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Capital Research Company

*(A Wholly Owned Subsidiary of Capital
Research and Management Company)*

**Financial statements as of and for the years ended
June 30, 2018 and 2017**

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Company Number FC017708

Capital Research Company

Balance sheets

June 30, 2018 and 2017 (dollars in thousands, except share and par value amounts)

Assets	2018 (unaudited)	2017 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 48,955	\$ 52,021
Investment securities available for sale	29,831	28,990
Receivables	14,207	7,017
Income tax receivable	4,026	41
Prepaid expenses	540	547
Total current assets	97,559	88,616
Property, at cost:		
Land	38,471	38,471
Buildings	232,843	231,909
Furniture, equipment and software	6,503	6,503
Leasehold improvements	35,785	37,531
Total Property	313,602	314,414
Accumulated depreciation and amortization	(145,889)	(139,937)
Property, net	167,713	174,477
Other assets, noncurrent:		
Restricted cash	12,543	12,341
Deferred income taxes, net	6,539	10,897
Deposits	33	—
Total other assets	19,115	23,238
Total	\$ 284,387	\$ 286,331

(continued)

Capital Research Company

Balance sheets

June 30, 2018 and 2017 (dollars in thousands, except share and par value amounts)

	2018 (unaudited)	2017 (unaudited)
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,538	\$ 4,825
Accrued compensation and benefits	11,923	9,507
Income tax payable	2,992	2,142
Total current liabilities	27,453	16,474
Noncurrent liabilities – Income tax payable	6,467	1,836
Total liabilities	33,920	18,310
Stockholder's equity:		
Capital stock, \$10 par value – 150,000 shares authorized; 100,000 shares issued and outstanding in 2018 and 2017	1,000	1,000
Additional paid-in capital	2	2
Retained earnings	252,205	270,347
Accumulated other comprehensive loss, net of taxes	(2,740)	(3,328)
Total stockholder's equity	250,467	268,021
Total	\$ 284,387	\$ 286,331
		(concluded)

See notes to financial statements.

On behalf of the Board:



Brad Vogt
Chairman and Principal Executive Officer

Company Number FC017708

Capital Research Company

Statements of income

Years ended June 30, 2018 and 2017 (dollars in thousands)

	2018 (unaudited)	2017 (unaudited)
Operating revenues:		
Research fees	\$ 88,411	\$ 75,722
Other	<u>14,632</u>	<u>14,587</u>
Total operating revenues	<u>103,043</u>	<u>90,309</u>
Operating expenses:		
Compensation and benefits	78,842	64,026
Other expenses – including administrative, information technology, office facilities, professional services and travel expenses	<u>15,538</u>	<u>16,334</u>
Total operating expenses	<u>94,380</u>	<u>80,360</u>
Income from operations	8,663	9,949
Other income, net	<u>410</u>	<u>1,209</u>
Income before income taxes	9,073	11,158
Income taxes	<u>7,215</u>	<u>5,412</u>
Net income	<u>\$ 1,858</u>	<u>\$ 5,746</u>

See notes to financial statements

Capital Research Company

Statements of comprehensive income

Years ended June 30, 2018 and 2017 (dollars in thousands)

	2018 (unaudited)	2017 (unaudited)
Net income	\$ 1,858	\$ 5,746
Other comprehensive income (loss):		
Foreign exchange translation adjustments, net of taxes	587	(1,081)
Net unrealized gain (loss) on investment securities available for sale arising during the year, net of taxes	<u>1</u>	<u>(40)</u>
Comprehensive income	<u>\$ 2,446</u>	<u>\$ 4,625</u>

See notes to financial statements

Capital Research Company

Statements of stockholder's equity

Years ended June 30, 2018 and 2017 (dollars in thousands)

