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# ***Kurotani Corporation***

*Nonconsolidated Financial Statements  
for the Year Ended August 31, 2013,  
and Independent Auditor's Report*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kurotani Corporation:

We have audited the accompanying nonconsolidated balance sheet of Kurotani Corporation as of August 31, 2013, and the related nonconsolidated statements of income, changes in equity, and cash flows 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 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 Kurotani Corporation as of August 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### 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*

November 20, 2013

Kurotani Corporation

Nonconsolidated Balance Sheet  
August 31, 2013

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013		2013	2012	2013
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents (Note 10)	¥ 1,399	¥ 1,563	\$ 14,273	Short-term bank loans (Notes 6 and 10)	¥ 2,100	¥ 2,736	\$ 21,429
Short-term investments (Note 10)	695	701	7,095	Current portion of long-term debt (Notes 6 and 10)	1,044	772	10,656
Receivables (Note 10):				Payables (Note 10):			
Trade notes	1,869	2,109	19,074	Trade notes	390	462	3,984
Trade accounts	4,117	3,507	42,012	Trade accounts	1,504	864	15,348
Other	564	464	5,759	Other	290	286	2,958
Inventories (Note 3)	1,920	1,490	19,596	Income taxes payable (Note 10)	257	7	2,627
Deferred tax assets (Note 9)	95	113	969	Accrued expenses	27	18	278
Prepaid expenses and other current assets	828	668	8,438	Other current liabilities	32	22	312
<b>Total current assets</b>	<b>11,487</b>	<b>10,615</b>	<b>117,216</b>	<b>Total current liabilities</b>	<b>5,644</b>	<b>5,167</b>	<b>57,592</b>
<b>PROPERTY, PLANT, AND EQUIPMENT—Net (Note 4):</b>				<b>LONG-TERM LIABILITIES:</b>			
Land	1,521	1,521	15,522	Long-term debt (Notes 6 and 10)	1,861	1,519	18,990
Buildings and structures	497	538	5,074	Liability for retirement benefits (Note 7)	71	68	725
Machinery and equipment	238	222	2,425	<b>Total long-term liabilities</b>	<b>1,932</b>	<b>1,587</b>	<b>19,715</b>
Furniture and fixtures	68	62	698				
Construction in progress	160		1,637	<b>EQUITY (Note 8):</b>			
<b>Total property, plant, and equipment—net</b>	<b>2,484</b>	<b>2,343</b>	<b>25,356</b>	Common stock—authorized, 28,000,000 shares; issued, 7,168,600 shares in 2013 and 2012	1,000	593	10,204
<b>INVESTMENTS AND OTHER ASSETS:</b>				Capital surplus:			
Investment securities (Notes 5 and 10)	484	421	4,937	Additional paid-in capital	293	293	2,990
Investments in unconsolidated subsidiary (Note 5)	157	16	1,601	Other capital surplus	392	799	4,009
Software	20	43	203	Retained earnings:			
Deferred tax assets (Note 9)	4	57	36	Legal reserve	9	9	92
Other assets	173	159	1,764	Retained earnings—unappropriated	5,484	5,253	55,963
<b>Total investments and other assets</b>	<b>838</b>	<b>696</b>	<b>8,541</b>	Unrealized gain (loss) on available-for-sale securities	55	(47)	548
				Treasury stock—at cost, 77 shares in 2013			
<b>TOTAL</b>	<b>¥14,809</b>	<b>¥13,654</b>	<b>\$151,113</b>	<b>Total equity</b>	<b>7,233</b>	<b>6,900</b>	<b>73,806</b>
				<b>TOTAL</b>	<b>¥14,809</b>	<b>¥13,654</b>	<b>\$151,113</b>

See notes to nonconsolidated financial statements.

