KYOKUTO KOWA CORPORATION

Financial Statements
for the Year Ended March 31, 2017
and Independent Auditor’s Report

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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, 2017, 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, 2017, 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 this matter.

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 17, 2017

KYOKUTO KOWA CORPORATION
Balance Sheet
March 31, 2017

ASSETS	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:		
Cash and cash equivalents (Note 9)	¥ 637	$ 5,678
Receivables (Notes 9 and 10):		
Trade notes (Note 5.c)	27	241
Electronically recorded monetary claims (Note 5.c)	79	704
Trade accounts	5,158	45,976
Parent company and affiliated companies (Note 10)	18	160
Other	137	1,221
Inventories (Note 5.a and 5.d)	2,187	19,494
Deferred tax assets (Note 8)	126	1,123
Prepaid expenses and other current assets	10	89
Total current assets	8,379	74,686
PROPERTY, PLANT AND EQUIPMENT:		
Land (Note 5.b)	926	8,254
Buildings and structures (Note 5.b)	1,904	16,971
Machinery and equipment (Note 5.b)	2,163	19,280
Tools, furniture and fixtures	976	8,699
Construction in progress	3	27
Total	5,972	53,231
Accumulated depreciation	(4,456)	(39,719)
Net property, plant and equipment	1,516	13,512
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 9)	87	775
Deferred tax assets (Note 8)	0	0
Other assets (Note 10)	270	2,407
Allowance for doubtful accounts	(18)	(160)
Total investments and other assets	339	3,022
TOTAL	¥10,234	$ 91,220

LIABILITIES AND EQUITY	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:		
Short-term borrowings from parent company (Note 9 and 10)	¥ 1,534	$ 13,673
Current portion of long-term loans (Note 9)	20	178
Payables (Notes 9 and 10):		
Trade notes	1,068	9,520
Electronically recorded obligations	1,513	13,486
Trade accounts	1,666	14,850
Parent company and affiliated companies (Note 10)	220	1,961
Other	101	900
Income taxes payable (Note 9)	142	1,266
Advances received on uncompleted construction contracts (Note 9)	1,130	10,072
Allowance for losses on construction contracts (Note 5.d)	179	1,596
Provision for warranties for completed construction	149	1,328
Other current liabilities	256	2,282
Total current liabilities	7,978	71,112
LONG-TERM LIABILITIES:		
Long-term loans (Note 9)	6	53
Other	43	383
Total long-term liabilities	49	436
Total liabilities	8,027	71,548
CONTINGENT LIABILITIES (Note 5.c)		
EQUITY (Notes 6, 7, and 11):		
Common stock—authorized, 30,000,000 shares; issued, 8,620,000 shares in 2017	100	891
Capital surplus:		
Additional paid-in capital	195	1,738
Other capital surplus	812	7,238
Retained earnings:		
Legal reserve	118	1,052
Unappropriated	979	8,726
Unrealized gain on available-for-sale securities	3	27
Total equity	2,207	19,672
TOTAL	¥10,234	$ 91,220

See notes to financial statements.

KYOKUTO KOWA CORPORATION
Statement of Income
Year Ended March 31, 2017

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2017	2017
NET SALES (Note 10)	¥ 16,984	$ 151,386
COST OF SALES (Note 10)	14,899	132,801
Gross profit	2,085	18,585
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	1,468	13,085
Operating income	617	5,500
OTHER INCOME (EXPENSES) (Note 10):		
Interest and dividend income	1	9
Royalty income	11	98
Interest expense	(12)	(107)
Financing expenses	(10)	(89)
Other—net	3	27
Other income (expenses)—net	(7)	(62)
INCOME BEFORE INCOME TAXES	610	5,438
INCOME TAXES (Note 8):		
Current	297	2,647
Deferred	(38)	(338)
Total income taxes	259	2,309
NET INCOME	¥ 351	$ 3,129

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 6 and 11):		
Basic net income	¥ 40.71	$ 0.36
Cash dividends applicable to the year	24.00	0.21

See notes to financial statements.

KYOKUTO KOWA CORPORATION

Statement of Changes in Equity

Year Ended March 31, 2017

	Thousands	Millions of Yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus: Additional Paid-In Capital	Capital Surplus: Other Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Unappropri -ated	Unrealized Gain on Available-for-Sale Securities	Total Equity
BALANCE, MARCH 31, 2016	8,620	¥ 100	¥ 195	¥ 812	¥ 118	¥ 835	¥ 4	¥ 2,064
Net income						351		351
Cash dividends, ¥24 per share						(207)		(207)
Net change in the year							(1)	(1)
BALANCE, MARCH 31, 2017	8,620	¥ 100	¥ 195	¥ 812	¥ 118	¥ 979	¥ 3	¥ 2,207

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus: Additional Paid-In Capital	Capital Surplus: Other Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Unappropri -ated	Unrealized Gain on Available-for-Sale Securities	Total Equity
BALANCE, MARCH 31, 2016	$ 891	$ 1,738	$ 7,238	$ 1,052	$ 7,442	$ 36	$ 18,397
Net income					3,129		3,129
Cash dividends, $0.21 per share					(1,845)		(1,845)
Net change in the year						(9)	(9)
BALANCE, MARCH 31, 2017	$ 891	$ 1,738	$ 7,238	$ 1,052	$ 8,726	$ 27	$ 19,672

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 translation 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 ¥112.19 to $1, the approximate rate of exchange at March 31, 2017. 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 buildings, excluding building fixtures, acquired on or after April 1, 1998, and building fixtures and structures acquired on or after April 1, 2016. The range of useful lives is principally from 12 to 38 years for buildings 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 its net realizable value by an impairment 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 the 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. *Provision for Warranties for Completed Construction* —Provision for warranties for completed construction is provided for anticipated future costs within the warranty period arising from warranties on completed construction.

