KYOKUTO KOWA CORPORATION

Nonconsolidated Financial Statements
for the year ended March 31, 2014
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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KYOKUTO KOWA CORPORATION:

We have audited the accompanying nonconsolidated balance sheet of KYOKUTO KOWA CORPORATION as of March 31, 2014, and the related nonconsolidated 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 Nonconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated 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 nonconsolidated 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 nonconsolidated 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 nonconsolidated financial statements referred to above present fairly, in all material respects, the financial position of KYOKUTO KOWA CORPORATION as of March 31, 2014, 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 nonconsolidated financial statements, the information provided in the notes to the nonconsolidated 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 qualified 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 nonconsolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 16, 2014

KYOKUTO KOWA CORPORATION
Nonconsolidated Balance Sheet
March 31, 2014

ASSETS	Millions of Yen 2014	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:		
Cash and cash equivalents (Note 6)	¥ 418	$ 4,061
Receivables (Note 6):		
Trade notes	60	583
Trade accounts	4,654	45,220
Parent company and affiliated companies (Note 7)	9	87
Other	372	3,614
Allowance for doubtful accounts	(0)	(0)
Inventories (Note 3.a)	1,230	11,951
Deferred tax assets (Note 5)	72	700
Prepaid expenses and other current assets	29	282
Total current assets	6,844	66,498
PROPERTY, PLANT AND EQUIPMENT:		
Land (Note 3.b)	926	8,997
Buildings and structures (Note 3.b)	1,860	18,072
Machinery and equipment (Note 3.b)	2,297	22,319
Tools, furniture and fixtures	1,036	10,066
Construction in progress	1	10
Total	6,120	59,464
Accumulated depreciation	(4,483)	(43,558)
Net property, plant and equipment	1,637	15,906
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 6)	41	398
Investments in and advances to subsidiary	14	136
Deferred tax assets (Note 5)	96	933
Other assets (Note 7)	195	1,895
Allowance for doubtful accounts	(44)	(428)
Total investments and other assets	302	2,934
TOTAL	¥ 8,783	$ 85,338

LIABILITIES AND EQUITY	Millions of Yen 2014	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:		
Short-term borrowings from parent company (Note 6)	¥ 261	$ 2,536
Current portion of long-term loans (Note 6)	83	806
Bonds (Note 6)	25	243
Payables (Notes 6 and 7):		
Trade notes	1,282	12,456
Trade accounts	2,986	29,013
Parent company and affiliated companies (Note 7)	109	1,059
Other	78	758
Income taxes payable (Note 6)	24	233
Advances received on uncompleted construction contracts (Note 6)	1,248	12,126
Allowance for losses on construction contracts (Note 3.d)	119	1,156
Other current liabilities	226	2,197
Total current liabilities	6,441	62,583
LONG-TERM LIABILITIES:		
Long-term loans (Note 6)	153	1,487
Other	16	155
Total long-term liabilities	169	1,642
Total liabilities	6,610	64,225
CONTINGENT LIABILITIES (Note3.c)		
EQUITY (Notes 4 and 8):		
Common stock—authorized, 30,000,000 shares; issued, 8,620,000 shares in 2014	100	972
Capital surplus:		
Additional paid-in capital	195	1,895
Other capital surplus	812	7,889
Retained earnings:		
Legal reserve	118	1,146
Unappropriated	948	9,211
Unrealized gain on available-for-sale securities	0	0
Total equity	2,173	21,113
TOTAL	¥ 8,783	$ 85,338

See notes to nonconsolidated financial statements.

