying consolidated balance sheets.

The Company has also entered into service agreements with KTC, whereby KTC provides the Company with management and administrative services. Operational expenses administered by KTC and reimbursed by the Company to KTC for the years ended December 31, 2022 and 2021, were \$150,000, and \$28,650,000, respectively, and are included in general and administrative expenses in the

accompanying consolidated statements of income. The balance payable to KTC for reimbursement of operational expenses paid on behalf of the Company as of December 31, 2022 and 2021 was \$2,744,000 and \$2,777,000, respectively. The Company also has miscellaneous payables to KTC of \$0 and \$382,000 as of December 31, 2022 and 2021, respectively. These balances are included in payables to affiliates in the accompanying consolidated balance sheets.

The Company obtains financing from KNA, which is a wholly owned subsidiary of Kubota Corporation. The Company owed \$2,465,694,000 and \$2,555,154,000 to KNA under short-term borrowing arrangements as of December 31, 2022 and 2021, respectively, with the average interest rates of 4.52% and 0.50%, respectively, which is included in related party debt in the accompanying consolidated balance sheets. These borrowings normally have one day terms. Interest expense on these borrowings was \$51,697,000 and \$10,527,000 for the years ended December 31, 2022 and 2021, respectively. Interest payable on these loans to KNA was \$9,562,000 and \$1,086,000 as of December 31, 2022 and 2021, respectively, and is included in payables to affiliates in the accompanying consolidated balance sheets.

Amount due to KNA for payment of income taxes as of December 31, 2022 and 2021 was \$4,117,000 and \$1,702,000, respectively and is included in income taxes payable in the accompanying consolidated balance sheets. Prepaid income taxes were \$0 and \$14,849,000, respectively for the year ended December 31, 2022 and 2021. Rent is charged by KNA to the Company for shared facilities with \$550,000 reflected in the general and administrative expense in the accompanying consolidated statements of income for the years ended December 31, 2022 and 2021.

Related party debt as of December 31, 2022 and 2021, includes unsecured loans from KNA of \$3,070,000,000 and \$2,948,000,000, respectively (see Note 5). Interest expense on notes payable to the affiliate was \$49,487,000 and \$58,366,000 for the years ended December 31, 2022 and 2021, respectively. Included in payables to affiliates is accrued interest of \$7,326,000 and \$5,355,000 as of December 31, 2022 and 2021, respectively. The Company also had short-term borrowings from KNA funded from Kubota Insurance Corporation (KIC) in the amount of \$325,000,000 as of December 31, 2022 and \$270,000,000 as of December 31, 2021 with interest rates of 0.54% as of December 31, 2022 and 0.1925% as of December 31, 2021. Interest expense on these short-term borrowings from KNA funded from KIC was \$1,583,000 and \$444,000 for the years ended December 31, 2022 and 2021, respectively. Included in payables to affiliates related to these short-term borrowings is accrued interest of \$1,583,000 and \$444,000 as of December 31, 2022 and 2021, respectively. The borrowings are included in related party debt and the related interest payables are included in payables to affiliates in the accompanying consolidated balance sheets.

The Company has amounts payable to affiliate Kubota Tractor Acceptance Corporation (KTAC) of \$15,000 and \$2,000 as of December 31, 2022 and 2021, respectively, which are included in due to affiliates in the accompanying consolidated balance sheets.

The Company has amounts payable to affiliate KNA of \$331,000 and \$159,000 as of December 31, 2022 and 2021, respectively, which are included in due to affiliates in the accompanying consolidated balance sheets.

The Company has amounts due from affiliate KTC of \$1,506,000 and \$1,507,000 as of December 31, 2022 and 2021, respectively, which are included in due from affiliates in the accompanying consolidated balance sheets.

The Company has various transactions and relationships with its parent and other affiliates. Accordingly, the accompanying consolidated financial statements may not be indicative of the conditions that would have existed or the results of operations that would have been achieved if the Company had operated without such affiliations.

### 3. FINANCE RECEIVABLES

Finance receivables are originated under a retail finance agreement between KCC and dealers, with limited or no recourse to the dealers, and are generally collateralized by the financed equipment. Terms of the receivables vary from six months to seven years, with interest at rates ranging from 0% to 15%, with the average rates of 2.24% and 2.28% per annum as of December 31, 2022 and 2021, respectively. The current interest rate under the interest rate subvention agreement with KTC (see Note 2) varies from 0% to 13.68% with the average rates of 3.11% and 2.81% per annum as of December 31, 2022 and 2021, respectively.

Scheduled contractual maturities of these receivables as of December 31, 2022, are as follows:

<b>Years Ending December 31</b>	<b>Unrestricted</b>	<b>Securitized</b>
2023	\$1,940,215,000	\$ 817,900,000
2024	1,787,499,000	753,522,000
2025	1,425,676,000	600,995,000
2026	904,129,000	381,137,000
2027	429,653,000	181,121,000
Thereafter	<u>123,892,000</u>	<u>52,227,000</u>
Total	<u>\$6,611,064,000</u>	<u>\$2,786,902,000</u>

**Credit Quality Indicator**—The Company classifies finance receivables into risk categories based on relevant information about the ability of borrowers to service their debt, such as the collection status of receivables, customers' financial health, historical credit loss experience, and economic trends. Subsequent to origination, the Company reviews the credit quality of these receivables on a quarterly basis. The Company's credit quality ratings for these receivables are defined as follows:

**Rank A**—These receivables are performing on schedule under their terms. It is not likely to incur losses arising from customers' inability to repay, and the Company expects to collect all amounts due.

**Rank B**—These receivables require management's attention to potential losses, but are not categorized as Rank C. Such receivables do not indicate that it is probable that losses will be incurred arising from customers' inability to repay.

**Rank C**—The Company becomes aware of a customer's inability to repay, such as the customer's long term nonperformance, or deterioration in the customer's results of operations or financial position. In such cases, it is probable that losses will be incurred arising from customers' inability to repay.



The recorded investment in finance receivables by credit quality indicator based on the information available at December 31, 2022 and 2021, is as follows:

	2022		2021	
	Unrestricted	Securitized	Unrestricted	Securitized
Credit risk profile by internally assigned rank:				
Rank A	\$ 6,200,899,000	\$ 2,634,738,000	\$ 6,354,660,000	\$ 2,092,324,000
Rank B	410,165,000	152,164,000	385,512,000	117,933,000
Rank C				
	<u>\$ 6,611,064,000</u>	<u>\$ 2,786,902,000</u>	<u>\$ 6,740,172,000</u>	<u>\$ 2,210,257,000</u>

**Aging**—All sales finance receivables are considered past due when any payments, including principal and interest, have not been received by the contractual due date.

The age analysis of past-due finance receivables as of December 31, 2022 and 2021, is as follows:

	2022		2021	
	Unrestricted	Securitized	Unrestricted	Securitized
1 to 29 days past due	\$ 360,827,000	\$ 134,624,000	\$ 330,622,000	\$ 102,238,000
30 to 59 days past due	33,231,000	11,341,000	36,348,000	11,265,000
60 to 89 days past due	8,697,000	3,013,000	7,739,000	1,817,000
90 to 119 days past due	3,526,000	1,421,000	3,417,000	916,000
120 days and over past due	3,884,000	1,765,000	7,386,000	1,697,000
Current	<u>6,200,899,000</u>	<u>2,634,738,000</u>	<u>6,354,660,000</u>	<u>2,092,324,000</u>
	<u>\$ 6,611,064,000</u>	<u>\$ 2,786,902,000</u>	<u>\$ 6,740,172,000</u>	<u>\$ 2,210,257,000</u>

**Nonaccrual**—Finance receivables are placed on nonaccrual status at the earlier of when the contractual principal and interest are determined to be uncollectible or when these receivables become 90 days or more past due. For these receivables on nonaccrual status, interest income is subsequently recognized only to the extent a cash payment is received. These receivables are restored to accrual status as of the date the principal and interest become less than 90 days past due. Nonaccrual retail finance receivables at December 31, 2022 and 2021, amounted to \$10,596,000 and \$13,416,000, respectively.

#### 4. ALLOWANCE FOR CREDIT LOSSES

An allowance for credit losses is established to cover probable losses arising from customers' inability to repay by type of receivables.

The allowance for credit losses on receivables that will probably not be collected is maintained at a level that is adequate to cover probable losses based on a combination of various factors, such as the customer's ability to repay and collateral values. The allowance for smaller-balance homogeneous receivables is collectively evaluated using reserve rates, which are calculated depending on the period past due, reflecting the collection status of these receivables, historical credit loss experience, economic trends, and other factors. Historical collection trends, as well as prevailing and anticipated economic conditions are routinely monitored by management, and any required adjustment to the allowance is reflected in current operations.

The Company's policy is to charge-off all loan balances of 120 days or greater past due down to the net expected collateral value. Such amounts and their related allowances over this amount are charged off.

When amounts due are determined to be uncollectible or the related collateral is repossessed, any remaining receivables and the related allowance are charged off. The Company records the repossessed assets at estimated fair value, less costs to sell, and reports them in other assets-net in the accompanying consolidated balance sheets, which amounted to \$4,192,000 and \$2,610,000 at December 31, 2022 and 2021, respectively.

