KYOKUTO KOWA CORPORATION

Financial Statements
for the year ended March 31, 2015
and Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Hiroshima Business Tower
3-33, Hacchobori, Naka-ku
Hiroshima-shi, Hiroshima 730-0013
Japan

Tel:+81 (82) 222 7050
Fax:+81 (82) 222 7233
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KYOKUTO KOWA CORPORATION:

We have audited the accompanying balance sheet of KYOKUTO KOWA CORPORATION as of March 31, 2015, and the related statements of income, and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act of Japan and applicable regulations and accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. 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 auditor's 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 KYOKUTO KOWA CORPORATION as of March 31, 2015, and the results of its operations for the year then ended in accordance with the Companies Act of Japan and applicable regulations and accounting principles generally accepted in Japan.

Emphasis of Matter

As explained in Note 1 to the financial statements, the information provided in the notes to the financial statements is limited to that required by the Companies Act of Japan and applicable regulations.
Statements of comprehensive income and cash flows are not required as a part of the basic financial statements under the Companies Act of Japan and applicable regulations and, accordingly, are not presented herein.
Our opinion is not modified in respect of these matters.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 18, 2015

KYOKUTO KOWA CORPORATION
Balance Sheet
March 31, 2015

ASSETS	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2015
CURRENT ASSETS:		
Cash and cash equivalents (Note 7)	¥ 312	$ 2,596
Receivables (Notes 7 and 8):		
Trade notes	277	2,305
Trade accounts	3,156	26,263
Parent company and affiliated companies (Note 8)	101	840
Other	214	1,781
Inventories (Note 3.a)	1,566	13,032
Deferred tax assets (Note 6)	80	666
Prepaid expenses and other current assets	4	33
Total current assets	5,710	47,516
PROPERTY, PLANT AND EQUIPMENT:		
Land (Note 3.b)	926	7,706
Buildings and structures (Note 3.b)	1,870	15,561
Machinery and equipment (Note 3.b)	2,203	18,332
Tools, furniture and fixtures	983	8,180
Total	5,982	49,779
Accumulated depreciation	(4,420)	(36,781)
Net property, plant and equipment	1,562	12,998
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 7)	56	466
Deferred tax assets (Note 6)	49	408
Other assets (Note 8)	171	1,423
Allowance for doubtful accounts	(18)	(150)
Total investments and other assets	258	2,147
TOTAL	¥ 7,530	$ 62,661

LIABILITIES AND EQUITY	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2015
CURRENT LIABILITIES:		
Current portion of long-term loans (Note 7)	¥ 83	$ 691
Payables (Notes 7 and 8):		
Trade notes	908	7,556
Electronically recorded obligations	389	3,237
Trade accounts	2,102	17,492
Parent company and affiliated companies (Note 8)	186	1,548
Other	90	749
Income taxes payable (Note 7)	61	507
Advances received on uncompleted construction contracts (Note 7)	1,141	9,495
Allowance for losses on construction contracts (Note 3.d)	111	924
Other current liabilities	123	1,023
Total current liabilities	5,194	43,222
LONG-TERM LIABILITIES:		
Long-term loans (Note 7)	69	574
Other	24	200
Total long-term liabilities	93	774
Total liabilities	5,287	43,996
CONTINGENT LIABILITIES (Note 3.c)		
EQUITY (Notes 4, 5, and 9):		
Common stock—authorized, 30,000,000 shares; issued, 8,620,000 shares in 2015	100	832
Capital surplus:		
Additional paid-in capital	195	1,623
Other capital surplus	812	6,757
Retained earnings:		
Legal reserve	118	982
Unappropriated	1,015	8,447
Unrealized gain on available-for-sale securities	3	24
Total equity	2,243	18,665
TOTAL	¥ 7,530	$ 62,661

See notes to financial statements.

KYOKUTO KOWA CORPORATION
Statement of Income
Year Ended March 31, 2015

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2015	2015
NET SALES (Note 8)	¥ 15,299	$ 127,311
COST OF SALES (Note 8)	13,407	111,567
Gross profit	1,892	15,744
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	1,369	11,392
Operating income	523	4,352
OTHER INCOME (EXPENSES) (Note 8):		
Interest and dividend income	2	17
Royalty income	10	83
Interest expense	(3)	(25)
Financing expenses	(10)	(83)
Other—net	5	41
Other income—net	4	33
INCOME BEFORE INCOME TAXES	527	4,385
INCOME TAXES (Note 6):		
Current	216	1,797
Deferred	38	316
Total income taxes	254	2,113
NET INCOME	¥ 273	$ 2,272
	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 4 and 9):		
Basic net income	¥ 31.71	$ 0.26
Cash dividends applicable to the year	24.00	0.20

See notes to financial statements.