# Kurotani Corporation

## Nonconsolidated Statement of Income Year Ended August 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2013</u>	<u>2012</u>	<u>2013</u>
NET SALES	¥50,084	¥48,606	\$511,063
COST OF SALES	<u>48,037</u>	<u>47,261</u>	<u>490,176</u>
Gross profit	2,047	1,345	20,887
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	<u>1,256</u>	<u>1,225</u>	<u>12,815</u>
Operating income	<u>791</u>	<u>120</u>	<u>8,072</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	10	8	97
Insurance income		8	4
Foreign exchange gain (loss)	19	(21)	189
Subsidy income	7	8	72
(Loss) gain on derivative transactions	(99)	5	(1,007)
Interest expense	(68)	(73)	(691)
Gain on sales of property, plant, and equipment	2	7	17
Gain on sales of investment securities	13		135
Loss on valuation of marketable securities (Note 5)		(40)	
Other—net	<u>2</u>	<u>4</u>	<u>20</u>
Other expenses—net	<u>(114)</u>	<u>(94)</u>	<u>(1,164)</u>
INCOME BEFORE INCOME TAXES	<u>677</u>	<u>26</u>	<u>6,908</u>
INCOME TAXES (Note 9):			
Current	248	4	2,528
Deferred	<u>19</u>	<u>59</u>	<u>193</u>
Total income taxes	<u>267</u>	<u>63</u>	<u>2,721</u>
NET INCOME (LOSS)	<u>¥ 410</u>	<u>¥ (37)</u>	<u>\$ 4,187</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.1):			
Basic net income (loss)	¥57.25	¥ (5.22)	\$0.58
Cash dividends applicable to the year	20.00	30.00	0.20

See notes to nonconsolidated financial statements.

Kurotani Corporation

Nonconsolidated Statement of Changes in Equity  
Year Ended August 31, 2013

	Outstanding Number of Shares of Common Stock	Millions of Yen							Total Equity
		Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, SEPTEMBER 1, 2011	7,168,600	¥ 593	¥293	¥799	¥9	¥5,542	¥ (40)		¥7,196
Net loss						(37)			(37)
Cash dividends, ¥35 per share						(252)			(252)
Net change in the year							(7)		(7)
BALANCE, AUGUST 31, 2012	7,168,600	593	293	799	9	5,253	(47)		6,900
Transfer from other capital surplus to capital		407		(407)					
Net income						410			410
Cash dividends, ¥25 per share						(179)			(179)
Purchase of treasury stock	(77)								
Net change in the year							102		102
BALANCE, AUGUST 31, 2013	<u>7,168,523</u>	<u>¥1,000</u>	<u>¥293</u>	<u>¥392</u>	<u>¥9</u>	<u>¥5,484</u>	<u>¥ 55</u>		<u>¥7,233</u>

	Thousands of U.S. Dollars (Note 1)							Total Equity
	Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	
		Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, AUGUST 31, 2012	\$ 6,055	\$2,990	\$8,158	\$92	\$53,605	\$ (486)		\$70,414
Transfer from other capital surplus to capital		4,149	(4,149)					
Net income					4,187			4,187
Cash dividends, \$0.26 per share					(1,829)			(1,829)
Purchase of treasury stock								
Net change in the year						1,034		1,034
BALANCE, AUGUST 31, 2013	<u>\$10,204</u>	<u>\$2,990</u>	<u>\$4,009</u>	<u>\$92</u>	<u>\$55,963</u>	<u>\$ 548</u>		<u>\$73,806</u>

See notes to nonconsolidated financial statements.

# Kurotani Corporation

## Nonconsolidated Statement of Cash Flows Year Ended August 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2013</u>	<u>2012</u>	<u>2013</u>
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 677	¥ 26	\$ 6,908
Adjustments for:			
Income taxes—paid	(4)	(760)	(40)
Depreciation and amortization	193	225	1,968
Foreign exchange loss—net	159	43	1,623
Gain on sales of investment securities	(13)		(135)
Loss on valuation of investment securities		40	
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(470)	1,150	(4,801)
(Increase) decrease in inventories	(430)	1,603	(4,387)
Increase (decrease) in accounts payable	572	(68)	5,838
Increase in liability for retirement benefits	3	3	31
Other—net	(154)	115	(1,565)
Total adjustments	<u>(144)</u>	<u>2,351</u>	<u>(1,468)</u>
Net cash provided by operating activities	<u>533</u>	<u>2,377</u>	<u>5,440</u>
<b>INVESTING ACTIVITIES:</b>			
Payments into time deposits	(1,071)	(1,119)	(10,929)
Proceeds from withdrawal of time deposits	1,077	1,096	10,989
Purchases of property, plant, and equipment	(291)	(223)	(2,971)
Proceeds from sales of property, plant, and equipment	2	7	18
Purchases of investment securities	(8)	(8)	(86)
Proceeds from sales of investment securities	113		1,154
Investments in unconsolidated subsidiary	(141)	(16)	(1,440)
Purchases of software and other intangible assets	(11)	(11)	(109)
Other—net	(8)	(12)	(75)
Net cash used in investing activities	<u>(338)</u>	<u>(286)</u>	<u>(3,449)</u>
<b>FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans—net	(791)	(1,163)	(8,071)
Proceeds from long-term debt	1,500	500	15,306
Repayments of long-term debt	(885)	(999)	(9,034)
Dividends paid	(179)	(250)	(1,826)
Net cash used in financing activities	<u>(355)</u>	<u>(1,912)</u>	<u>(3,625)</u>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS</b>			
	<u>(4)</u>	<u>(43)</u>	<u>(39)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(164)</b>	<b>136</b>	<b>(1,673)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>1,563</u></b>	<b><u>1,427</u></b>	<b><u>15,946</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>¥1,399</u></b>	<b><u>¥1,563</u></b>	<b><u>\$14,273</u></b>