Activities in the reserve for credit losses as of December 31, 2022 and 2021, are presented as follows:

	<b>2022</b>	<b>2021</b>
Balance—beginning of year	\$ 27,028,000	\$ 26,828,000
Provisions for credit losses	23,497,000	15,112,000
Recoveries	2,030,000	992,000
Charge-offs	<u>(26,036,000)</u>	<u>(15,904,000)</u>
Balance—end of year	<u><u>\$ 26,519,000</u></u>	<u><u>\$ 27,028,000</u></u>

## 5. SECURED DEBT AND RELATED PARTY DEBT

Secured debt and related party debt as of December 31, 2022 and 2021, consist of the following:

	<b>2022</b>	<b>2021</b>
Related Party Debt		
Unsecured loans from KNA, bearing interest at rates ranging from 0.93% to 5.23% per annum in 2022 and 0.93% to 3.53% per annum in 2021, due through December 2025	\$ 3,070,000,000	\$ 2,948,000,000
Short-Term Floating rate loans from KNA, bearing an average interest rate at December 31, 2022 of 4.52% and 0.50% at December 31, 2021, due upon demand	2,465,694,000	2,555,154,000
Short-Term Floating rate loan from KNA, bearing an interest rate at December 31, 2022 of 0.54% and 0.19% at December 31, 2021, due upon demand	<u>325,000,000</u>	<u>270,000,000</u>
	<u><u>\$ 5,860,694,000</u></u>	<u><u>\$ 5,773,154,000</u></u>
Secured Debt		
Secured bank loans, collateralized by finance receivables of \$292,026,000 and \$451,031,000 at December 31, 2022 and 2021, respectively, bearing interest at rates ranging from .97% to 5.28% per annum in 2022 and 0.97% to 2.04% per annum in 2021, due through December 2025	\$ 193,013,000	\$ 345,456,000
Securitization borrowings, collateralized by finance receivables of \$2,786,902,000 and \$2,210,257,000 at December 31, 2022 and 2021, respectively, bearing interest at rates ranging from 0.77% to 4.30% per annum, due through June 2028	<u>2,392,485,000</u>	<u>1,963,238,000</u>
	<u><u>\$ 2,585,498,000</u></u>	<u><u>\$ 2,308,694,000</u></u>



The total secured debt recorded in the accompanying consolidated balance sheets includes debt issuance cost of \$5,647,000 and \$4,607,000 for 2022 and 2021, respectively. The Company's secured debt agreements contain customary covenants, including, but not limited to, minimum levels of net worth, liquidity and profitability, and maximum levels of leverage. As of December 31, 2022, the Company was in compliance with all financial covenant requirements.

The expected scheduled principal payments under the Company's contractual debt obligations of the related-party debt (excluding the on-demand obligations) and secured debt as of December 31, 2022, are reflected as follows:

Years Ending December 31	Related Party Debt	Collateralized Bank Loan	Secured Debt Securitized	Total
2023	\$ 1,250,000	\$ 83,643,000	\$ 855,642,000	\$ 940,535,000
2024	770,000	67,403,000	738,386,000	806,559,000
2025	1,050,000	33,421,000	538,606,000	573,077,000
2026		6,576,000	234,430,000	241,006,000
2027 and after		1,970,000	25,421,000	27,391,000
Total	<u>\$ 3,070,000</u>	<u>\$ 193,013,000</u>	<u>\$ 2,392,485,000</u>	<u>\$ 2,588,568,000</u>

## 6. SECURITIZATION OF FINANCE RECEIVABLES

The Company, as a part of its overall funding strategy, transfers several separate pools of certain receivables (finance receivables) into VIEs that are SPEs as a part of an asset-backed securities program (the securitizations). The structure of these transactions is such that the transfer of finance receivables did not meet the criteria of sales of receivables and are, therefore, accounted for as secured borrowings. SPEs utilized in securitizations of finance receivables differ from other entities included in the Company's consolidated statements because the assets they hold are legally isolated. Use of the assets held by the SPEs is restricted by the terms of the documents governing the securitization transaction.

In securitizations of finance receivables related to secured borrowings, finance receivables are transferred to certain SPEs that in turn issue debt securities to investors. The resulting secured borrowings are recorded as secured debt in the accompanying consolidated balance sheets. The securitized retail notes are recorded in finance receivables—net in the accompanying consolidated balance sheets. The total restricted assets in the accompanying consolidated balance sheets related to this securitization include the finance receivables securitized less an allowance for credit losses, and other assets primarily representing restricted cash. For these securitizations in which finance receivables are transferred into SPEs, the SPEs supporting the secured borrowings are consolidated because the Company has (1) the power to direct the activities that most significantly affect the SPE's economic performance as the primary servicer of the finance receivables and (2) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the SPEs (through the Company's retention of residual interest in the SPE). No additional support to these SPEs beyond what was previously contractually required has been provided during the reporting periods.

During 2022, an optional purchase and redemption was exercised for one securitization. The outstanding principal balance of the asset-backed notes of \$68,894,000 was paid on the date of the optional redemption for KCOT 2018-1. The Trust was subsequently dissolved in 2022.

The restricted assets (finance receivables securitized, allowance for credit losses and cash and restricted cash) of the consolidated SPEs totaled \$2,810,686,000 and \$2,231,740,000 as of December 31, 2022 and 2021, respectively. The liabilities (notes payable securitized and accrued interest) of these SPEs totaled \$2,389,877,000 and \$1,959,938,000 as of December 31, 2022 and 2021, respectively. The credit holders of these SPEs do not have legal recourse to the Company's general assets.

The components of consolidated restricted assets related to secured borrowings in the securitization transactions at December 31, 2022 and 2021, are as follows:

	<b>2022</b>	<b>2021</b>
Finance receivables—securitized	\$2,786,902,000	\$2,210,257,000
Allowance for credit losses	(6,170,000)	(5,184,000)
Cash and restricted Cash	<u>29,954,000</u>	<u>26,667,000</u>
	<u><u>\$2,810,686,000</u></u>	<u><u>\$2,231,740,000</u></u>

The components of consolidated restricted liabilities related to secured borrowings in the securitization transactions at December 31, 2022 and 2021, are as follows:

	<b>2022</b>	<b>2021</b>
Notes payable—securitized	\$2,387,480,000	\$1,959,005,000
Accrued interest	<u>2,397,000</u>	<u>933,000</u>
	<u><u>\$2,389,877,000</u></u>	<u><u>\$1,959,938,000</u></u>

The notes payable securitized related to these restricted securitized finance receivables are obligations that are payable as the finance receivables are liquidated. Repayment of the notes payable securitized depends primarily on the cash flows generated by the restricted assets. At December 31, 2022, the maximum remaining term of all securitized retail notes was approximately five years.

## 7. INCOME TAXES

The provision for income taxes for the years ended December 31, 2022 and 2021, includes the following:

	2022	2021
Current:		
Federal	\$ 6,215,000	\$ 10,040,000
State	<u>2,631,000</u>	<u>4,392,000</u>
Total current	<u>8,846,000</u>	<u>14,432,000</u>
Deferred:		
Federal	10,992,000	13,973,000
State	<u>2,336,000</u>	<u>3,143,000</u>
Total deferred	<u>13,328,000</u>	<u>17,116,000</u>
	<u>\$ 22,174,000</u>	<u>\$ 31,548,000</u>

The Company's effective tax rate for the years ended December 31, 2022 and 2021 was 26.13% and 26.62%, respectively. The Company's effective tax rate for 2022 and 2021 differs from the federal statutory rate of 21% due mainly to state income taxes.

Deferred tax assets arise primarily from temporary differences in accumulated depreciation and amortization, deferred subsidy income, allowance for doubtful accounts, state taxes, and certain accrued expenses. Deferred Income Taxes on the consolidated balance sheets as of December 31, 2022 and 2021, consisted of deferred tax assets of \$41,208,000 and \$45,377,000, respectively, while deferred tax liabilities as of December 31, 2022 and 2021, totaled \$23,791,000 and \$14,066,000, respectively.

The Company operates in a number of tax jurisdictions and is subject to examination of its income tax returns by tax authorities in those jurisdictions who may challenge any item on these returns. Because the tax matters challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain. In accordance with ASC 740, Income Taxes, the Company recognizes the benefits of uncertain tax positions in its financial statements only after determining that it is more likely than not that the uncertain tax positions will be sustained. Management believes it is more likely than not that the Company will sustain upon audit its current income tax filing positions and deductions and does not anticipate adjustments related to uncertain tax positions in the next 12 months. No reserve for uncertain tax positions has been recorded at December 31, 2022.

The tax years 2019-2021 remain open to examination by the Internal Revenue Service and certain state jurisdictions, respectively, to which the Company is subject to audit.

## 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

**Derivative Financial Instruments**—As of December 31, 2022, the Company has terminated all interest rate derivatives which were replaced with fixed rate loans relieving all derivative liabilities. As of December 31, 2021, the Company had two outstanding interest rate swaps designated as cash flow hedges of interest rate risk with notional values of \$157,138,000 and \$50,953,000. The hedge ineffectiveness in earnings for 2021 was zero.

The Company measures its derivative financial instruments at fair value. The fair value of the interest rate swaps include accrued interest and an adjustment for nonperformance risk. The following table presents the fair value of the Company's derivative financial instruments as well as the classification on the accompanying consolidated balance sheets as of December 31, 2022 and 2021.