KYOKUTO KOWA CORPORATION
Statement of Changes in Equity
Year Ended March 31, 2015

	Thousands	Millions of Yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain on Available-for-Sale Securities	Total Equity
			Additional Paid-In Capital	Other Capital Surplus	Legal Reserve	Unappropri -ated		
BALANCE, MARCH 31, 2014	8,620	¥ 100	¥ 195	¥ 812	¥ 118	¥ 948	¥ 0	¥ 2,173
Net income						273		273
Cash dividends, ¥24 per share						(206)		(206)
Net change in the year							3	3
BALANCE, MARCH 31, 2015	8,620	¥ 100	¥ 195	¥ 812	¥ 118	¥ 1,015	¥ 3	¥ 2,243

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain on Available-for-Sale Securities	Total Equity
		Additional Paid-In Capital	Other Capital Surplus	Legal Reserve	Unappropri -ated		
BALANCE, MARCH 31, 2014	$ 832	$ 1,623	$ 6,757	$ 982	$ 7,889	$ 0	$ 18,083
Net income					2,272		2,272
Cash dividends, $0.2 per share					(1,714)		(1,714)
Net change in the year						24	24
BALANCE, MARCH 31, 2015	$ 832	$ 1,623	$ 6,757	$ 982	$ 8,447	$ 24	$ 18,665

See notes to financial statements.

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared from the accounts maintained by KYOKUTO KOWA CORPORATION (the "Company"), in accordance with the provisions set forth in the Companies Act of Japan and applicable regulations and in accordance with accounting principles generally accepted in Japan. The information provided in the notes to the financial statements is limited to that required by the Companies Act of Japan and applicable regulations. Statements of comprehensive income and cash flows are not required as a part of the basic financial statements under the Companies Act of Japan and applicable regulations and, accordingly, are not presented herein.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.17 to $1, the approximate rate of exchange at March 31, 2015. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Inventories***—Construction projects in progress, finished products, and work in process are stated at cost as determined by the specific identification method. Raw materials and supplies are stated at cost as determined by the moving-average method. The write-downs of inventories due to decreased profitability are reflected in the valuation of raw materials and supplies and the accompanying loss is recognized as cost of goods sold, in principle.

b. ***Property, plant and equipment***—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings, excluding building fixtures, acquired on or after April 1, 1998. The range of useful lives is principally from 12 to 38 years for building and structures and from 3 to 9 years for machinery and equipment and tools, furniture and fixtures.

c. ***Long-Lived Assets***—The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

d. ***Investment securities***—Investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities. They are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. ***Allowance for Doubtful Accounts***—The allowance for doubtful accounts is provided for at an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated by applying the percentage of actual losses on collection experienced in the past to remaining receivables.

f. ***Allowance for Losses on Construction Contract***—To cover losses which have a high probability of occurring in the future upon work completion, an allowance for estimated losses is provided based on the amount of orders received and the estimated cost.

g. ***Retirement Benefits***—The Company has a defined contribution pension plan. Retirement allowances for directors are included in Long-term liabilities (other) in the amount of ¥3 million ($25 thousand) for the year ended March 31, 2015, which would be required if all directors retired at the balance sheet date.

h. ***Construction Contracts***— In December 2007, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

The revenues recognized by the percentage-of-completion method for the year ended March 31, 2015, were ¥9,611 million ($79,978 thousand).

i. ***Income tax***—The provision for income taxes is computed based on the pretax income included in the statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company's parent company files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries. The Company is included in the consolidated corporate tax system.

j. ***Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying statement of income are dividends applicable to the fiscal year, including dividends to be paid after the end of the year.

3. NOTES TO BALANCE SHEET

a. Inventories

Inventories at March 31, 2015, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Construction projects in progress	¥ 1,067	$ 8,879
Finished products	437	3,637
Work in process	11	92
Raw materials and supplies	51	424
Total	¥ 1,566	$ 13,032

b. Pledged assets

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Assets pledged as collateral:		
Land	¥ 853	$ 7,098
Buildings and structures	445	3,703
Machinery and equipment	39	325
Total	¥ 1,337	$ 11,126
The following assets, which are included above, are pledged as factory foundation collateral:		
Land	¥ 853	$ 7,098
Buildings and structures	345	2,871
Machinery and equipment	39	325
Total	¥ 1,237	$ 10,294

The Company pledged the above assets as collateral to secure the following parent company's bank loans.

Secured liabilities:		
Loans from banks of parent company	¥ 2,457	$ 20,446

c. Contingent liabilities

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Guarantees to loans from banks of parent company	¥ 1,732	$ 14,413
Trade notes endorsed	300	2,496
Total	¥ 2,032	$ 16,909

d. Estimated loss on uncompleted construction contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amount of ¥111 million ($924 thousand) as of March 31, 2015.

