KOMATSU FINANCE AMERICA, INC.

Financial Statements

March 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Komatsu Finance America, Inc.:

We have audited the accompanying financial statements of Komatsu Finance America, Inc., a wholly owned subsidiary of Komatsu America Corp., which comprise the balance sheets as of March 31, 2016 and 2015, 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 auditors consider 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, 2016 and 2015, 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
June 1, 2016

KOMATSU FINANCE AMERICA, INC.

Balance Sheets

Years ended March 31, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Current assets:			
Loans receivable from affiliate	$	389,500	355,500
Deferred income taxes		132	497
Prepaid expenses		426	1,027
Total current assets		390,058	357,024
Other assets:			
Loans receivable from affiliate		328,035	718,724
Deferred income taxes		—	468
Total other assets		328,035	719,192
Total assets	$	718,093	1,076,216
Liabilities and Stockholder's Equity			
Current liabilities:			
Current maturities of long-term debt (including $141,363 and $356,864 at fair value in 2016 and 2015, respectively)	$	389,863	356,864
Accrued interest expense		2,484	4,303
Accrued income tax payable and other		479	421
Total current liabilities		392,826	361,588
Noncurrent liabilities:			
Long-term debt, less current maturities (including $66,729 and $209,284 at fair value in 2016 and 2015, respectively)		141,729	532,784
Deferred Income Taxes		99	—
Total noncurrent liabilities		141,828	532,784
Total liabilities		534,654	894,372
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		43,239	41,644
Total stockholder's equity		183,439	181,844
Total liabilities and stockholder's equity	$	718,093	1,076,216

See accompanying notes to financial statements.

KOMATSU FINANCE AMERICA, INC.

Statements of Operations

Years ended March 31, 2016 and 2015

(In thousands)

		2016	2015
Interest income from loans to affiliates	$	14,007	17,763
Interest expense		11,956	16,244
Net interest income		2,051	1,519
General and administrative expenses		739	1,081
Change in fair value of long-term debt		2,556	4,166
Operating income		3,868	4,604
Income tax expense		1,411	1,732
Net income	$	2,457	2,872

See accompanying notes to financial statements.

KOMATSU FINANCE AMERICA, INC.

Statements of Changes in Stockholder's Equity

Years ended March 31, 2016 and 2015

(In thousands)

	Common stock		Additional paid-in capital	Retained earnings	Total
	Shares	Amount			
Balance, March 31, 2014	1,000	$ 1	140,199	39,861	180,061
Net income	—	—	—	2,872	2,872
Dividend	—	—	—	(1,089)	(1,089)
Balance, March 31, 2015	1,000	1	140,199	41,644	181,844
Net income	—	—	—	2,457	2,457
Dividend	—	—	—	(862)	(862)
Balance, March 31, 2016	1,000	$ 1	140,199	43,239	183,439

See accompanying notes to financial statements.

KOMATSU FINANCE AMERICA, INC.

Statements of Cash Flows

Years ended March 31, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from operating activities:		
Net income	$ 2,457	2,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in fair value of long-term debt	(2,556)	(4,166)
Deferred income taxes	932	1,572
Decrease in accrued interest expense	(1,819)	(921)
Other changes, net	659	919
Net cash provided by (used in) operating activities	(327)	276
Cash flows from investing activities:		
Collection of principal from affiliates	371,983	255,394
Loans to affiliates	(15,294)	(41,581)
Net cash provided by investing activities	356,689	213,813
Cash flows from financing activities:		
Proceeds from borrowings – Long-term debt	—	—
Repayments – Long-term debt	(355,500)	(213,000)
Dividend payment	(862)	(1,089)
Net cash used in financing activities	(356,362)	(214,089)
Net change 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	$ 13,775	17,165
Income taxes paid	479	160

See accompanying notes to financial statements.

(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 Limited.

The Company's primary business is raising funds through the issuance of debt obligations, which currently includes a Euro Medium Term Note Programme (the Programme). Under the Programme; the Company, Komatsu Limited and certain of its subsidiaries may from time to time issue notes denominated in any agreed upon currency, not exceeding $1,400,000 or its equivalent in other currencies in aggregate nominal amount. 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, 2016.

The Company, in turn, loans the funds to the Parent at market rates of interest. The interest earned on these loans is the primary source of the Company's income.

(2) Significant Accounting Policies

(a) 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, 2016 or 2015.

(b) Loans Receivable from Affiliates

Loans receivable from affiliates 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 the balance sheet as current and noncurrent based on the maturities of the Company's outstanding debt. The Company's loans receivable are owed by the Parent, and the Parent makes payments to the Company as the Parent's debt matures.

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) 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, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions, with March 31, 2013 to March 31, 2016 potentially open to examination, however, there are currently no audits for any periods in progress.

(d) Use of Estimates

The preparation of 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) 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. Ongoing operations are supported by employees of the Parent, and the Parent does not allocate any costs to the Company related to these services.

No recently issued accounting standards were adopted by the Company in the current period or will be adopted in future periods that had or are expected to have a material impact on the Company's financial statements or accompanying note disclosures.

The Company had no items of other comprehensive income for the years ended March 31, 2016 and 2015.