	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholder's equity
Balance, June 30, 2016 (unaudited)	\$ 1,000	\$ 2	\$ 264,601	\$ (2,207)	\$ 263,396
Comprehensive income:					
Net income			5,746		5,746
Foreign exchange translation adjustments, net of taxes of \$(518)				(1,081)	(1,081)
Net unrealized loss on investment securities available for sale arising during the year, net of taxes of \$(25)				(40)	(40)
Balance, June 30, 2017 (unaudited)	1,000	2	270,347	(3,328)	268,021
Cash dividends			(20,000)		(20,000)
Comprehensive income:					
Net income			1,858		1,858
Foreign exchange translation adjustments, net of taxes of \$1,135				587	587
Net unrealized gain on investment securities available for sale arising during the year, net of taxes of \$1				1	1
Balance, June 30, 2018 (unaudited)	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 252,205</u>	<u>\$ (2,740)</u>	<u>\$ 250,467</u>

See notes to financial statements

Capital Research Company

Statements of cash flows

Years ended June 30, 2018 and 2017 (dollars in thousands)

	2018 (unaudited)	2017 (unaudited)
Cash flows from operating activities:		
Net income	\$ 1,858	\$ 5,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,028	8,723
Amortization of premiums and accretion of discounts on investment securities, net	(128)	576
Deferred income taxes	3,223	34
Changes in assets and liabilities:		
Receivables	(7,190)	3,037
Prepaid expenses	7	(117)
Deposits	(33)	—
Accounts payable and accrued expenses	7,623	(1,293)
Accrued compensation and benefits	2,416	571
Income tax receivable/payable	1,496	538
Total adjustments and changes	15,442	12,069
Net cash provided by operating activities	17,300	17,815
Cash flows from investing activities:		
Purchases of property	(1,174)	(2,215)
Net deposits of restricted cash	(202)	(714)
Purchases of investment securities available for sale	(59,262)	(88,869)
Proceeds from maturities of investment securities available for sale	58,550	88,515
Net cash used in investing activities	(2,088)	(3,283)
Cash flows from financing activity – Dividends paid	(20,000)	—
Effects of exchange rate changes on cash	1,722	(1,599)
Net (decrease) increase in cash and cash equivalents	(3,066)	12,933
Cash and cash equivalents, beginning of year	52,021	39,088
Cash and cash equivalents, end of year	\$ 48,955	\$ 52,021
Supplemental schedule of noncash:		
Investing activities:		
Accrual for purchases of property	\$ 90	\$ 30
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 2,459	\$ 4,811

See notes to financial statements

Notes to financial statements

Years ended June 30, 2018 and 2017 (dollars in thousands)

1. Summary of significant accounting policies

Nature of operations – Capital Research Company (the “Company”) is a wholly owned subsidiary of Capital Research and Management Company (the “Parent”) and a second-tier subsidiary of The Capital Group Companies, Inc. (“Capital Group”). The Company provides investment research to affiliates. This service represents the Company’s principal source of revenue.

Basis of presentation – The Company’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Estimates – The preparation of the financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Significant estimates made by management relate primarily to the recognition of certain expense accruals and fair value measurements.

Estimates used to measure fair value affect the carrying amount of investments classified as available for sale, and the recognition of impairment charges on certain investments for which estimated fair value has declined below amortized cost.

Foreign currency matters – The Company’s reporting currency is the U.S. dollar. Assets and liabilities of a foreign branch that has a non-U.S. dollar functional currency are translated using the exchange rate prevailing at the balance sheet date. Revenue, expenses, gains and losses for such branch are translated using an average of exchange rates prevailing throughout the fiscal year. Foreign exchange translation adjustments are reported, net of tax, in accumulated other comprehensive loss (“AOCL”) within stockholder’s equity.

Converting foreign-denominated assets and liabilities to the U.S. dollar reporting currency results in translation gains or losses that are reflected in other income in the statement of income.

Cash and cash equivalents – Cash includes demand deposit accounts. Cash equivalents consist principally of shares of government money market funds for which the Parent serves as the investment adviser.

Restricted cash – Restricted cash represents cash held in banks located in the United Kingdom (“U.K.”) to meet capital requirements imposed by the Financial Conduct Authority, an agency in the U.K. that regulates financial services firms and financial advisers.

Depreciation and amortization of property – Depreciation of buildings, furniture, equipment and software is generally computed using the straight-line method over estimated useful lives of 3 to 39 years. Amortization of leasehold improvements is computed using the straight-line method over the estimated life of the related asset or the term of the lease, whichever is shorter.