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, 2017, were ¥13,097 million ($116,739 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 accrued and paid after the end of the year.

3. CHANGES IN ACCOUNTING POLICIES

Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016—Pursuant to an amendment to the Corporate Tax Act, the Company adopted Accounting Standards Board of Japan Practical Issues Task Force No. 32, "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The influence of the change on profit and loss is insignificant.

4. ADDITIONAL INFORMATION

Application of Implementation Guidance on Recoverability of Deferred Tax Assets — The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from the application of ASBJ Guidance No.26 for the year ended March 31, 2017.

5. NOTES TO BALANCE SHEET

a. Inventories

Inventories at March 31, 2017, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Construction projects in progress	¥ 1,569	$ 13,985
Finished products	416	3,708
Work in process	133	1,186
Raw materials and supplies	69	615
Total	¥ 2,187	$ 19,494

b. Pledged assets

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Assets pledged as collateral:		
Land	¥ 853	$ 7,603
Buildings and structures	402	3,583
Machinery and equipment	22	196
Total	¥ 1,277	$ 11,382

The following assets, which are included above, are pledged as factory foundation collateral:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Land	¥ 853	$ 7,603
Buildings and structures	311	2,772
Machinery and equipment	22	196
Total	¥ 1,186	$ 10,571

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

Secured liabilities:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Loans from banks of parent company	¥ 3,125	$ 27,855

c. Contingent liabilities

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Guarantees to loans from banks of parent company	¥ 2,360	$ 21,036
Trade notes endorsed	285	2,540
Endorsement for transfer of electronically recorded monetary claims	125	1,114
Total	¥ 2,770	$ 24,690

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 ¥178 million ($1,587 thousand) as of March 31, 2017.

6. NOTES TO STATEMENT OF CHANGES IN EQUITY

a. Type and number of outstanding shares

For the year ended March 31, 2017	Number of Shares			
Type 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, 2017

		Amount		Amount per Share			
Resolution Approved by	Type of Shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Record Date	Effective Date
Annual General Meeting of Shareholders (June 23, 2016)	Common stock	¥103	$918	¥12	$0.11	March 31, 2016	June 24, 2016
Board of Directors (October 20, 2016)	Common stock	¥103	$918	¥12	$0.11	September 30, 2016	November 30, 2016

(2) Dividends with a record date during the fiscal year but an effective date subsequent to the fiscal year
For the year ended March 31, 2017

		Amount		Amount per Share			
Resolution Approved by	Type of Shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Record Date	Effective Date
Annual General Meeting of Shareholders (June 22, 2017)	Common stock	¥86	$767	¥10	$0.09	March 31, 2017	June 23, 2017

7. 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 does not meet all the above criteria.

Semi-annual 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.

8. INCOME TAXES

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2017, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Deferred tax assets:		
Allowance for losses on construction contracts	¥ 62	$ 553
Provision for warranties for completed construction	51	455
Net operating loss carryforward	8	71
Other	71	632
Subtotal	192	1,711
Valuation allowance	(64)	(570)
Total	128	1,141
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(2)	(18)
Total	(2)	(18)
Net deferred tax assets	¥ 126	$1,123

9. 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 note receivables, electronically recorded monetary claims and trade account receivables, 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, 2017, 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, 2017	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
Assets						
Cash and cash equivalents	¥ 637	¥ 637		$ 5,678	$ 5,678	
Receivables	5,419	5,419		48,302	48,302	
Investment securities	13	13		116	116	
Liabilities						
Short-term borrowings	1,534	1,534		13,673	13,673	
Payables	4,568	4,568		40,717	40,717	
Income taxes payable	142	142		1,266	1,266	
Advances received on uncompleted construction contracts	1,130	1,130		10,072	10,072	
Long-term loans	26	26	¥ 0	231	231	$ 0

Note: The current portion of long-term loans is included 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 prices.

Liabilities
Short-term borrowings , 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
	2017	2017
Non-listed stocks	¥ 74	$ 660

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.

10. RELATED PARTY DISCLOSURE

a. Parent company

Transactions of the Company with the parent company for the year ended March 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Fee for consulting and administrative services	¥ 123	$ 1,096
Rental fees for land and office buildings	118	1,052
Commission fees	4	36
Interest income	0	0
Interest expense	11	98
Guarantees of the Company’s liabilities	27	241
Guarantees to parent company’s liabilities	2,360	21,036
Pledged assets for parent company’s liabilities	1,277	11,382

The balances due to or from the parent company at March 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Receivables	¥ 2	$ 18
Other assets	59	526
Short-term borrowings from parent company	1,534	13,673
Payables	186	1,658

Business terms:

1. Fee for consulting and administrative services are determined through negotiations with the parent company based on the amounts suggested by the parent company.
2. Rental fees for land and office buildings are determined through negotiations with the parent company 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.

b. Affiliated companies

Transactions of the Company with affiliated companies for the year ended March 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Net sales	¥ 15	$ 134
Cost of sales	276	2,460
Selling, general and administrative expenses	15	134
Non-operating transactions	2	18

The balances due from / to affiliated companies at March 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2017
Receivables	¥ 15	$ 134
Payables	34	303

11. PER SHARE INFORMATION

	Yen	U.S. Dollars
	2017	2017
Per share amounts:		
Net assets	¥ 256.05	$ 2.28
Basic net income	40.71	0.36

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