Derivatives Designed as Hedging Instruments	Balance Sheet Location	Asset/Liability Derivatives Fair Value		Level
		2022	2021	
Interest Rate Swaps	Accounts payable and other liabilities	\$ -	\$ (427,000)	Level 3

The table below presents the impact of the Company's derivative financial instruments on the accompanying consolidated income statements as of December 31, 2022 and 2021.

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Recognized in OCI on Derivative—Pretax (Effective Portion)		Location of loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2022	2021		2022	2021		2022	2021
Interest rate swaps	\$ -	\$(1,023,000)	Interest expense	\$ -	\$(1,492,000)	Interest expense	\$ -	\$ -

The changes in the Company's accumulated other comprehensive income account for the years ended December 31, 2022 and 2021 in the consolidated financial statements are presented below. The terminated derivative Other Comprehensive Income (OCI) balance as of the termination date will be frozen and amortized out of OCI to interest expense over the life of the original hedged transaction.

	Gains and Losses on Cash Flow Hedges December 31,	
	2022	2021
Beginning balance	\$ (319,000)	\$ (668,000)
Gain (Loss) recognized in OCI on Derivative	2,028,000	(428,000)
Tax effect	(455,000)	777,000
Ending balance	<u>\$ 1,254,000</u>	<u>\$ (319,000)</u>

## 9. LEASES—LESSOR

As of January 1, 2020, the Company adopted ASC 842, Leases, and during the year began leasing Kubota equipment and a limited amount of non-Kubota equipment to commercial and municipal customers through sales-type, direct financing, and operating leases. As of the date of adoption, there were no leases outstanding thus no transition adjustment was recorded. Sales-type and direct financing leases are reported in Finance Receivables on the consolidated balance sheet. Operating leases are reported in Investment in Operating Leases - Net on the consolidated balance sheet. Initial lease terms generally range from 24 to 60 months. Leases offered by the Company may allow early termination with all the remaining lease payments due at the time of early termination. At the end of the lease, the lessee has the option to purchase the underlying equipment for a fixed price or return it to the dealer. If the equipment is returned to the dealer, the dealer also has the option to purchase the equipment or return it to the Company for remarketing.

The Company estimates the residual values for operating leases at lease inception based on several factors, including lease term, expected hours of usage, historical wholesale sale prices, market dynamics and trends, and dealer residual guarantees. The Company reviews residual value estimates during the lease term and tests the carrying value of its operating lease assets from impairment when events or circumstances necessitate. The depreciation is adjusted on a straight-line basis over the remaining lease term if residual value estimates decline. Lease agreements include usage limits and specifications on machine condition, which allow the Company to assess lessees for excess use or damages to the underlying asset. Operating lease impairments are recorded in administrative and operating expense on the statement of consolidated income.

The Company has elected to combine lease and non-lease components. The lease components include equipment sales price less advance payments while the non-lease components are primarily related to extended warranties. The Company also has elected to exclude from revenue and expenses sales taxes and other similar taxes by a governmental authority and collected by the Company from a lessee. These excluded items are recorded under other assets-net in the consolidated balance sheets.

Lease revenues earned by the Company were as follows:

	<b>2022</b>	<b>2021</b>
Sales-type and direct financing lease revenues	\$ 173,000	\$ 96,000
Operating lease revenues	<u>11,632,000</u>	<u>6,192,000</u>
Total lease revenues	<u>\$ 11,805,000</u>	<u>\$ 6,288,000</u>

At the time of accepting a lease that qualifies as a sales-type or direct financing lease, the Company records the gross amount of lease payments receivable and estimated residual value of the leased equipment. The unearned finance income is recognized as revenue over the lease term using the effective interest method.

Sales-type and direct financing lease receivables by product category were as follows:

	<b>2022</b>	<b>2021</b>
Agriculture, turf and UTV	\$ 2,011,000	\$ 1,532,000
Construction	<u>1,241,000</u>	<u>779,000</u>
Total	3,252,000	2,311,000
Guaranteed residual values	11,000	11,000
Unguaranteed residual values	<u>136,000</u>	<u>26,000</u>
Financing leases receivable	<u>\$ 3,399,000</u>	<u>\$ 2,348,000</u>

Scheduled payments, including guaranteed residual values, on sales-type and direct financing lease receivables at December 31, 2022 were as follows:

	<b>Lease Receivable</b>
2023	\$ 2,012,000
2024	770,000
2025	365,000
2026	96,000
Thereafter	<u>20,000</u>
Total	<u><u>\$ 3,263,000</u></u>

Lease payments from equipment on operating leases are recorded as income on a straight-line basis method over the lease term. Operating lease assets are recorded at cost and depreciated to their estimated residual value on a straight-line method over the terms of the leases.

The cost of equipment on operating leases by product category was as follows:

	<b>2022</b>	<b>2021</b>
Agriculture, turf and UTV	\$ 59,272,820	\$ 32,911,000
Construction	<u>34,534,941</u>	<u>17,433,000</u>
Total	93,807,761	50,344,000
Accumulated depreciation	<u>(13,466,078)</u>	<u>(4,158,000)</u>
Investment in operating leases—net	<u><u>\$ 80,341,683</u></u>	<u><u>\$ 46,186,000</u></u>

The total operating lease residual values at December 31, 2022 and December 31, 2021 were \$51,179,000 and \$31,177,000, respectively. As of December 31, 2022 and December 31, 2021, there were no operating leases that were subject to residual guarantees.

Lease payments for investment in operating leases at December 31, 2022 were scheduled as follows:

	<b>Lease Receivable</b>
2023	\$ 6,163,000
2024	1,590,000
2025	763,000
2026	646,000
Thereafter	<u>12,391,000</u>
Total	<u><u>\$ 21,553,000</u></u>

If equipment is not purchased by lessees or dealers at the end of lease term, it is returned to the Company for remarketing. The returned asset will be recorded at the lower of net book value or estimated fair market value less costs to sell. As of December 31, 2022, there were no matured operating leases in inventory. Matured operating lease inventory is reported in other assets-net on the consolidated balance sheet.

## 10. LEASES—LESSEE

As of December 31, 2022, the Company has five operating leases which consist of an office building lease and four car leases. The Company has elected to not combine lease and non-lease components. The lease components include base rent on the building and monthly rental charge on each leased car. The non-lease components include monthly proportionate share of operating expenses in connection with operation, ownership, management, repair and maintenance of the asset leased. The right of use assets for these leases are reported in Other Assets - Net on the consolidated balance sheet. The corresponding lease liabilities are reported in Accounts Payable and Other Liabilities on the consolidated balance sheet.

**Office Building Lease**—The office building lease is a related party office building lease agreement between KNA and the Company. The lease includes office space at 1000 Kubota Drive at the Texas Headquarters location of which the Company's proportionate share of the lease space is 24%. The original contract was a 3-year lease commencing on January 1, 2017. As of January 1, 2020, the lease was amended to extend for an additional 3-year term, expiring on December 31, 2022. The amendment also includes an automatic renewal for successive one-year periods after the expiration date of December 31, 2022 in which the Company is reasonably certain to exercise. Since the interest rate implicit in the lease is not determinable, the Company utilized the US Treasury risk free rate as of January 2020 of 1.59%.

**Car Leases**—KTC (Kubota Tractor Corporation) has four lease agreements with Enterprise Fleet Management for cars that are assigned to and utilized by the Company's sales staff. On a monthly basis, KTC passes the lease costs to the Company through intercompany cross charges. The car leases are pooled and range from 30 month to 48 month lease periods. The discount rates utilized are the internal rate of return for the capitalized cost of each car's discounted payments and ending residual value.

The lease costs for December 31, 2022 was as follows:

	2022	2021
<b>Lease cost</b>		
Operating lease cost	\$ 584,000	\$ 597,000
Total lease cost	<u>\$ 584,000</u>	<u>\$ 597,000</u>
<b>Operating leases (right-of-use assets and liabilities)</b>		
Other assets—net	\$ 61,000	\$ 605,000
Accounts payable and other liabilities	\$ (61,000)	\$ (605,000)
<b>Other information</b>		
Cash paid for amounts included in lease liabilities:		
Operating cash flows from operating leases	\$ 584,000	\$ 597,000
Weighted-average remaining lease term—operating	4.2 years	1.2 years
Weighted-average discount rate—operating leases	2.52 %	3.36 %

Maturity analysis of lease liabilities at December 31, 2022 are as follows:

	<b>Lease Liability</b>
2023	\$ 583,000
2024	25,000
2025	8,000
2026	
2027	
Thereafter	<u>          </u>
Total lease payments	616,000
Less discount	<u>18,000</u>
Total lease liabilities	<u><u>\$ 598,000</u></u>

#### **11. COMMITMENTS AND CONTINGENCIES**

The Company is involved with various legal matters associated with its normal course of business. In the opinion of management, the matters will be resolved without material effect on the Company's consolidated financial position, results of operations, or cash flows.

#### **12. SUBSEQUENT EVENTS**

The Company has evaluated all events and transactions for potential impact on the consolidated financial statements after December 31, 2022, through March 31, 2023, the date on which the consolidated financial statements were available to be issued. Those events or transactions that were material or warranted disclosure are detailed below.

