



KOMATSU FINANCE AMERICA, INC.

Financial Statements

March 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

KOMATSU FINANCE AMERICA, INC.

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Komatsu Finance America, Inc.:

We have audited the accompanying financial statements of Komatsu Finance America, Inc., which comprise the balance sheets as of March 31, 2021 and 2020, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Komatsu Finance America, Inc. as of March 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
July 1, 2021

KOMATSU FINANCE AMERICA, INC.

Balance Sheets

March 31, 2021 and 2020

(In thousands)

Assets	2021	2020
Current assets:		
Loans receivable from affiliate	\$ 1,073,550	1,219,800
Prepaid expenses	431	666
Total current assets	1,073,981	1,220,466
Other assets:		
Loans receivable from affiliate	1,833,461	1,628,636
Total assets	\$ 2,907,442	2,849,102
Liabilities and Stockholder's Equity		
Current liabilities:		
Commercial Paper	\$ 728,550	899,800
Current maturities of Bonds and Euro Medium Term Notes, net of unamortized debt issuance costs	345,000	319,896
Accrued interest expense	10,619	9,112
Accrued income tax payable and other	454	1,743
Total current liabilities	1,084,623	1,230,551
Noncurrent liabilities:		
Bonds payable, less current maturities, net of unamortized debt issuance costs	798,468	499,154
Euro Medium Term Notes, less current maturities, net of unamortized debt issuance costs	829,767	925,000
Total noncurrent liabilities	1,628,235	1,424,154
Total liabilities	2,712,858	2,654,705
Stockholder's equity:		
Common stock, \$1 par value. Authorized, 3,000 shares; issued and outstanding, 1000 shares	1	1
Additional paid-in capital	140,199	140,199
Retained earnings	54,384	54,197
Total stockholder's equity	194,584	194,397
Total liabilities and stockholder's equity	\$ 2,907,442	2,849,102

See accompanying notes to financial statements.

KOMATSU FINANCE AMERICA, INC.

Statements of Operations

March 31, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Interest income from loans to affiliate	\$ 53,832	74,837
Interest expense	48,478	65,969
Amortization of debt issuance costs	<u>731</u>	<u>600</u>
Net interest income	4,623	8,268
General and administrative expenses	<u>2,617</u>	<u>1,329</u>
Operating income	2,006	6,939
Income tax expense	<u>216</u>	<u>1,596</u>
Net income	<u>\$ 1,790</u>	<u>5,343</u>

See accompanying notes to financial statements.

KOMATSU FINANCE AMERICA, INC.

Statements of Changes in Stockholder's Equity

March 31, 2021 and 2020

(In thousands)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, March 31, 2019	1,000	\$ 1	140,199	50,535	190,735
Net income	—	—	—	5,343	5,343
Dividend paid to affiliate	—	—	—	(1,681)	(1,681)
Balance, March 31, 2020	1,000	1	140,199	54,197	194,397
Net income	—	—	—	1,790	1,790
Dividend paid to affiliate	—	—	—	(1,603)	(1,603)
Balance, March 31, 2021	<u>1,000</u>	<u>\$ 1</u>	<u>140,199</u>	<u>54,384</u>	<u>194,584</u>

See accompanying notes to financial statements.

KOMATSU FINANCE AMERICA, INC.

Statements of Cash Flows

March 31, 2021 and 2020

(In thousands)

	2021	2020
Cash flows from operating activities:		
Net income	\$ 1,790	5,343
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase (decrease) in accrued interest expense	1,507	(1,181)
Cost of bonds issuance	731	600
Other changes, net	(1,054)	367
Cash provided by operating activities	2,974	5,129
Cash flows from investing activities:		
Collection of principal from affiliate	246,596	129,490
Proceeds loaned to affiliates	(305,171)	(177,738)
Net cash used in investing activities	(58,575)	(48,248)
Cash flows from financing activities:		
Proceeds (repayments) from Commercial Paper, net	(171,250)	99,800
Proceeds from borrowings – Euro Medium Term Notes	250,000	—
Repayments – Bonds and Euro Medium Term Notes	(320,000)	(55,000)
Proceeds from issuance of bonds	300,000	—
Debt issuance costs	(1,546)	—
Dividend paid to affiliate	(1,603)	(1,681)
Net cash provided by financing activities	55,601	43,119
Net increase (decrease) in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of year	—	—
Cash and cash equivalents, end of year	\$ —	—
Supplemental cash flow information:		
Interest paid	\$ 46,971	67,150
Income taxes paid	1,457	1,521

See accompanying notes to financial statements.

KOMATSU FINANCE AMERICA, INC.