4. NOTES TO STATEMENT OF CHANGES IN EQUITY

a. Type and number of outstanding shares

For the year ended March 31, 2015

Type of shares	Number of Shares			
	Balance at Beginning of Year	Increase in Shares During the Year	Decrease in Shares During the Year	Balance at End of Year
Issued stock:				
Common stock	8,620,000	—	—	8,620,000

b. Dividends

(1) Dividends paid to shareholders
For the year ended March 31, 2015

		Amount		Amount per Share			
Resolution Approved by	Type of Shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Cutoff Date	Effective Date
Annual General Meeting of Shareholders (June 24, 2014)	Common stock	¥103	$857	¥12	$0.10	March 31, 2014	June 25, 2014
Board of Directors (October 24, 2014)	Common stock	¥103	$857	¥12	$0.10	September 30, 2014	November 28, 2014

(2) Dividends with a cutoff date during the fiscal year but an effective date subsequent to the fiscal year
For the year ended March 31, 2015

		Amount		Amount per Share			
Resolution Approved by	Type of Shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Cutoff Date	Effective Date
Annual General Meeting of Shareholders (June 24, 2015)	Common stock	¥103	$857	¥12	$0.10	March 31, 2015	June 25, 2015

5. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

6. INCOME TAXES

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2015, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Deferred tax assets:		
Allowance for losses on construction contracts	¥ 39	$ 325
Allowance for doubtful accounts	6	50
Loss carryforward	84	699
Other	29	241
Subtotal	158	1,315
Valuation allowance	(27)	(225)
Total	131	1,090
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(2)	(16)
Total	(2)	(16)
Net deferred tax assets	¥ 129	$ 1,074

7. FINANCIAL INSTRUMENTS

a. Overview

(1) Policy for financial instruments

The Company raises funds by borrowing from the parent company and banks. Also, the Company restricts temporary excess fund management to highly secure assets such as time deposits.

(2) Types of financial instruments related risks and risk management

Receivables, such as trade notes and trade accounts, are exposed to the credit risk of customers. In order to mitigate the risk when orders are received, the Company conducts strict screening and determines project plans on the basis of internal guidelines. As investment securities are exposed to market risk, the Company monitors market prices of these securities.

Long-term loans are used for operations or capital investment.

The Company does not engage in derivative transactions.

b. Fair value of financial instruments

The following table shows the carrying values and fair values of financial instruments as of March 31, 2015, and any differences. Certain financial instruments for which it is extremely difficult to determine the fair value are not included.

	Millions of Yen			Thousands of U.S. Dollars		
At March 31, 2015	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
Assets						
Cash and cash equivalents	¥ 312	¥ 312		$ 2,596	$ 2,596	
Receivables	3,748	3,748		31,189	31,189	
Investment securities	12	12		100	100	
Liabilities						
Payables	3,675	3,675		30,582	30,582	
Income taxes payable	61	61		507	507	
Advances received on uncompleted construction contracts	1,141	1,141		9,495	9,495	
Long-term loans	152	153	¥ 1	1,265	1,273	$ 8

Note: Current portion of long-term loans is contained in long-term loans

Assets

Cash and cash equivalents and Receivables

Since cash and cash equivalents and receivables are settled in a short period of time, the carrying value approximates fair value.

Investment securities

The fair value of stocks is determined based on quoted market price.

Liabilities

Payables, Income taxes payable and Advances received on uncompleted construction contracts

Since these accounts are settled in a short period of time, the carrying value approximates fair value.

Long-term loans

The fair value is based on the present value of the total principal and interest discounted by an interest rate to be applied if similar new loans are entered into.

c. Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Nonlisted stocks	¥ 44	$ 366

It is extremely difficult to determine the fair values for these securities since they have no quoted market prices available. Thus, they are not included in "Investment securities" above.

8. RELATED PARTY DISCLOSURE

a. Affiliated companies

Transactions of the Company with affiliated companies for the year ended March 31, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Net sales	¥ 5	$ 42
Cost of sales	402	3,345
Selling, general and administrative expenses	14	117
Nonoperating transactions	2	17

The balances due to or from affiliated companies at March 31, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Receivables	¥ 16	$ 133
Payables	35	291

b. Parent company

Transactions of the Company with the parent company for the year ended March 31, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Fee for consulting and administrative service	¥ 124	$ 1,032
Rental fee for land and office buildings	114	949
Guarantees of the Company's liabilities	153	1,273
Guarantees to parent company's liabilities	1,732	14,413
Pledged assets for parent company's liabilities	1,337	11,126

The balances due to or from the parent company at March 31, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Receivables	¥ 85	$ 707
Other assets	59	491
Payables	151	1,257

Business terms:

1. Fees for consulting and administrative services are decided by negotiation with the parent company based on the amount suggested by the parent company.
2. Rental fee for land and office building is decided by negotiating on an arm’s-length basis.
3. The parent company uses a Cash Management System (CMS) for their subsidiaries to control the cash surplus and spend their money efficiently at the group level. The interest rates on loans within the CMS are generally decided based on the current market interest rates available. Because the loans within the group are made as needed, the amounts of the transactions are omitted in the table above.

9. PER SHARE INFORMATION

	Millions of Yen	U.S. Dollars
	2015	2015
Per share amounts:		
Net assets	¥ 260.22	$ 2.17
Basic net income	31.71	0.26

Diluted net income per share is not presented since there are no potentially dilutive shares of common stock issuable upon conversion of the convertible debt.