In February 2023, an optional purchase and redemption was exercised for one securitization. The outstanding principal balance of the asset-backed notes of \$60,979,000 was paid on the date of the optional redemption for KCOT 2019-1.

#### **13. SUBSEQUENT EVENTS (Unaudited)**

KCC issued asset backed notes of U.S.\$699,270,000 through its trust in the United States on 31 March 2023 (the principal amount of such notes is amortized on a monthly basis).

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# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2021 AND 2020

	2021	2020
<b>ASSETS</b>		
CASH	\$ 12,291,000	\$ 7,983,000
RESTRICTED CASH	34,878,000	124,820,000
FINANCE RECEIVABLES—Net of allowance for credit losses of \$27,028,000 and \$26,828,000 and deferred loan and lease fees—net of origination costs of \$(2,201,000) \$(3,208,000) in 2021 and 2020, respectively	8,921,200,000	7,589,633,000
DUE FROM AFFILIATES	228,055,000	209,200,000
PREPAID INCOME TAXES	14,849,000	11,601,000
DEFERRED INCOME TAXES	31,311,000	48,547,000
INVESTMENT IN OPERATING LEASES—Net	46,186,000	6,626,000
OTHER ASSETS—Net	<u>16,775,000</u>	<u>17,642,000</u>
TOTAL	<u>\$9,305,545,000</u>	<u>\$8,016,052,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
LIABILITIES:		
Related party debt	\$5,773,154,000	\$5,072,300,000
Secured debt	2,304,087,000	1,804,289,000
Accounts payable and other liabilities	51,465,000	43,525,000
Payables to affiliates	31,833,000	44,670,000
Income taxes payable	1,702,000	4,275,000
Deferred income subsidy	<u>362,964,000</u>	<u>353,944,000</u>
Total liabilities	<u>8,525,205,000</u>	<u>7,323,003,000</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$1,000 per share par value—authorized, 20,000 shares; issued and outstanding, 8,000 shares	8,000,000	8,000,000
Retained earnings	772,659,000	685,717,000
Accumulated other comprehensive income (loss)	<u>(319,000)</u>	<u>(668,000)</u>
Total stockholders' equity	<u>780,340,000</u>	<u>693,049,000</u>
TOTAL	<u>\$9,305,545,000</u>	<u>\$8,016,052,000</u>

See notes to consolidated financial statements.

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2021 AND 2020

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	2021	2020
REVENUES:		
Finance income	\$ 265,110,000	\$ 263,540,000
Other revenues	<u>9,462,000</u>	<u>7,850,000</u>
Total revenues	<u>274,572,000</u>	<u>271,390,000</u>
EXPENSES:		
Interest	106,694,000	128,506,000
General and administrative	34,276,000	30,031,000
Provision for credit losses	<u>15,112,000</u>	<u>25,537,000</u>
Total expenses	<u>156,082,000</u>	<u>184,074,000</u>
INCOME BEFORE INCOME TAXES	118,490,000	87,316,000
INCOME TAXES	<u>31,548,000</u>	<u>22,971,000</u>
NET INCOME	<u>\$ 86,942,000</u>	<u>\$ 64,345,000</u>

See notes to consolidated financial statements.

## KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2021 AND 2020

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	2021	2020
NET INCOME	\$ 86,942,000	\$ 64,345,000
OTHER COMPREHENSIVE (LOSS) INCOME—Net of income taxes: Unrealized gain/(loss) on derivatives	<u>349,000</u>	<u>(321,000)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 87,291,000</u>	<u>\$ 64,024,000</u>

See notes to consolidated financial statements.

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock		Retained	Accumulated	
	Shares	Amount	Earnings	Other Comprehensive Income (Loss)	Total
BALANCE—January 1, 2020	8,000	\$ 8,000,000	\$ 621,372,000	\$ (347,000)	\$ 629,025,000
Net income			64,345,000		64,345,000
Other comprehensive loss— net of income taxes				(321,000)	(321,000)
BALANCE—December 31, 2020	8,000	8,000,000	685,717,000	(668,000)	693,049,000
Net income			86,942,000		86,942,000
Other comprehensive loss— net of income taxes				349,000	349,000
BALANCE—December 31, 2021	<u>8,000</u>	<u>\$ 8,000,000</u>	<u>\$ 772,659,000</u>	<u>\$ (319,000)</u>	<u>\$ 780,340,000</u>

See notes to consolidated financial statements.

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 86,942,000	\$ 64,345,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred income subsidy	(219,067,000)	(228,608,000)
Provision for credit losses	15,112,000	25,537,000
Depreciation and amortization	9,134,000	3,967,000
Amortization of deferred loan and lease fees—net of origination costs	1,054,000	872,000
Deferred income taxes	17,116,000	(3,492,000)
Changes in operating assets and liabilities:		
Due from affiliates	209,232,000	238,831,000
Prepaid income taxes	(3,248,000)	(11,601,000)
Noncash lease expense	531,000	558,000
Other assets	(374,000)	(1,299,000)
Accounts payable and other liabilities	8,289,000	15,281,000
Payable to affiliates	(2,706,000)	3,177,000
Income taxes payable	(2,573,000)	(16,291,000)
Net cash provided by operating activities	<u>119,442,000</u>	<u>91,277,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and software	(686,000)	(2,271,000)
Purchase of equipment for leases	(43,606,000)	(6,738,000)
Finance receivables originated	(4,689,335,000)	(4,150,383,000)
Payments received on finance receivables	<u>3,331,471,000</u>	<u>2,763,285,000</u>
Net cash used in investing activities	<u>(1,402,156,000)</u>	<u>(1,396,107,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from secured debt	1,769,236,000	941,530,000
Payments of secured debt	(1,267,944,000)	(1,087,311,000)
Proceeds from related party debt	910,000,000	2,350,000,000
Payments of related party debt	(1,460,000,000)	(600,000,000)
Net change in related party debt (orig. maturities less than 3 mths)	1,250,854,000	(282,543,000)
Due to affiliates		(13,263,000)
Debt issuance costs	<u>(5,066,000)</u>	<u>(3,031,000)</u>
Net cash provided by financing activities	<u>1,197,080,000</u>	<u>1,305,382,000</u>
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	(85,634,000)	552,000
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of year	<u>132,803,000</u>	<u>132,251,000</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of year	<u>\$ 47,169,000</u>	<u>\$ 132,803,000</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 106,207,000</u>	<u>\$ 128,246,000</u>
Cash paid for income taxes	<u>\$ 19,987,000</u>	<u>\$ 54,354,000</u>
Interest subsidy receivable from KTC (Note 2)	<u>\$ 226,458,000</u>	<u>\$ 196,022,000</u>

See notes to consolidated financial statements.

# KUBOTA CREDIT CORPORATION, U.S.A. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations**—Kubota Credit Corporation, U.S.A. (KCC) was incorporated under the laws of the State of California in 1982. KCC is a 90%-owned subsidiary of a holding company, Kubota North America Corporation (KNA), which is wholly owned by Kubota Corporation, a Japanese corporation. The remaining 10% ownership of KCC is held by Kubota Corporation. In 1999, KCC formed a wholly owned limited-purpose subsidiary, Kubota Receivable Company, LLC (KRC), for the purpose of selling finance receivables. In 2014, KCC formed a wholly owned subsidiary, Kubota Credit Receivables, LLC (KCR), for the purpose of selling finance receivables to its subsidiaries: Kubota Credit Owner Trust 2014-1 (KCOT2014-1) formed in 2014, Kubota Credit Owner Trust 2015-1 (KCOT2015-1), formed in 2015, Kubota Credit Owner Trust 2016-1 (KCOT2016-1) formed in 2016, Kubota Credit Owner Trust 2017-1 (KCOT2017-1), formed in 2017, Kubota Credit Owner Trust 2018-1 (KCOT2018-1) formed in 2018, Kubota Credit Owner Trust 2019-1 (KCOT2019-1) formed in 2019, Kubota Credit Owner Trust 2020-1 (KCOT2020-1) formed in 2020, Kubota Credit Owner Trust 2020-2 (KCOT2020-2) formed in 2020, Kubota Credit Owner Trust 2021-1 (KCOT2021-1) formed in 2021 and Kubota Credit Owner Trust 2021-2 (KCOT2021-2) formed in 2021. KCOT2014-1, KCOT2015-1, KCOT2016-1, KCOT2017-1, KCOT2018-1, KCOT2019-1, KCOT2020-1, KCOT2020-2, KCOT2021-1 and KCOT2021-2 are securitization trusts and are considered to be special-purpose entities (SPE) and variable-interest entities (VIE). KCC is the primary beneficiary of KCOT2014-1, KCOT2015-1, KCOT2016-1, KCOT2017-1, KCOT2018-1, KCOT2019-1, KCOT2020-1, KCOT2020-2, KCOT2021-1 and KCOT2021-2 and, as such, consolidates these Trusts. KCOT2017-1 was dissolved in 2021, while 2014-1, 2015-1, 2016-1 were dissolved in prior years. In 2015, KCC formed a wholly owned subsidiary, Kubota Credit Funding, LLC (KCF) for the purpose of obtaining financing from an unrelated third party, which is backed by collections from finance receivables. In 2020, KCC formed a wholly owned subsidiary, Kubota Receivable Lending, LLC (KRL) for the purpose of obtaining financing from an unrelated third party, which is backed by collections from finance receivables. KCC, KRC, KCR, KCF and KRL (collectively, the “Company”) are in the business of providing retail financing to purchasers of products primarily distributed by their affiliate, Kubota Tractor Corporation (KTC), through authorized dealers throughout the United States of America. Accordingly, the accompanying consolidated financial statements may not necessarily be indicative of the conditions that would have existed or the results of operations that would have occurred if the Company had operated without such affiliations.