Investment securities – The Company classifies its investments in debt as available for sale, and these investments are recorded at fair value. Unrealized gains and losses on investment securities are reported, net of tax, in AOCL within stockholder’s equity. Investment securities available for sale are classified as current, without regard to contractual maturities, unless the Company has pledged these investments, holds them to fulfill statutory requirements, or intends to hold the investments for more than one year beyond the balance sheet date.

The specific identification method is used to compute realized gains or losses on the sale of these assets. The effective interest method is used to account for the amortization of premiums and accretion of discounts on securities. Interest and dividends are recorded when earned and are included in other income.

The Company evaluates the carrying value of investment securities available for sale for impairment on an annual basis, taking into consideration numerous criteria, including the duration and extent of a decline in

fair value. For debt securities, the Company evaluates whether it intends to sell the debt security, if it is more likely than not the Company will be required to sell the debt security prior to recovery, or if a credit loss exists. If a decline is determined to be other than temporary, unrealized losses previously recognized in AOCL are reclassified to other income in the statements of income for the amount of the other-than-temporary impairment. At June 30, 2018 and 2017, neither the Company's debt nor equity securities were other than temporarily impaired.

Fair value measurements – The Company measures the fair value of its assets and liabilities for financial reporting or disclosure purposes using methods and assumptions that are appropriate in the circumstances. Under U.S. GAAP, the objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). To meet this objective, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs, which are evaluated using the following hierarchy:

- Level 1 – Values are based on quoted prices in active markets for identical securities.
- Level 2 – Values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets.
- Level 3 – Values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the securities.

Income taxes – The Company's results are included in consolidated tax returns filed by Capital Group, and the Company is allocated income taxes based on the separate return method. However, if the Company incurs a loss that is utilized by Capital Group, the loss is characterized as realized and the Company is reimbursed. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are subject to a valuation allowance if, in the Company's opinion, it is more likely than not that these benefits will not be realized.

The Tax Cuts and Jobs Act ("Tax Act") signed on December 22, 2017 made significant changes to the U.S. tax code. The Company has completed its evaluation of the impacts of the Tax Act as it relates to the financial statements for the fiscal year ended June 30, 2018. The primary impact of the Tax Act to the Company is the change in the corporate federal income tax rate from 35% to 21%, effective January 1, 2018. Taxpayers with fiscal years that differ from the calendar year are required to use a blended rate to compute the current year tax liability, taking into consideration the effective date of the change in tax law. The applicable blended rate for the fiscal year ended June 30, 2018 is 28%. The deferred tax assets (net of deferred tax liabilities) as of June 30, 2018, will be realized in future periods at a tax rate of 21%.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes* provides that a tax benefit from a tax position may be recognized when, based on the technical merits, it is more likely than not that the position will be sustained upon an examination that is presumed to occur, including resolution of any related appeals or litigation processes. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company evaluates material tax positions in relevant tax jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Guidance in ASC 740 related to uncertain tax positions did not have a material effect on the financial condition or results of operations as of and for the years ended June 30, 2018 and 2017.

The Company recognizes the accrual of interest and penalties on uncertain tax positions in other income. For the years ended June 30, 2018 and 2017, the Company did not recognize any material tax related interest or penalties.

The Company is subject to examination by U.S. federal tax authorities for tax returns filed for the prior three years and by state tax authorities for the prior four years. The time allowed for foreign tax authorities to examine tax returns varies by country.

Revenue recognition – Revenue from providing research services is recognized during the period in which services are performed. The revenue is determined under an intercompany compensation

arrangement, whereby the Parent reimburses the Company for the costs of performing services plus an agreed upon markup.

The Company charges a facilities usage fee for affiliates' use of Company owned office facilities, which is determined using intercompany agreements and is recognized ratably over the term of usage. Such revenue is reported as other revenue on the statements of income.

Operating expenses – The Company receives an allocation of only direct expenses paid for by affiliates within the Capital Group organization, in contrast with indirect expenses. Direct expenses may be described as goods or services received directly by the reporting entity but paid for by an affiliate. Indirect expenses may be described as expenses incurred by an affiliate for purposes of performing a function or service that indirectly benefits the reporting entity. Indirect expenses that are not allocated to the Company include accounting and legal services, talent management and human resources, tax and treasury functions and other general and administrative expenses.