(3) Financial Instruments

(a) Fair Value Measurements of Financial Instruments

The Company elected to apply the fair value guidance described in ASC Topic 825, *Financial Instruments*, to all notes issued under the Euro Medium Term Note Programme during the fiscal year ended March 31, 2010 through September 30, 2013. In accordance with this policy election, the Company reports all Euro Medium Term Note instruments issued during this period at fair value at each period-end with the change in fair value recorded in change in fair value of long-term debt on the statement of operations for the respective period. The Company has not elected the fair value option for any instruments issued subsequent to September 30, 2013 and as such, the Company does not mark those instrument to fair value at each period-end. The Company reported $323,500 of debt at carrying value at March 31, 2016 and 2015. The Company reported $208,092 and $566,148 of debt at fair value at March 31, 2016 and 2015, respectively.

The following tables present the amounts recorded on the balance sheet and estimated fair values of the Company's financial instruments at March 31, 2016 and 2015. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

		2016	
		Recorded amount	**Fair value**
Liabilities:			
Euro Medium Term Notes	$	531,592	531,409

		2015	
		Recorded amount	**Fair value**
Liabilities:			
Euro Medium Term Notes	$	889,648	890,485

The instruments shown in the table above are included in the balance sheet captions titled long-term debt and current maturities of long-term debt. Fair values of short- and long-term debt have been estimated based on various factors, including maturity schedules and current market rates.

The carrying value approximates fair value for loans receivable from affiliates based primarily on the variable interest rates for these instruments.

(b) Fair Value Hierarchy

The Company follows ASC Topic 820, *Fair Value Measurement*, relating to fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(In thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at March 31, 2016:

	Fair value measurements at reporting date using			
	Balance as of March 31, 2016	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Liability:				
Euro Medium Term Notes $	208,092	—	208,092	—

The Company has classified these fair values as Level 2. These fair values were calculated by a financial institution using market data and their proprietary model.

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at March 31, 2015:

	Fair value measurements at reporting date using			
	Balance as of March 31, 2015	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Liability:				
Euro Medium Term Notes $	566,148	—	566,148	—

There were no transfers between levels during the years ended March 31, 2016 or 2015.

(4) 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 market 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 Company of approximately $0.9 million and $1.1 million as of March 31, 2016 and March 31, 2015, respectively.

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

The loans receivable due from the Parent bear interest at weighted average rates, which ranged from 0.70% to 0.99% during the year ended March 31, 2016 and 0.88% to 1.12% during the year ended March 31, 2015.

(In thousands)

As the receivable balance is due from the Company's Parent, management believes that there are no significant credit risks involved. Therefore, no allowance for doubtful accounts was maintained as of March 31, 2016 or 2015.

(5) 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.

The income tax expense for the years ended March 31, 2016 and 2015 consisted of the following:

		2016	2015
Current	$	479	160
Deferred		932	1,572
Total	$	1,411	1,732

The Company's effective tax rate for both 2016 and 2015 slightly exceeded the U.S. federal statutory rate primarily due to U.S. state and local income taxes.

The net deferred tax assets of $33 and $965 at March 31, 2016 and 2015, respectively, consist of temporary differences related primarily to losses on debt instruments valued at fair value. Management believes that it is more likely than not that the Company will realize the benefits of its gross deferred tax assets.

(6) Long-Term Debt

Long-term debt consisted of the following as of March 31, 2016 and 2015:

		2016	2015
Euro Medium Term Notes	$	531,500	887,000
Net loss due to changes in fair value for instruments accounted for at fair value		92	2,648
		531,592	889,648
Less current maturities		389,863	356,864
Long-term debt	$	141,729	532,784

(In thousands)

(a) Euro Medium Term Notes

On March 28, 1996, Komatsu Limited and the Parent entered into a $1,000,000 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 $1,000,000, or its equivalent in other currencies. On September 17, 2014, borrowing availability under the Programme was increased to $1,600,000. On September 16, 2015, borrowing availability under the Programme was decreased to $1,400,000. The Company did not issue any Euro Medium Term Notes during the years ended March 31, 2016 or 2015.

Interest rates are based on various fixed rates or the three-month London Interbank Offering Rate (LIBOR) with borrowing spreads ranging from LIBOR plus 65 basis points to LIBOR plus 85 basis points as of March 31, 2016. The interest rates for debt outstanding during the year ended March 31, 2016 ranged from 1.27% to 2.25% and during the year ended March 31, 2015 ranged from 0.91% to 2.26%.

(b) Komatsu Limited Keep-Well Agreements

Komatsu Limited 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 Limited to perform the Company's obligations and enforce the provisions of this agreement against Komatsu Limited directly. The agreement further requires Komatsu Limited to maintain tangible net worth of the Company of at least one dollar at all times for the Programme.

(c) Debt Maturities

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

Year ending March 31:		
2017		389,500
2018		67,000
2019		75,000
2020		—
2021		—
	$	531,500

(7) Subsequent Events

The Company has evaluated subsequent events and transactions from the balance sheet date through June 1, 2016, the date at which the financial statements were issued. There have been no 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, 2016.