**Risks Related to COVID-19 Pandemic**—In late 2019, a viral infection was identified (COVID-19) and spread worldwide in 2020 and 2021 causing a global pandemic. Numerous measures were put in place by governmental authorities to help mitigate and reduce the spread of the virus including business closures and restrictions, travel bans and restrictions, quarantines and shelter in place mandates.

Uncertainties related to the magnitude and duration of the COVID-19 pandemic may significantly adversely affect the Company’s business and outlook. These uncertainties include: The duration and impact of the resurgence in COVID-19 cases in any state or region; prolonged reduction or closure of KTC’s and the Company’s operations, or a delayed recovery in such operations; additional closures as mandated or otherwise made necessary by governmental authorities; increased risk of cyber-attacks on

network connections used in remote working arrangements; increased privacy-related risks due to processing health-related personal information; absence of employees due to illness; requests by retail customers for payment deferrals or contract modifications; and the impact of the pandemic on the demand for KTC's products. It is unclear when a sustained economic recovery could occur and what a recovery may look like. All of these factors could materially and adversely affect the Company's business, liquidity, results of operations, and financial position.

The ultimate magnitude of the COVID-19 pandemic effects, including the extent of its impact on the Company's financial and operational results, which could be material, will be determined by the length of time that the pandemic continues, its effect on the demand for the Company's services, as well as the effect of governmental regulations imposed in response to the pandemic. At this time, the Company cannot predict the impact of the COVID-19 pandemic, but it could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

**Principles of Consolidation**—The consolidated financial statements include the accounts of KCC and its wholly owned subsidiaries KRC, KCR, KCF and KRL. KCOT2014-1, KCOT2015-1, KCOT2016-1, KCOT2017-1, KCOT2018-1, KCOT2019-1, KCOT2020-1, KCOT2020-2, KCOT2021-1 and KCOT2021-2 are also consolidated since the Company has both the power to direct the activities that most significantly affect these Trusts' economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to these Trusts (see Note 6). All intercompany transactions and accounts have been eliminated in consolidation. Management regularly reviews and reconsiders its previous conclusion regarding the status of an entity as a variable interest entity and whether consolidation of such VIE is required under ASC810.

**Restricted Cash**—In accordance with the terms of the Company's secured debt, the Company holds cash that is deemed restricted as of December 31, 2021 and 2020.

**Finance Income**—Deferred finance income from customers included in other assets and deferred income subsidy included in liabilities on the Company's consolidated balance sheets are amortized to finance income using the interest method. Amortization of deferred income is discontinued when it becomes evident that the amount is uncollectible.

Due to the significant negative effects of the COVID-19 pandemic, the Company provided short-term relief to retail customers from the beginning of April 2020 through the end of July 2020. The relief generally included payment deferrals of three months or less. The finance receivables for which the Company granted relief represented approximately 4% of the finance receivables balance as of December 31, 2020. A trouble debt restructuring is generally the modification of debt where the Company grants a concession for a debtor experiencing financial difficulty. This short-term relief was not considered troubled debt restructuring based on the aforementioned guidance and there were no modifications or additional relief in 2021.

**Allowance for Credit Losses**—Allowance for credit losses is established by charges to expense and maintained at levels that, in management's judgment, are adequate to provide for probable future losses. Management's evaluation of the adequacy of the allowance is based on a review of the Company's historical loss experience and known and inherent risks in the loan portfolio.

**Securitization of Receivables**—Certain finance receivables are periodically transferred to SPEs in securitization transactions (see Note 6). These securitizations qualify as collateral for secured borrowings and no gains or losses are recognized at the time of securitization. The receivables remain

in the accompanying consolidated balance sheets in finance receivables. The Company recognizes finance income over the lives of these receivables using the interest method.

**Income Taxes**—The Company files its income tax returns as a member of a consolidated group. In accordance with the KNA tax-sharing methodology, a group member with taxable income obtains an income tax charge from KNA as if the group member filed tax returns on a separate-return basis. A group member with taxable losses obtains an income tax credit based on its proportionate contribution to reducing taxes payable by other members in consolidation. The Company also files tax returns individually in several states.

Deferred income tax assets and liabilities are computed annually for differences between the consolidated financial statements and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

The Company records net tax assets to the extent it is believed these assets will more likely than not be realized. In making such determination, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial operations. In the event it is determined that the Company would be unable to realize these deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would reduce the provision for income taxes.

The Company's policy is to recognize interest to be paid on an underpayment of income taxes and any related statutory penalties in general and administrative expenses in the consolidated statements of income.

**Concentration of Credit Risk**—Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of finance receivables. Credit risk with respect to receivables is generally diversified, as receivables are due from a large number of customers that are geographically dispersed in the United States. The Company performs ongoing credit evaluations of its customers and maintains a reserve for potential losses.

**Fair Value Measurements**—The Accounting Standards Codification's (ASC) fair value measurements and disclosures topic establishes a hierarchy that prioritizes the inputs of valuation methods used when measuring and disclosing the fair value. The hierarchy consists of the following three levels that are prioritized based on observable and unobservable inputs. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

**Level 1**—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2**—Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3**—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



**Derivative Financial Instruments**—The Company recognizes all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion would be recorded in the consolidated statements of income.

The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company uses derivative financial instruments to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings. The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

**Use of Estimates**—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Comprehensive Income**—Comprehensive income refers to the change in an entity's equity during a period resulting from all transactions and events other than capital contributions by and distributions to the entities' owners. For the Company, comprehensive income is equal to net income, plus the unrealized loss on derivatives net of tax.

**New Accounting Standards**—In June 2016 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which requires entities to use a new impairment model based on expected losses. Under this new model, an entity would recognize an impairment allowance equal to its current estimate of credit losses on financial assets measured at amortized cost. ASU 2016-13 is effective for non-public companies for annual reporting periods beginning after December 15, 2022, with early adoption permitted subject to certain limitations. Credit losses under the new model will consider relevant information about past events, current conditions and reasonable and supportable forecasts, resulting in recognition of lifetime expected credit losses upon loan origination as compared to the Company's current accounting that recognizes credit losses as incurred. The Company is currently evaluating new processes to calculate credit losses in accordance with ASU 2016-13 that, once completed, will determine the impact on the Company's consolidated financial statements at the date of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes *Leases (Topic 840)*. The purpose of this ASU is to ensure transparent and understandable representation of leasing activities on an entity's financial statements. This new guidance includes recognition and disclosure for both the lessor and lessee perspectives. The adoption of ASU 2016-02 and its impact on the Company's consolidated financials is disclosed in Note 9 and Note 10.

## 2. TRANSACTIONS WITH AFFILIATES

In accordance with retail finance agreements between the Company and authorized dealers, certain amounts financed by the Company become payable to KTC for application to dealers' accounts. The balance due to KTC as of December 31, 2021 and 2020, under these agreements for finance receivables originated but not yet funded was \$21,062,000 and \$31,193,000, respectively, which is included within payables to affiliates in the accompanying consolidated balance sheets.

In accordance with an agreement between the Company and KTC for the Company's financing of retail customers, KTC will pay the Company the difference between the actual interest to be realized and the interest that would have been realized if credit had been extended under standard rates (interest rate subvention). Under this agreement, the Company earned \$219,067,000 and \$228,608,000 for the years ended December 31, 2021 and 2020, respectively, which is included in finance income in the accompanying consolidated statements of income. The interest receivable from KTC as of December 31, 2021 and 2020, was \$226,458,000 and \$196,023,000, respectively, which is included in due from affiliates in the accompanying consolidated balance sheets.

In December 2006, KTC and the Company entered into an agreement that KTC will pay the anticipated interest subsidy upfront, equaling the present value of interest receivable from KTC. As such, the Company recorded deferred discount expense of \$4,282,000 and \$12,635,000 as of December 31, 2021 and 2020, respectively, and the Company amortizes the deferred discount expense as a reduction of finance income based on a method that approximates the effective yield method over the remaining average term of the related receivables. Net deferred finance income from interest rate subvention and deferred discount expense as of December 31, 2021 and 2020, is \$361,303,000 and \$353,790,000, respectively, and is included in deferred income subsidy in the accompanying consolidated balance sheets.

The Company has also entered into service agreements with KTC, whereby KTC provides the Company with management and administrative services. Operational expenses administered by KTC and reimbursed by the Company to KTC for the years ended December 31, 2021 and 2020, were \$28,650,000, and \$26,043,000, respectively, and are included in general and administrative expenses in the accompanying consolidated statements of income. The balance payable to KTC for reimbursement of operational expenses paid on behalf of the Company as of December 31, 2021 and 2020 was \$2,777,000 and \$2,749,000, respectively. The Company also has miscellaneous payables to KTC of \$382,000 and \$551,000 as of December 31, 2021 and 2020, respectively. These balances are included in payables to affiliates in the accompanying consolidated balance sheets.