KYOKUTO KOWA CORPORATION
Nonconsolidated Statement of Income
Year Ended March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2014	2014
NET SALES (Note 7)	¥ 15,622	$ 151,788
COST OF SALES (Note 7)	13,712	133,230
Gross profit	1,910	18,558
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7)	1,299	12,621
Operating income	611	5,937
OTHER INCOME (EXPENSES) (Note 7):		
Interest and dividend income	3	29
Royalty income	11	107
Interest expense	(8)	(78)
Financing expenses	(24)	(233)
Other—net	(16)	(156)
Other expenses—net	(34)	(331)
INCOME BEFORE INCOME TAXES	577	5,606
INCOME TAXES (Note 5):		
Current	88	855
Deferred	160	1,554
Total income taxes	248	2,409
NET INCOME	¥ 329	$ 3,197

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 4 and 8):		
Basic net income	¥ 38.15	$ 0.37
Cash dividends applicable to the year	24.00	0.23

See notes to nonconsolidated financial statements.

KYOKUTO KOWA CORPORATION
Nonconsolidated Statement of Changes in Equity
Year Ended March 31, 2014

	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, 2013	8,620	¥ 100	¥ 195	¥ 800	¥ 118	¥ 990	¥ 0	¥ 2,203
Net income						329		329
Cash dividends, ¥24 per share						(206)		(206)
Increase by merger				12		(165)		(153)
Net change in the year							(0)	(0)
BALANCE, MARCH 31, 2014	8,620	¥ 100	¥ 195	¥ 812	¥ 118	¥ 948	¥ 0	¥ 2,173

	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, 2013	$ 972	$ 1,895	$ 7,773	$ 1,146	$ 9,619	$ 0	$ 21,405
Net income					3,197		3,197
Cash dividends, $0.23 per share					(2,002)		(2,002)
Increase by merger			116		(1,603)		(1,487)
Net change in the year						(0)	(0)
BALANCE, MARCH 31, 2014	$ 972	$ 1,895	$ 7,889	$ 1,146	$ 9,211	$ 0	$ 21,113

See notes to nonconsolidated financial statements.

1. BASIS OF PRESENTATION OF NONCONSOLIDATED FINANCIAL STATEMENTS

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

The nonconsolidated 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 ¥102.92 to $1, the approximate rate of exchange at March 31, 2014. 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. ***Nonconsolidation***—The nonconsolidated financial statements do not include the accounts of a subsidiary. Investments in the subsidiary are stated at cost.

b. ***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.

c. ***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 2 to 40 years for building and structures and from 2 to 12 years for machinery and equipment and tools, furniture and fixtures.

d. ***Long-Lived Assets***—The Company reviews it’s 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.

e. ***Investment securities***—Marketable and 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.

f. ***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.

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

h. ***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 ($29 thousand) for the year ended March 31, 2014, which would be required if all directors retired at the balance sheet date.

i. ***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, 2014 were ¥10,334 million ($100,408 thousand).

j. ***Income tax***—The provision for income taxes is computed based on the pretax income included in the nonconsolidated 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.

k. ***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 nonconsolidated statement of income are dividends applicable to the fiscal year, including dividends to be paid after the end of the year.

3. NOTES TO NONCONSOLIDATED BALANCE SHEETS

a. Inventories

Inventories at March 31, 2014, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Construction projects in progress	¥ 803	$ 7,802
Finished products	342	3,323
Work in process	18	175
Raw materials and supplies	67	651
Total	¥ 1,230	$ 11,951

b. Pledged assets

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Assets pledged as collateral:		
Land	¥ 853	$ 8,288
Buildings and structures	484	4,703
Machinery and equipment	44	427
Total	¥ 1,381	$ 13,418
The following assets, which are included above, are pledged as factory foundation collateral:		
Land	¥ 853	$ 8,288
Buildings and structures	374	3,634
Machinery and equipment	44	427
Total	¥ 1,271	$ 12,349

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

Liabilities secured thereby:		
Loans from banks of parent company	¥ 2,078	$ 20,190

c. Contingent liabilities

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Guarantees to Loans from banks of parent company	¥ 2,078	$ 20,190
Trade notes endorsed	130	1,263
Total	¥ 2,208	$ 21,453

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 ¥119 million ($1,156 thousand) as of March 31, 2014.