Other income – For the years ended June 30, 2018 and 2017, other income is comprised of interest income of \$4 and \$341, dividend income of \$781 and \$60, foreign currency transaction (loss) gain of \$(375) and \$817, and miscellaneous other expense of nil and \$9, respectively.

Recent accounting pronouncements – In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 amends certain requirements related to the recognition, measurement, presentation, and disclosure of financial instruments. Under the amendments in this update, nonpublic companies are not required to disclose the fair value of financial instruments that are not measured at fair value on the balance sheet. The Company early adopted this nonpublic company exemption. The Company is currently evaluating the impact of the future adoption of this ASU's remaining provisions, which are effective for the fiscal year ending June 30, 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this update supersedes the requirements in Topic 840, *Leases*. ASU No. 2016-02 requires lessees to recognize assets and liabilities arising from most operating leases on the balance sheet. The Company is currently evaluating the impact of the future adoption of this ASU, which is effective for the fiscal year ending June 30, 2021.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this update supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. The Company is currently evaluating the impact of the future adoption of this ASU, which is effective for the fiscal year ending June 30, 2020.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-03")*, which eliminated certain disclosures related to transfers between Levels 1 and 2 of the fair value hierarchy. Other provisions have no material impact on the Company's financial statements or related notes. The Company has early adopted this standard, applying the provisions retrospectively to all periods presented herein.

2. Investment securities

Investment securities classified as available for sale and carried at fair value are as follows:

	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:				
U.S. Treasury:				
Due in one year or less	\$ 29,832	\$ –	\$ 1	\$ 29,831
	June 30, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:				
U.S. Treasury				
Due in one year or less	\$ 28,993	\$ –	\$ 3	\$ 28,990

For U.S. treasury, the Company considers the severity of a decline in fair value, the duration or both to determine if these securities are other than temporarily impaired. The Company's investment securities available for sale that are not deemed to be other than temporarily impaired are segregated by those that have been in a continuous unrealized loss position for less than 12 months and for 12 months or longer as follows:

June 30, 2018	
Less than 12 months	
Fair value	Unrealized losses
U.S. Treasury	
\$ 29,831	\$ 1
June 30, 2017	
Less than 12 months	
Fair value	Unrealized losses
U.S. Treasury	
\$ 28,990	\$ 3

As of June 30, 2018 and 2017, the Company had no investment securities available for sale that have been in a continuous unrealized loss position for 12 months or longer. There were no sales of investment securities in 2018 or 2017.

3. Fair value disclosures

The following assets are measured at fair value on a recurring basis. The following table shows the categorization of fair value measurements within the fair value hierarchy in accordance with the Company's accounting policy and in accordance with the requirements of ASC 820, Fair Value Measurement.

June 30, 2018				
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Government money market funds	\$ 48,955	\$ –	\$ –	\$ 48,955
Investment securities available for sale:				
U.S. Treasury		29,831	–	29,831
	<u>\$ 48,955</u>	<u>\$ 29,831</u>	<u>\$ –</u>	<u>\$ 78,786</u>
June 30, 2017				
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Government money market funds	\$ 52,021	\$ –	\$ –	\$ 52,021
Investment securities available for sale:				
U.S. Treasury	–	28,990	–	28,990
	<u>\$ 52,021</u>	<u>\$ 28,990</u>	<u>\$ –</u>	<u>\$ 81,011</u>

The Company uses the following methods and inputs to establish the fair value of its assets and liabilities. Use of particular methods and inputs may vary over time based on availability and relevance as market and economic conditions evolve.

Government money market funds – Shares of these funds are valued at quoted market prices that represent the published net asset value of the shares serving as the basis for current transactions.

U.S. Treasury – These are valued using benchmark yields and interest rate volatilities.

4. Indemnifications, guarantees, and commitments

Management has reviewed the indemnification provisions of its material contracts. In the normal course of its business, the Company enters into contracts in which it makes representations and warranties as well as standard "hold harmless" indemnifications to counterparties. These agreements include certain real estate leases under which the Company may be required to indemnify property owners for claims arising from the Company's use of the applicable premises. The obligation amounts of these types of agreements are not explicitly stated; therefore, the overall maximum amount of the obligations cannot be reasonably estimated. However, management believes it is unlikely the Company will have to make material payments under these agreements, and no liabilities related to these agreements have been recognized in the Company's financial statements.

