



**KOMATSU FINANCE AMERICA, INC.**

Financial Statements

March 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

**KOMATSU FINANCE AMERICA, INC.**

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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, 2020 and 2019, and the related statements of operations, changes in stockholder's 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, 2020 and 2019, 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 27, 2020

**KOMATSU FINANCE AMERICA, INC.**

Balance Sheets

March 31, 2020 and 2019

(In thousands)

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets:		
Loans receivable from affiliate	\$ 1,219,800	855,000
Prepaid expenses	666	910
Total current assets	1,220,466	855,910
Other assets:		
Loans receivable from affiliate	1,628,636	1,945,188
Total assets	\$ 2,849,102	2,801,098
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities:		
Commercial paper	\$ 899,800	800,000
Current maturities of Bonds & Euro Medium Term Notes, net of unamortized debt issuance costs	319,896	55,000
Accrued interest expense	9,112	10,293
Accrued income tax payable and other	1,743	1,620
Total current liabilities	1,230,551	866,913
Noncurrent liabilities:		
Bonds payable, less current maturities, net of unamortized debt issuance costs	499,154	798,450
Euro Medium Term Notes, less current maturities	925,000	945,000
Total noncurrent liabilities	1,424,154	1,743,450
Total liabilities	2,654,705	2,610,363
Stockholder's equity:		
Common stock, \$1 par value. Authorized, 3,000 shares; issued and outstanding, 1,000 shares	1	1
Additional paid-in capital	140,199	140,199
Retained earnings	54,197	50,535
Total stockholder's equity	194,397	190,735
Total liabilities and stockholder's equity	\$ 2,849,102	2,801,098

See accompanying notes to financial statements.

**KOMATSU FINANCE AMERICA, INC.**

Statements of Operations

March 31, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Interest income from loans to affiliate	\$ 74,837	73,071
Interest expense	65,969	63,321
Amortization of debt issuance costs	<u>600</u>	<u>600</u>
Net interest income	8,268	9,150
General and administrative expenses	<u>1,329</u>	<u>1,905</u>
Operating income	6,939	7,245
Income tax expense	<u>1,596</u>	<u>1,641</u>
Net income	<u>\$ 5,343</u>	<u>5,604</u>

See accompanying notes to financial statements.

**KOMATSU FINANCE AMERICA, INC.**

Statements of Changes in Stockholder's Equity

March 31, 2020 and 2019

(In thousands)

	<b>Common stock</b>		<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
Balance, March 31, 2018	1,000	\$ 1	140,199	45,656	185,856
Net income	—	—	—	5,604	5,604
Dividend paid to affiliate	—	—	—	(725)	(725)
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

See accompanying notes to financial statements.

**KOMATSU FINANCE AMERICA, INC.**

Statements of Cash Flows

March 31, 2020 and 2019

(In thousands)

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Net income	\$ 5,343	5,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in accrued interest expense	(1,181)	(930)
Amortization of debt issuance costs	600	600
Other changes, net	367	237
Cash provided by operating activities	5,129	5,511
Cash flows from investing activities:		
Collection of principal from affiliate	129,490	51,720
Loans to affiliate	(177,738)	(781,506)
Net cash used in investing activities	(48,248)	(729,786)
Cash flows from financing activities:		
Proceeds from commercial paper, net	99,800	800,000
Repayments of Euro Medium Term Notes	(55,000)	(75,000)
Dividend paid to affiliate	(1,681)	(725)
Net cash provided by financing activities	43,119	724,275
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	\$ 67,150	64,251
Income taxes paid	1,521	1,236

See accompanying notes to financial statements.

## KOMATSU FINANCE AMERICA, INC.

Notes to Financial Statements

March 31, 2020 and 2019

(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 \$1.5 billion or its equivalent in other currencies in aggregate nominal amount. The \$1.5 billion represents the borrowing availability for the year ended March 31, 2020. 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, 2020.

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, 2020 or 2019.

#### (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.



## KOMATSU FINANCE AMERICA, INC.

### Notes to Financial Statements

March 31, 2020 and 2019

(In thousands)

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 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, 2020, 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, 2014 to March 31, 2020 potentially open to examination. The Company is currently under federal audit, through its Parent, for years March 31, 2014 through March 31, 2018.

#### **(e) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires us 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 \$1,681 and \$725 during the years ended March 31, 2020 and March 31, 2019, 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 2.34% to 2.71% during the year ended March 31, 2020 and 2.35% to 2.85% during the year ended March 31, 2019. 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, 2020 or 2019.

**KOMATSU FINANCE AMERICA, INC.**

## Notes to Financial Statements

March 31, 2020 and 2019

(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 \$1,596 and \$1,641 for the years ended March 31, 2020 and 2019, respectively.

**(5) Short-Term Debt**

Short-term debt consisted of the following as of March 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Commercial paper	\$ 899,800	800,000
Total short-term debt	<u>\$ 899,800</u>	<u>800,000</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. As of March 31, 2020, \$899,800 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Bonds payable	\$ 800,000	800,000
Euro Medium Term Notes	945,000	1,000,000
Total long-term debt	1,745,000	1,800,000
Less:		
Current maturities, net of debt issuance costs	319,896	55,000
Unamortized debt issuance costs	950	1,550
Long-term debt	<u>\$ 1,424,154</u>	<u>1,743,450</u>

**KOMATSU FINANCE AMERICA, INC.**

Notes to Financial Statements

March 31, 2020 and 2019

(In thousands)

**(a) Bonds**

KFA issued two long-term corporate bonds that were issued in the year ending March 31, 2018. These bonds are 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
Five-year bond	500,000	2.44	September 11, 2017	September 11, 2022

**(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 Company entered 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. The Company did not issue any Euro Medium Term Notes during the year ended March 31, 2020 or 2019.

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, 2020. The interest rates for debt outstanding during the year ended March 31, 2020 ranged from 2.32% to 3.11% and during the year ended March 31, 2019 ranged from 2.32% to 3.05%.

**KOMATSU FINANCE AMERICA, INC.**

Notes to Financial Statements

March 31, 2020 and 2019

(In thousands)

**(d) Debt Maturities**

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

Year ending March 31:		
2021 (current)	\$	320,000
2022		345,000
2023		700,000
2024		—
2025 and thereafter		<u>380,000</u>
	\$	<u><u>1,745,000</u></u>

**(7) Subsequent Events**

The Company has evaluated subsequent events and transactions from the balance sheet date through July 27, 2020, the date at which the financial statements were issued.

In May 2020, 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 \$462.5 million, resulting in a new total limit of \$962.5 million.

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, 2020.