See notes to nonconsolidated financial statements.

# Kurotani Corporation

## Notes to Nonconsolidated Financial Statements Year Ended August 31, 2013

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### 1. BASIS OF PRESENTING NONCONSOLIDATED FINANCIAL STATEMENTS

The accompanying nonconsolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these nonconsolidated financial statements, certain reclassifications and rearrangements have been made to the nonconsolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 nonconsolidated financial statements to conform to the classifications used in 2013.

The nonconsolidated financial statements are stated in Japanese yen, the currency of the country in which Kurotani Corporation (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 ¥98 to \$1, the approximate rate of exchange at August 31, 2013. 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 the subsidiary. Investments in the subsidiary are stated at cost. If the equity method of accounting had been applied to the investments in this company, the effect on the accompanying nonconsolidated financial statements would not be material.
- b. Cash Equivalents*—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.  
  
Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.
- c. Inventories*—Inventories are stated at the lower of cost, determined by the average method for merchandise, finished products, work in process, raw materials and supplies, or net selling value.
- d. Investment Securities*—Investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities, which are not classified as either trading securities which are held for the purpose of earning capital gains in the near term, or held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold to maturity, 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. **Property, Plant, and Equipment**—Property, plant, and equipment are stated at cost.

Depreciation of property, plant, and equipment is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 15 to 35 years for buildings and from 6 to 10 years for machinery.

- f. **Software**—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method over five years.
- g. **Long-Lived Assets**—The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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.
- h. **Retirement and Pension Plans**—The employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan, which cover substantially all of its employees.

The liability for the defined benefit plan is recorded at the amount that would be required if all employees retired at each balance sheet date.

- i. **Income Taxes**—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 tax laws to the temporary differences.
- j. **Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the nonconsolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- k. **Derivatives and Hedging Activities**—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and nonferrous metal prices. Foreign exchange forward contracts and options are utilized by the Company to reduce foreign currency exchange risk. Also, commodity forward contracts are utilized by the Company to reduce nonferrous metal price risk. The Company does not enter into derivatives for trading or speculative purposes.

All derivative financial instruments are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the nonconsolidated statement of income.

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



Diluted net income per share of common stock is not disclosed herein because the Company has not issued any securities that are potentially dilutive for the years ended August 31, 2013 and 2012.

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

*m. Accounting Changes and Error Corrections*—In December 2009, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentations—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

### 3. INVENTORIES

Inventories as of August 31, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Merchandise	¥ 5	¥ 5	\$ 51
Finished products	376	352	3,838
Work in process	101	92	1,028
Raw materials and supplies	<u>1,438</u>	<u>1,041</u>	<u>14,679</u>
Total	<u>¥1,920</u>	<u>¥1,490</u>	<u>\$19,596</u>

### 4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of August 31, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Land	¥1,521	¥1,521	\$15,522
Buildings and structures	2,173	2,165	22,175
Machinery and equipment	2,153	2,048	21,973
Furniture and fixtures	281	268	2,864
Construction in progress	160	—	1,637
Acquisition cost	<u>6,288</u>	<u>6,002</u>	<u>64,171</u>
Accumulated depreciation	<u>(3,804)</u>	<u>(3,659)</u>	<u>(38,815)</u>
Net book value	<u>¥2,484</u>	<u>¥2,343</u>	<u>\$25,356</u>

## 5. INVESTMENT SECURITIES

Investment securities as of August 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Investment securities:			
Marketable equity securities	¥469	¥326	\$4,784
Nonmarketable equity securities	15	15	153
Others	<u>      </u>	<u>80</u>	<u>      </u>
Total	<u>¥484</u>	<u>¥421</u>	<u>\$4,937</u>