Future minimum operating lease commitments are as follows:

Years ending June 30	
2019	\$ 11,017
2020	11,348
2021	11,689
2022	12,040
2023	3,040
Thereafter	–
Total	<u>\$ 49,134</u>

Affiliates and others utilize 100% of the leased space and are allocated or charged a proportionate share of the leased costs.

5. Income taxes

The income tax provision (benefit) consists of the following:

	Year ended June 30, 2018	Year ended June 30, 2017
Federal		
Current	\$ (1,910)	\$ 1,753
Deferred	4,742	23
	<u>2,832</u>	<u>1,776</u>
State and foreign		
Current	5,902	3,625
Deferred	(1,519)	11
	<u>4,383</u>	<u>3,636</u>
Total	<u>\$ 7,215</u>	<u>\$ 5,412</u>

The net deferred tax asset consists of the following.

	June 30, 2018	June 30, 2017
Deferred tax assets		
Accrued compensation and benefits	\$ 3,614	\$ 2,615
Accrued expenses and other	189	323
Depreciation and amortization	3,440	6,099
Unrealized loss on foreign exchange translation	806	1,935
Unrealized loss on investment securities available for sale	—	1
Total deferred tax assets	<u>8,049</u>	<u>10,973</u>
Deferred tax liabilities		
State franchise taxes	61	76
Deferred Foreign Tax Credit	1,449	—
Total deferred tax liabilities	<u>1,510</u>	<u>76</u>
Net deferred tax asset	<u>\$ 6,539</u>	<u>\$ 10,897</u>

The Company has not established a valuation allowance against the net deferred tax asset as the Company has determined it will, more likely than not, realize the asset.

The income tax receivable/payable balances primarily relate to amounts receivable/payable between Capital Group and the Company for jurisdictions in which Capital Group and the Company file a consolidated/combined tax return.

The effective income tax rate differs from the federal statutory rate primarily due to state income taxes and permanent differences between taxable income and financial statement income related to items such as non-deductible expenses and the impact of the Tax Act.

6. Retirement plans

The Company participates with Capital Group and affiliates in defined contribution retirement plans covering substantially all of its associates. The Company annually contributes up to 15% of each participant's eligible compensation. Contributions for associates residing outside the United States are made to local plans. Total retirement plan expenses were \$2,754 and \$2,443 in 2018 and 2017, respectively.

7. Transactions with affiliates

Research fee revenues include charges to affiliates of \$88,411 and \$75,722 in 2018 and 2017, respectively. Other revenues include facility usage fees charged to affiliates of \$14,632 and \$14,587 in 2018 and 2017, respectively. Receivables at June 30, 2018 and 2017 include \$13,941 and \$6,896, respectively, and accounts payable and accrued expenses at June 30, 2018 and 2017 include \$11,052 and \$3,853, respectively, relating to transactions with affiliates. Receivables at June 30, 2018 and 2017 are primarily related to research fees and accounts payable and accrued expenses at June 30, 2018 and 2017 are primarily related to compensation and employee benefits. Given the significance of the aforementioned related party transactions, the operations of the Company could be materially different if the Company were a stand-alone entity.

8. Accumulated other comprehensive loss

The following table presents before tax changes in AOCL by component for 2018 and 2017:

	Unrealized gains (losses) on investment securities available for sale	Foreign exchange translation adjustments	Total
Balance, June 30, 2016	\$ 63	\$ (3,681)	\$ (3,618)
Other comprehensive loss	(65)	(1,599)	(1,664)
Balance, June 30, 2017	(2)	(5,280)	(5,282)
Other comprehensive income	2	1,722	1,724
Balance, June 30, 2018	\$ —	\$ (3,558)	\$ (3,558)

No amounts were reclassified out of AOCL for 2018 and 2017.

9. Subsequent events

The Company has evaluated subsequent events through September 28, 2018, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2018, that require recognition in the Company's financial statements as of and for the year ended June 30, 2018, or disclosure in the notes thereto.