The Company obtains financing from KNA, which is a wholly owned subsidiary of Kubota Corporation. The Company owed \$2,555,154,000 and \$1,379,300,000 to KNA under short-term borrowing arrangements as of December 31, 2021 and 2020, respectively, with interest rates of 0.50% and 0.51%, respectively, which is included in related party debt in the accompanying consolidated balance sheets. These borrowings normally have one day terms. Interest expense on these borrowings was \$10,527,000 and \$10,996,000 for the years ended December 31, 2021 and 2020, respectively. Interest payable on these loans to KNA was \$1,086,000 and \$561,000 as of December 31, 2021 and 2020, respectively, and is included in payables to affiliates in the accompanying consolidated balance sheets.

Amount due to KNA for payment of income taxes as of December 31, 2021 and 2020 was \$1,702,000 and \$4,275,000, respectively and is included in income taxes payable in the accompanying consolidated balance sheets. Prepaid income taxes were \$14,849,000 and \$11,601,000, respectively for the year

ended December 31, 2021 and 2020. Rent is charged by KNA to the Company for shared facilities with \$550,000 reflected in the general and administrative expense in the accompanying consolidated statements of income for the years ended December 31, 2021 and 2020.

Related party debt as of December 31, 2021 and 2020, includes unsecured loans from KNA of \$2,948,000,000 and \$3,498,000,000, respectively (see Note 5). Interest expense on notes payable to the affiliate was \$58,366,000 and \$63,207,000 for the years ended December 31, 2021 and 2020, respectively. Included in payables to affiliates is accrued interest of \$5,355,000 and \$9,295,000 as of December 31, 2021 and 2020, respectively. The Company also had short-term borrowings from KNA funded from Kubota Insurance Corporation (KIC) in the amount of \$270,000,000 as of December 31, 2021 and \$195,000,000 as of December 31, 2020 with interest rates of 0.1925% as of December 31, 2021 and 2.00% as of December 31, 2020. Interest expense on these short-term borrowings from KNA funded from KIC was \$444,000 and \$3,554,000 for the years ended December 31, 2021 and 2020, respectively. Included in payables to affiliates related to these short-term borrowings is accrued interest of \$444,000 and \$0 as of December 31, 2021 and 2020, respectively. The borrowings are included in related party debt and the related interest payables are included in payables to affiliates in the accompanying consolidated balance sheets.

The Company has amounts payable to affiliate Kubota Tractor Acceptance Corporation (KTAC) of \$2,000 and \$7,000 as of December 31, 2021 and 2020, respectively, which is included in due to affiliates in the accompanying consolidated balance sheets.

The Company has amounts payable to affiliate KNA of \$159,000 and \$0 as of December 31, 2021 and 2020, respectively, which are included in due to affiliates in the accompanying consolidated balance sheets.

The Company has amounts due from affiliate KTC of \$1,507,000 and \$13,185,000 as of December 31, 2021 and 2020, respectively, which are included in due from affiliates in the accompanying consolidated balance sheets.

The Company has various transactions and relationships with its parent and other affiliates. Accordingly, the accompanying consolidated financial statements may not be indicative of the conditions that would have existed or the results of operations that would have been achieved if the Company had operated without such affiliations.

### **3. FINANCE RECEIVABLES**

Finance receivables are originated under a retail finance agreement between KCC and dealers, with limited or no recourse to the dealers, and are generally collateralized by the financed equipment. Terms of the receivables vary from six months to seven years, with interest at rates ranging from 0% to 15%, with the average rates of 2.28% and 2.40% per annum as of December 31, 2021 and 2020, respectively. The current interest rate under the interest rate subvention agreement with KTC (see Note 2) varies from 0% to 13.68% with the average rates of 2.81% and 3.24% per annum as of December 31, 2021 and 2020, respectively.

Scheduled contractual maturities of these receivables as of December 31, 2021, are as follows:

<b>Years Ending December 31</b>	<b>Unrestricted</b>	<b>Securitized</b>
2022	\$1,855,232,000	\$ 608,373,000
2023	1,717,126,000	563,085,000
2024	1,449,744,000	475,404,000
2025	984,335,000	322,786,000
2026	478,148,000	156,796,000
Thereafter	<u>255,587,000</u>	<u>83,813,000</u>
Total	<u>\$6,740,172,000</u>	<u>\$2,210,257,000</u>

**Credit Quality Indicator**—The Company classifies finance receivables into risk categories based on relevant information about the ability of borrowers to service their debt, such as the collection status of receivables, customers' financial health, historical credit loss experience, and economic trends. Subsequent to origination, the Company reviews the credit quality of these receivables on a quarterly basis. The Company's credit quality ratings for these receivables are defined as follows:

**Rank A**—These receivables are performing on schedule under their terms. It is not likely to incur losses arising from customers' inability to repay, and the Company expects to collect all amounts due.

**Rank B**—These receivables require management's attention to potential losses, but are not categorized as Rank C. Such receivables do not indicate that it is probable that losses will be incurred arising from customers' inability to repay.

**Rank C**—The Company becomes aware of a customer's inability to repay, such as the customer's long-term nonperformance, or deterioration in the customer's results of operations or financial position. In such cases, it is probable that losses will be incurred arising from customers' inability to repay.

The recorded investment in finance receivables by credit quality indicator based on the information available at December 31, 2021 and 2020, is as follows:

	<b>2021</b>		<b>2020</b>	
	<b>Unrestricted</b>	<b>Securitized</b>	<b>Unrestricted</b>	<b>Securitized</b>
Credit risk profile by internally assigned rank:				
Rank A	\$ 6,354,660,000	\$ 2,092,324,000	\$ 5,494,044,000	\$ 1,618,198,000
Rank B	385,512,000	117,933,000	394,043,000	113,384,000
Rank C				
	<u>\$ 6,740,172,000</u>	<u>\$ 2,210,257,000</u>	<u>\$ 5,888,087,000</u>	<u>\$ 1,731,582,000</u>

**Aging**—All sales finance receivables are considered past due when any payments, including principal and interest, have not been received by the contractual due date.

The age analysis of past-due finance receivables as of December 31, 2021 and 2020, is as follows:

	2021		2020	
	Unrestricted	Securitized	Unrestricted	Securitized
1 to 29 days past due	\$ 330,622,000	\$ 102,238,000	\$ 346,056,000	\$ 100,438,000
30 to 59 days past due	36,348,000	11,265,000	31,425,000	8,650,000
60 to 89 days past due	7,739,000	1,817,000	7,662,000	1,977,000
90 to 119 days past due	3,417,000	916,000	3,575,000	735,000
120 days and over past due	7,386,000	1,697,000	5,297,000	1,584,000
Current	<u>6,354,660,000</u>	<u>2,092,324,000</u>	<u>5,494,072,000</u>	<u>1,618,198,000</u>
	<u>\$ 6,740,172,000</u>	<u>\$ 2,210,257,000</u>	<u>\$ 5,888,087,000</u>	<u>\$ 1,731,582,000</u>

**Nonaccrual**—Finance receivables are placed on nonaccrual status at the earlier of when the contractual principal and interest are determined to be uncollectible or when these receivables become 90 days or more past due. For these receivables on nonaccrual status, interest income is subsequently recognized only to the extent a cash payment is received. These receivables are restored to accrual status as of the date the principal and interest become less than 90 days past due. Nonaccrual retail finance receivables at December 31, 2021 and 2020, amounted to \$13,416,000 and \$11,191,000, respectively.

#### 4. ALLOWANCE FOR CREDIT LOSSES

An allowance for credit losses is established to cover probable losses arising from customers' inability to repay by type of receivables.

The allowance for credit losses on receivables that will probably not be collected is maintained at a level that is adequate to cover probable losses based on a combination of various factors, such as the customer's ability to repay and collateral values. The allowance for smaller-balance homogeneous receivables is collectively evaluated using reserve rates, which are calculated depending on the period past due, reflecting the collection status of these receivables, historical credit loss experience, economic trends, and other factors. Historical collection trends, as well as prevailing and anticipated economic conditions are routinely monitored by management, and any required adjustment to the allowance is reflected in current operations.

The Company's policy is to charge-off all loan balances of 120 days or greater past due down to the net expected collateral value. Such amounts and their related allowances over this amount are charged off.

When amounts due are determined to be uncollectible or the related collateral is repossessed, any remaining receivables and the related allowance are charged off. The Company records the repossessed assets at estimated fair value, less costs to sell, and reports them in other assets-net in the accompanying consolidated balance sheets, which amounted to \$2,610,000 and \$2,969,000 at December 31, 2021 and 2020, respectively.