Notes to Financial Statements

March 31, 2021 and 2020

(In thousands)

(1) Organization and Business

Komatsu Finance America, Inc. (the Company) was incorporated under the laws of the State of Delaware on March 18, 1996, as a wholly owned subsidiary of Komatsu America Corp. (the Parent). The Parent is a wholly owned subsidiary of Komatsu, Ltd.

The Company's primary business is raising funds through the issuance of debt obligations, including Commercial Paper, Bonds and the Euro Medium Term Note Programme (the Programme). Under the Programme, the Company, Komatsu, Ltd. and certain of its subsidiaries may from time to time issue notes denominated in any agreed upon currency, not exceeding \$2 billion or its equivalent in other currencies in aggregate nominal amount. The \$2 billion represents the borrowing availability for the year ended March 31, 2021. The Company has made application to the Financial Services Authority for notes issued under the Programme to be admitted to trading on the London Stock Exchange's Professional Securities Market. There are no notes issued by the Company listed as of March 31, 2021.

The Company, in turn, loans the funds received from issuing bonds and notes to the Parent at mutually agreed rates of interest. The interest earned on these loans is the primary source of the Company's income.

(2) Significant Accounting Policies

(a) *Basis of Preparation of the Financial Statements*

The financial statements of the Company are prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP).

(b) *Cash and Cash Equivalents*

Cash consists of cash deposits maintained in banks. The Company did not maintain any cash and cash equivalent balances as of March 31, 2021 or 2020.

(c) *Loans Receivable from Affiliate*

Loans receivable from affiliate are stated at the outstanding principal balance as the Company has the intent and ability to hold the loans for the foreseeable future or until maturity or payoff. The Company's loans receivable are presented in current and other assets in the balance sheet based on the maturities of the Company's outstanding debt, as the Company uses these funds to repay the debt. The Company's loans receivable are owed by the Parent, and the Parent makes payments to the Company as the Company's debt matures.

(d) *Income Taxes*

The Company is included in the consolidated federal and state income tax returns of the Parent. The provision for income taxes reflected in the financial statements has been computed as if the Company was a stand-alone entity and filed separate tax returns.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. A valuation

KOMATSU FINANCE AMERICA, INC.

Notes to Financial Statements

March 31, 2021 and 2020

(In thousands)

allowance is established whenever management believes that it is more likely than not that deferred tax assets may not be realizable.

GAAP requires management to evaluate tax positions taken by the Company and recognize a tax liability if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the Company, and has concluded that as of March 31, 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition or disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions with March 31, 2018 to March 31, 2021 potentially open to examination.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes.

(e) Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate realization of assets and settlement of liabilities in the future could differ from those estimates.

(f) General and Administrative Expenses

General and administrative expenses consist primarily of professional fees and services related to the issuance of the Euro Medium Term Notes, Commercial Paper, and the Bond issuances. Ongoing operations are supported by employees of the Parent.

(3) Transactions with Related Parties

The Company engages in transactions with its Parent in the normal course of business. The Company loans funds on a revolving basis to the Parent at mutually agreed rates of interest. The Parent uses the proceeds from these loans in its operations, as well as to fund other affiliates based on operational needs. The Company also paid a dividend to the Parent of \$1,603 and \$1,681 during the years ended March 31, 2021 and March 31, 2020, respectively.

There are significant related party transactions included within loans receivable from its affiliate and Interest income from loans to its affiliate.

The loans receivable due from the Parent bear interest at weighted average rates, which ranged from 1.56% to 2.24% during the year ended March 31, 2021 and 2.34% to 2.71% during the year ended March 31, 2020. As the receivable balance is due from the Parent, management believes that there are no significant credit risks involved. Therefore, no allowance for doubtful accounts was maintained as of March 31, 2021 or 2020.

KOMATSU FINANCE AMERICA, INC.

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March 31, 2021 and 2020

(In thousands)

(4) Income Taxes

The results from the Company's operations are included in the consolidated income tax returns of the Parent. The Company has a tax-sharing agreement with the Parent, whereby the Company shares in income tax liabilities and benefits of the Parent's consolidated tax filing group based primarily on separate taxable income calculations and allocations of any excess tax credits utilized on a consolidated basis. The income tax provision in the accompanying statements of operations was computed as if the Company filed a separate income tax return. Total income tax expense was \$216 and \$1,596 for the years ended March 31, 2021 and 2020, respectively.