4. NOTES TO NONCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

a. Type and number of outstanding shares

For the year ended March 31, 2014

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, 2014

Resolution Approved by	Type of Shares	Amount		Amount per share		Cut-Off Date	Effective Date
		Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars		
Annual General Meeting of Shareholders (June 25, 2013)	Common stock	¥103	$1,001	¥12	$0.12	March 31, 2013	June 26, 2013
Board of Directors (October 25, 2013)	Common stock	¥103	$1,001	¥12	$0.12	September 30, 2013	November 29, 2013

(2) Dividends with a cut-off date during the fiscal year but an effective date subsequent to the fiscal year
For the year ended March 31, 2014

Resolution Approved by	Type of Shares	Amount		Amount per share		Cut-Off Date	Effective Date
		Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars		
Annual General Meeting of Shareholders (June 24, 2014)	Common stock	¥103	$1,001	¥12	$0.12	March 31, 2014	June 26, 2014

5. INCOME TAXES

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2014, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Deferred tax assets:		
Allowance for losses on construction contracts	¥ 44	$ 428
Allowance for doubtful accounts	16	155
Loss carryforward	110	1,069
Other	29	282
Subtotal	199	1,934
Valuation allowance	(31)	(301)
Total	168	1,633
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(0)	(0)
Total	(0)	(0)
Net deferred tax assets	¥ 168	$ 1,633

6. FINANCIAL INSTRUMENTS

a. Overview

(1) Policy for financial instruments

The Company raises funds by borrowing from the parent company and banks and issuing corporate bonds. 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 so that potential risks related to investment securities mainly consist of stocks. As investment securities are exposed to market risk, the Company monitors market prices of these securities.

Short-term borrowings, long-term loans and bonds 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, 2014, and any differences. Certain financial instruments for which it is extremely difficult to determine the fair value are not included.

At March 31, 2014	Millions of Yen Carrying Value	Fair Value	Difference	Thousands of U.S. Dollars Carrying Value	Fair Value	Difference
Assets						
Cash and cash equivalents	¥ 418	¥ 418		$ 4,061	$ 4,061	
Receivables	5,095	5,095		49,504	49,504	
Investment securities	6	6		58	58	
Liabilities						
Short-term borrowings	261	261		2,536	2,536	
Payables	4,455	4,455		43,286	43,286	
Income taxes payable	24	24		233	233	
Advances received on uncompleted construction contracts	1,248	1,248		12,126	12,126	
Long-term loans	236	236	¥ (0)	2,293	2,293	$ (0)
Bonds	25	25	0	243	243	0

※Current portion of bonds is contained in Bonds

※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

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.

Bonds and 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 were entered into.

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

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Nonlisted stocks	¥ 35	$ 340

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.

7. RELATED PARTY DISCLOSURE

a. Affiliated companies

Transactions of the Company with affiliated companies for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Net Sales	¥ 107	$ 1,040
Cost of sales	621	6,033
Non operating transactions	8	78

The balances due to or from affiliated companies at March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Receivables	¥ 6	$ 58
Payables	56	544

b. Parent company

Transactions of the Company with the parent company for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Fee for consulting and administrative service	¥ 123	$ 1,195
Rental fee for land and office buildings	114	1,108
Guarantees of the Company's liabilities	236	2,294
Guarantees to parent company's liabilities	2,078	20,190
Pledged assets for parent company's liabilities	1,381	13,418

The balances due to or from parent company at March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Receivables	¥ 3	$ 29
Other assets	59	573
Short-term borrowings	261	2,536
Payables	53	515

Business terms:

1. Fee for consulting and administrative service is decided with consideration of the prevailing market rate.
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.

8. PER SHARE INFORMATION

	Millions of Yen	U.S. Dollars
	2014	2014
Per share amounts:		
Net assets	¥ 252.12	$ 2.45
Basic net income	38.15	0.37

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.