Activities in the reserve for credit losses as of December 31, 2021 and 2020, are presented as follows:

	2021	2020
Balance—beginning of year	\$ 26,828,000	\$ 17,916,000
Provisions for credit losses	15,112,000	25,537,000
Recoveries	992,000	852,000
Charge-offs	<u>(15,904,000)</u>	<u>(17,477,000)</u>
Balance—end of year	<u>\$ 27,028,000</u>	<u>\$ 26,828,000</u>

## 5. SECURED DEBT AND RELATED PARTY DEBT

Secured debt and related party debt as of December 31, 2021 and 2020, consist of the following:

	2021	2020
<b>Related Party Debt</b>		
Unsecured loans from KNA, bearing interest at rates ranging from 0.93% to 3.53% per annum in 2021 and 0.93% to 3.66% per annum in 2020, due through December 2024	\$2,948,000,000	\$3,498,000,000
Short-Term Floating rate loans from KNA, bearing an interest rate at December 31, 2021, of 0.50% and 0.51% at December 31, 2020, due upon demand	2,555,154,000	1,379,300,000
Short-Term Floating rate loan from KNA, bearing an interest rate at December 31, 2021, of 0.19% and 2.00% at December 31, 2020, due upon demand	<u>270,000,000</u>	<u>195,000,000</u>
	<u>\$5,773,154,000</u>	<u>5,072,300,000</u>
<b>Secured Debt</b>		
Secured bank loans, collateralized by finance receivables of \$451,031,000 and \$336,735,000 at December 31, 2021 and 2020, respectively, bearing interest at rates ranging from .97% to 2.04% per annum in 2021 and 2.68% to 3.69% per annum in 2020, due through December 2025	\$ 345,456,000	\$ 257,597,000
Securitization borrowings, collateralized by finance receivables of \$2,210,257,000 and \$1,731,582,000 at December 31, 2021 and 2020, respectively, bearing interest at rates ranging from 0.77% to 3.24% per annum, due through June 2027	<u>1,963,238,000</u>	<u>1,549,805,000</u>
	<u>\$2,308,694,000</u>	<u>\$1,807,402,000</u>

The total secured debt recorded in the accompanying consolidated balance sheets includes debt issuance cost of \$4,607,000 and \$3,113,000 for 2021 and 2020, respectively. The Company's secured debt agreements contain customary covenants, including, but not limited to, minimum levels of net worth, liquidity and profitability, and maximum levels of leverage. As of December 31, 2021, the Company was in compliance with all financial covenant requirements.

The expected scheduled principal payments under the Company's contractual debt obligations of the related-party debt (excluding the on-demand obligations) and secured debt as of December 31, 2021, are reflected as follows:

<b>Years Ending December 31</b>	<b>Related Party Debt</b>	<b>Secured Debt Collateralized Bank Loan</b>	<b>Secured Debt Securitized</b>	<b>Total</b>
2022	\$ 928,000,000	\$ 153,303,000	\$ 708,782,000	\$1,790,085,000
2023	1,250,000,000	96,520,000	607,941,000	1,954,461,000
2024	770,000,000	68,333,000	425,702,000	1,264,035,000
2025		27,300,000	208,383,000	235,683,000
2026 and after			12,430,000	12,430,000
<b>Total</b>	<b><u>\$2,948,000,000</u></b>	<b><u>\$ 345,456,000</u></b>	<b><u>\$1,963,238,000</u></b>	<b><u>\$5,256,694,000</u></b>

## 6. SECURITIZATION OF FINANCE RECEIVABLES

The Company, as a part of its overall funding strategy, transfers several separate pools of certain receivables (finance receivables) into VIEs that are SPEs as a part of an asset-backed securities program (the securitizations). The structure of these transactions is such that the transfer of finance receivables did not meet the criteria of sales of receivables and are, therefore, accounted for as secured borrowings. SPEs utilized in securitizations of finance receivables differ from other entities included in the Company's consolidated statements because the assets they hold are legally isolated. Use of the assets held by the SPEs is restricted by the terms of the documents governing the securitization transaction.

In securitizations of finance receivables related to secured borrowings, finance receivables are transferred to certain SPEs that in turn issue debt securities to investors. The resulting secured borrowings are recorded as secured debt in the accompanying consolidated balance sheets. The securitized retail notes are recorded in finance receivables—net in the accompanying consolidated balance sheets. The total restricted assets in the accompanying consolidated balance sheets related to this securitization include the finance receivables securitized less an allowance for credit losses, and other assets primarily representing restricted cash. For these securitizations in which finance receivables are transferred into SPEs, the SPEs supporting the secured borrowings are consolidated because the Company has (1) the power to direct the activities that most significantly affect the SPE's economic performance as the primary servicer of the finance receivables and (2) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the SPEs (through the Company's retention of residual interest in the SPE). No additional support to these SPEs beyond what was previously contractually required has been provided during the reporting periods.

During 2021, an optional purchase and redemption was exercised for one securitization. The outstanding principal balance of the asset-backed notes of \$54,242,000 was paid on the date of the optional redemption for KCOT 2017-1. The Trust was subsequently dissolved in 2021.



The restricted assets (finance receivables securitized, allowance for credit losses and cash and restricted cash) of the consolidated SPEs totaled \$2,231,740,000 and \$1,831,892,000 as of December 31, 2021 and 2020, respectively. The liabilities (notes payable securitized and accrued interest) of these SPEs totaled \$1,959,938,000 and \$1,548,124,000 as of December 31, 2021 and 2020, respectively. The credit holders of these SPEs do not have legal recourse to the Company's general assets.

The components of consolidated restricted assets related to secured borrowings in the securitization transactions at December 31, 2021 and 2020, are as follows:

	<b>2021</b>	<b>2020</b>
Finance receivables—securitized	\$2,210,257,000	\$1,731,582,000
Allowance for credit losses	(5,184,000)	(5,664,000)
Cash and restricted Cash	<u>26,667,000</u>	<u>105,974,000</u>
	<u><b>\$2,231,740,000</b></u>	<u><b>\$1,831,892,000</b></u>

The components of consolidated restricted liabilities related to secured borrowings in the securitization transactions at December 31, 2021 and 2020, are as follows:

	<b>2021</b>	<b>2020</b>
Notes payable—securitized	\$1,959,005,000	\$1,546,692,000
Accrued interest	<u>933,000</u>	<u>1,432,000</u>
	<u><b>\$1,959,938,000</b></u>	<u><b>\$1,548,124,000</b></u>

The notes payable securitized related to these restricted securitized finance receivables are obligations that are payable as the finance receivables are liquidated. Repayment of the notes payable securitized depends primarily on the cash flows generated by the restricted assets. At December 31, 2021, the maximum remaining term of all securitized retail notes was approximately five years.



## 7. INCOME TAXES

The provision for income taxes for the years ended December 31, 2021 and 2020, includes the following:

	2021	2020
Current:		
Federal	\$ 10,040,000	\$ 19,773,000
State	<u>4,392,000</u>	<u>6,690,000</u>
Total current	<u>14,432,000</u>	<u>26,463,000</u>
Deferred:		
Federal	13,973,000	(2,842,000)
State	<u>3,143,000</u>	<u>(650,000)</u>
Total deferred	<u>17,116,000</u>	<u>(3,492,000)</u>
	<u>\$ 31,548,000</u>	<u>\$ 22,971,000</u>

The Company's effective tax rate for the years ended December 31, 2021 and 2020, was 26.62% and 26.31%, respectively. The Company's effective tax rate for 2021 and 2020 differs from the federal statutory rate of 21% due mainly to state income taxes.

Deferred tax assets arise primarily from temporary differences in accumulated depreciation and amortization, deferred subsidy income, allowance for doubtful accounts, state taxes, and certain accrued expenses. Deferred Income Taxes on the consolidated balance sheets as of December 31, 2021 and 2020, consisted of deferred tax assets of \$45,377,000 and \$51,766,000, respectively, while deferred tax liabilities as of December 31, 2021 and 2020, totaled \$14,066,000 and \$3,218,000, respectively.

The Company operates in a number of tax jurisdictions and is subject to examination of its income tax returns by tax authorities in those jurisdictions who may challenge any item on these returns. Because the tax matters challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain. In accordance with ASC 740, *Income Taxes*, the Company recognizes the benefits of uncertain tax positions in its financial statements only after determining that it is more likely than not that the uncertain tax positions will be sustained. Management believes it is more likely than not that the Company will sustain upon audit its current income tax filing positions and deductions and does not anticipate adjustments related to uncertain tax positions in the next 12 months. No reserve for uncertain tax positions has been recorded at December 31, 2021.

The tax years 2015-2020 remain open to examination by the Internal Revenue Service and certain state jurisdictions, respectively, to which the Company is subject to audit.

## 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

**Derivative Financial Instruments**—The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of

variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of December 31, 2021, the Company had two outstanding interest rate swaps designated as cash flow hedges of interest rate risk with notional values of \$157,138,000 and \$50,953,000.

Amounts reported in accumulated other comprehensive income related to the effective portion of the swaps' change in fair value will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates that \$428,000 will be reclassified as an increase to interest expense on the Company's consolidated statement of income in 2022.

The ineffective portion of the change in fair value of derivatives is recognized directly in earnings. The hedge ineffectiveness in earnings for both 2021 and 2020 was zero.

The Company measures its derivative financial instruments at fair value. The fair value of the interest rate swaps include accrued interest and an adjustment for nonperformance risk. The following table presents the fair value of the Company's derivative financial instruments as well as the classification on the accompanying consolidated balance sheets as of December 31, 2021 and 2020.

Derivatives Designed as Hedging Instruments	Balance Sheet Location	Asset/Liability Derivatives Fair Value		Level 3
		2021	2020	
Interest Rate Swaps	Accounts payable and other liabilities	\$ (427,000)	\$ (937,000)	

The table below presents the impact of the Company's derivative financial instruments on the accompanying consolidated income statements as of December 31, 2021 and 2020.