(5) Short-Term Debt

Short-term debt consisted of the following as of March 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Commercial paper	\$ 728,550	899,800
Total short-term debt	<u>\$ 728,550</u>	<u>899,800</u>

In May 2018, the Company established a \$1.0 billion U.S. Commercial Paper Note Program with Komatsu, Ltd. as the guarantor, and began issuing commercial paper notes. To provide the necessary liquidity backstop for such commercial paper program, the Company established a \$500 million, 364-day revolving credit facility and a \$500 million, five-year revolving credit facility in May 2018, both of which are also guaranteed by Komatsu, Ltd. In May 2020, the Company renewed the 364-day revolving credit facility with a limit of \$462.5 million. As of March 31, 2021, \$728,550 of U.S. commercial paper notes of the Company are issued and outstanding under its U.S. Commercial Paper Note Program.

(6) Long-Term Debt

Long-term debt consisted of the following as of March 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Bonds payable	\$ 800,000	800,000
Euro Medium Term Notes	1,175,000	945,000
Total long-term debt	1,975,000	1,745,000
Less:		
Current maturities, net of debt issuance costs	345,000	319,896
Unamortized debt issuance costs	1,765	950
Long-term debt	<u>\$ 1,628,235</u>	<u>1,424,154</u>

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March 31, 2021 and 2020

(In thousands)

(a) Bonds

KFA issued two long term corporate bonds that were issued in the year ending March 31, 2018. The three-year bond that was issued in the year ending March 31, 2018 matured during the year ended March 31, 2021. The matured bond is detailed as follows:

	<u>Carrying amount</u>	<u>Interest rate</u>	<u>Issue date</u>	<u>Maturity date</u>
Three-year Bond	\$ 300,000	2.12 %	September 11, 2017	September 11, 2020

A new three-year bond was issued during the year ended March 31, 2021. As of March 31, 2021, the open bonds are detailed as follows:

	<u>Carrying amount</u>	<u>Interest rate</u>	<u>Issue date</u>	<u>Maturity date</u>
Five-year Bond	\$ 500,000	2.44 %	September 11, 2017	September 11, 2022
Three-year Bond	300,000	0.85	September 9, 2020	September 9, 2023

(b) Komatsu, Ltd. Keep-Well Agreements

Komatsu, Ltd. and the Company entered into a keep-well agreement dated March 28, 1996, as restated on April 1, 1999 (related to the Programme). Under the terms of this agreement, each holder of the Company's debt is entitled severally to make a direct demand on Komatsu, Ltd to perform the Company's obligations and enforce the provisions of this agreement against Komatsu, Ltd. directly. The agreement further requires Komatsu, Ltd. to maintain tangible net worth of the Company of at least one dollar at all times for the Programme.

(c) Euro Medium Term Notes

On March 28, 1996, Komatsu, Ltd. and the Parent entered into a \$1 billion Euro Medium Term Note Programme (the Programme). The Programme allows the Parent and certain of its subsidiaries, including the Company, to issue notes denominated in any agreed upon currency, which in aggregate do not exceed \$1 billion, or its equivalent in other currencies. On September 1, 2017, the Company renewed the Programme, where the borrowing availability was increased to \$2 billion. On August 30, 2019, the Company renewed the Programme, where borrowing availability was decreased to \$1.5 billion. On August 31, 2020, the Company renewed the Programme, where the borrowing availability was increased to \$2 billion. The Company issued \$250 million of Euro Medium Term Notes during the year ended March 31, 2021, with maturity dates ranging from 2023 to 2025. The Company did not issue any Euro Medium Term Notes during the year ended March 31, 2020.

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(In thousands)

Interest rates are based on various fixed rates or the three-month London Interbank Offering Rate (LIBOR) with a borrowing spread of LIBOR plus 85 basis points as of March 31, 2021. The interest rates for debt outstanding during the year ended March 31, 2021 ranged from 0.74% to 3.11% and during the year ended March 31, 2020 ranged from 2.32% to 3.11%.

(d) Debt Maturities

The aggregate principal amounts of debt maturing in each of the next five years are as follows:

Year ending March 31:	
2022 (current)	\$ 345,000
2023	700,000
2024	350,000
2025	380,000
2026	200,000
Thereafter	—
	<u>\$ 1,975,000</u>

(7) Subsequent Events

The Company has evaluated subsequent events and transactions from the balance sheet date through July 1, 2021, the date at which the financial statements were issued.

In May 2021, the Company renewed the 364-day revolving credit facility portion of the U.S. Commercial Paper Note Program with Komatsu, Ltd. as the guarantor. The renewed 364-day revolving facility has a limit of \$600 million.

In June 2021, the U.S. Commercial Paper Note Program was increased from \$1.0 billion to \$1.1 billion, which aligns with the liquidity backstop provided by the 364-day and five-year revolving credit facilities.

The Company has determined that there have been no other subsequent events that occurred during such period that would require disclosures or be required to be recognized in the financial statements, as of or for the year ended March 31, 2021.