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Recognized in OCI on Derivative—Pretax (Effective Portion)		Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain or (Loss) Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2021	2020		2021	2020		2021	2020
Interest rate swaps	\$(1,023,000)	\$(2,536,000)	Interest expense	\$(1,492,000)	\$(2,104,000)	Interest expense	\$ -	\$ -

The changes in the Company's accumulated other comprehensive income account for the years ended December 31, 2021 and 2020, in the consolidated financial statements are presented below.

	Gains and Losses on Cash Flow Hedges December 31,	
	2021	2020
Beginning balance	\$ (668,000)	\$ (347,000)
Gain (loss) recognized in OCI on Derivative	(428,000)	(898,000)
Tax effect	<u>777,000</u>	<u>577,000</u>
Ending balance	<u><u>\$ (319,000)</u></u>	<u><u>\$ (668,000)</u></u>

**Credit-risk-related Contingent Features**—The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

The Company has agreements with its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

The Company has agreements with its derivative counterparties that contain a provision where if the Company exceeds a ratio of indebtedness to net worth of 15:1, then the Company could be declared in default on its derivative obligations. The Company is in compliance with this provision as of December 31, 2021.

As of December 31, 2021, the Company has not posted any collateral related to these agreements.

## **9. LEASES—LESSOR**

As of January 1, 2020, the Company adopted ASC 842 and during the year began leasing Kubota equipment and a limited amount of non-Kubota equipment to commercial and municipal customers through sales-type, direct financing, and operating leases. As of the date of adoption, there were no leases outstanding thus no transition adjustment was recorded. Sales-type and direct financing leases are reported in Finance Receivables on the consolidated balance sheet. Operating leases are reported in Investment in Operating Leases - Net on the consolidated balance sheet. Initial lease terms generally range from 24 to 60 months. Leases offered by the Company may allow early termination with all the remaining lease payments due at the time of early termination. At the end of the lease, the lessee has the option to purchase the underlying equipment for a fixed price or return it to the dealer. If the equipment is returned to the dealer, the dealer also has the option to purchase the equipment or return it to the Company for remarketing.

The Company estimates the residual values for operating leases at lease inception based on several factors, including lease term, expected hours of usage, historical wholesale sale prices, market dynamics and trends, and dealer residual guarantees. The Company reviews residual value estimates during the lease term and tests the carrying value of its operating lease assets from impairment when events or circumstances necessitate. The depreciation is adjusted on a straight-line basis over the remaining lease term if residual value estimates decline. Lease agreements include usage limits and specifications on machine condition, which allow the Company to assess lessees for excess use or damages to the underlying asset. Operating lease impairments are recorded in administrative and operating expense on the statement of consolidated income.

The Company has elected to combine lease and non-lease components. The lease components include equipment sales price less advance payments while the non-lease components are primarily related to extended warranties. The Company also has elected to exclude from revenue and expenses sales taxes and other similar taxes by a governmental authority and collected by the Company from a lessee. These excluded items are recorded under other assets-net in the consolidated balance sheets.

Lease revenues earned by the Company were as follows:

	<b>2021</b>	<b>2020</b>
Sales-type and direct financing lease revenues	\$ 96,000	\$ 1,000
Operating lease revenues	<u>6,192,000</u>	<u>260,000</u>
Total lease revenues	<u>\$ 6,288,000</u>	<u>\$ 261,000</u>

At the time of accepting a lease that qualifies as a sales-type or direct financing lease, the Company records the gross amount of lease payments receivable and estimated residual value of the leased equipment. The unearned finance income is recognized as revenue over the lease term using the effective interest method.

Sales-type and direct financing lease receivables by product category were as follows:

	<b>2021</b>	<b>2020</b>
Agriculture, turf and UTV	\$ 1,532,000	\$ 247,000
Construction	<u>779,000</u>	<u>35,000</u>
Total	2,311,000	282,000
Guaranteed residual values	11,000	
Unguaranteed residual values	<u>26,000</u>	<u>          </u>
Financing leases receivable	<u>\$ 2,348,000</u>	<u>\$ 282,000</u>

Scheduled payments, including guaranteed residual values, on sales-type and direct financing lease receivables at December 31, 2021, were as follows:

	<b>Lease Receivable</b>
2022	\$ 946,000
2023	784,000
2024	399,000
2025	184,000
Thereafter	<u>9,000</u>
Total	<u>\$ 2,322,000</u>

Lease payments from equipment on operating leases are recorded as income on a straight-line basis method over the lease term. Operating lease assets are recorded at cost and depreciated to their estimated residual value on a straight-line method over the terms of the leases.

The cost of equipment on operating leases by product category was as follows:

	2021	2020
Agriculture, turf and UTV	\$ 32,911,000	\$ 3,643,000
Construction	<u>17,433,000</u>	<u>3,095,000</u>
Total	50,344,000	6,738,000
Accumulated depreciation	<u>(4,158,000)</u>	<u>(112,000)</u>
Investment in operating leases—net	<u>\$ 46,186,000</u>	<u>\$ 6,626,000</u>

The total operating lease residual values at December 31, 2021 and 2020, were \$31,177,000 and \$4,132,000, respectively. As of December 31, 2021 and 2020, there were no operating leases that were subject to residual guarantees.

Lease payments for investment in operating leases at December 31, 2021, were scheduled as follows:

	Lease Receivable
2022	\$ 7,058,000
2023	4,937,000
2024	1,581,000
2025	182,000
Thereafter	<u>6,000</u>
Total	<u>\$ 13,764,000</u>

If equipment is not purchased by lessees or dealers at the end of lease term, it is returned to the Company for remarketing. The returned asset will be recorded at the lower of net book value or estimated fair market value less costs to sell and reported under inventory held for sale – leased assets in the consolidated balance sheets. As of December 31, 2021, there were no matured operating leases in inventory. Matured operating lease inventory is reported in other assets-net on the consolidated balance sheet.

#### 10. LEASES—LESSEE

As of January 1, 2020, the Company adopted ASC 842 for assets it leases from other entities and took the modified retrospective approach. As of the date of adoption, the Company had one office building lease totaling \$1,582,000 and six car operating leases totaling \$71,000 that were recorded as right of use assets and lease liabilities. The lease values are determined at the start of each lease and based on the present value of the lease payments over the lease term. The Company has reviewed all existing contracts and has ensured no embedded leases exist by which the Company controls the underlying assets or asset groups.

As of December 31, 2021, the Company has five operating leases which consist of an office building lease and four car leases. The Company has elected to not combine lease and non-lease components. The lease components include base rent on the building and monthly rental charge on each leased car. The non-lease components include monthly proportionate share of operating expenses in connection

with operation, ownership, management, repair and maintenance of the asset leased. The right of use assets for these leases are reported in Other Assets - Net on the consolidated balance sheet. The corresponding lease liabilities are reported in Accounts Payable and Other Liabilities on the consolidated balance sheet.

**Office Building Lease**—The office building lease is a related party office building lease agreement between KNA and the Company. The lease includes office space at 1000 Kubota Drive at the Texas Headquarters location of which the Company's proportionate share of the lease space is 24%. The original contract was a 3-year lease commencing on January 1, 2017. As of January 1, 2020, the lease was amended to extend for an additional 3-year term, expiring on December 31, 2022. The amendment also includes an automatic renewal for successive one-year periods after the expiration date of December 31, 2022, in which the Company is reasonably certain to exercise. Since the interest rate implicit in the lease is not determinable, the Company utilized its weighted average long-term borrowing rate for the Company as of January 1, 2020.

**Car Leases**—KTC (Kubota Tractor Corporation) has four lease agreements with Enterprise Fleet Management for cars that are assigned to and utilized by the Company's sales staff. On a monthly basis, KTC passes the lease costs to the Company through intercompany cross charges. The car leases are pooled and range from 30 month to 48 month lease periods. The discount rates utilized are the internal rate of return for the capitalized cost of each car's discounted payments and ending residual value.

The lease costs for December 31, 2021, was as follows:

	2021	2020
<b>Lease cost</b>		
Operating lease cost	\$ 597,000	\$ 601,000
Total lease cost	<u>\$ 597,000</u>	<u>\$ 601,000</u>
<b>Operating leases (right-of-use assets and liabilities)</b>		
Other assets—net	\$ 605,000	\$ 1,095,000
Accounts payable and other liabilities	\$(605,000)	\$(1,095,000)
<b>Other Information</b>		
Cash paid for amounts included in lease liabilities:		
Operating cash flows from operating leases	\$ 597,000	\$ 601,000
Weighted-average remaining lease term—operating	1.2 years	2.0 years
Weighted-average discount rate—operating leases	3.36 %	3.48 %

Maturity analysis of lease liabilities at December 31, 2021, are as follows:

	<b>Lease Liability</b>
2022	\$ 580,000
2023	22,000
2024	15,000
2025	4,000
2026	
Thereafter	<hr/>
Total lease payments	621,000
Less discount	<hr/> 16,000
Total lease liabilities	<u><u>\$ 605,000</u></u>

#### **11. COMMITMENTS AND CONTINGENCIES**

The Company is involved with various legal matters associated with its normal course of business. In the opinion of management, the matters will be resolved without material effect on the Company's consolidated financial position, results of operations, or cash flows.

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