The cost and aggregate fair value of the investment securities that have a quoted market price in an active market as of August 31, 2013 and 2012, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>August 31, 2013</u>				
Equity securities	<u>¥388</u>	<u>¥93</u>	<u>¥12</u>	<u>¥469</u>
Total	<u>¥388</u>	<u>¥93</u>	<u>¥12</u>	<u>¥469</u>
<u>August 31, 2012</u>				
Equity securities	¥380	¥22	¥76	¥326
Others	<u>100</u>	<u>      </u>	<u>20</u>	<u>80</u>
Total	<u>¥480</u>	<u>¥22</u>	<u>¥96</u>	<u>¥406</u>
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>August 31, 2013</u>				
Equity securities	<u>\$3,963</u>	<u>\$944</u>	<u>\$123</u>	<u>\$4,784</u>
Total	<u>\$3,963</u>	<u>\$944</u>	<u>\$123</u>	<u>\$4,784</u>

The proceeds from sales of available-for-sale securities for the year ended August 31, 2013, were ¥113 million (\$1,154 thousand). The gross realized gains on these sales, computed on the moving-average cost basis, for the year ended August 31, 2013, were ¥13 million (\$135 thousand).

The investment securities of the subsidiary whose fair value cannot be reliably determined at August 31, 2013, are measured at the original acquisition costs. The carrying amounts of such investment securities of the subsidiary are ¥157 million (\$2,000 thousand).

The impairment loss on available-for-sale equity securities for the year ended August 31, 2012, was ¥40 million.

## 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of August 31, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Unsecured bank loan with weighted-average interest rate 1.04% (2013)	¥2,100	¥2,736	\$21,429

Long-term debt as of August 31, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
0.59% Unsecured yen bonds, due 2013		¥ 45	
Unsecured bank loans due serially to 2018 with weighted-average interest rate 0.84% (2013)	¥2,905	2,246	\$29,646
Total	2,905	2,291	29,646
Less current portion	(1,044)	(772)	(10,656)
Long-term debt, less current portion	<u>¥1,861</u>	<u>¥1,519</u>	<u>\$18,990</u>

Annual maturities of long-term debt as of August 31, 2013, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of</u>
		<u>U.S. Dollars</u>
Within one year	¥1,044	\$10,656
In the 2nd year	1,056	10,774
In the 3rd year	510	5,203
In the 4th year	210	2,142
In the 5th year and thereafter	<u>85</u>	<u>871</u>
Total	<u>¥2,905</u>	<u>\$29,646</u>

## 7. RETIREMENT BENEFITS

The liabilities for employees' retirement benefits at August 31, 2013 and 2012, were ¥71 million (\$725 thousand) and ¥68 million, respectively.

## 8. 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, such as (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 is prescribed as one year rather than two years of normal 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 total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of 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 under certain conditions upon resolution of the shareholders.

The Company capitalized other capital surplus of ¥407 million (\$4,149 thousand) in accordance with approval at the shareholders' meeting held on November 29, 2012.

**c. Treasury Stock and Treasury Stock Acquisition Rights**

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

**9. INCOME TAXES**

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 37.8% and 40.4% for the years ended August 31, 2013 and 2012, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of August 31, 2013 and 2012, are as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Deferred tax assets:			
Inventories	¥66	¥ 74	\$ 672
Accrued expenses	9	6	92
Accrued enterprise tax	19	2	194
Depreciation and amortization	17	19	176
Liability for retirement benefits	25	24	257
Investment securities	15	15	151
Unrealized (gain) loss on available-for-sale securities	(27)	26	(272)
Other	2	31	10
Less valuation allowance	<u>(27)</u>	<u>(27)</u>	<u>(275)</u>
Total	<u>¥99</u>	<u>¥170</u>	<u>\$1,005</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying nonconsolidated statement of income for the year ended August 31, 2013, with the corresponding figures for 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Normal effective statutory tax rate	37.8%	40.4%
Expenses not deductible for income tax purposes	0.9	27.9
Accumulated earnings tax	1.1	
Per capita levy of corporate tax	0.6	16.1
Increase in valuation allowance		102.9
Effect of tax rate reduction		59.8
Other—net	<u>(1.0)</u>	<u>(4.4)</u>
Actual effective tax rate	<u>39.4%</u>	<u>242.7%</u>

## 10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) *Company Policy for Financial Instruments*

The Company uses financial instruments including bank loans and bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund its ongoing operations. Derivatives are used not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

### (2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Also, receivables in foreign currencies are exposed to the risk of fluctuations in foreign currency exchange rates. Investment securities, mainly equity instruments of customers and suppliers of the Company, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Short-term bank loans are used for operating funds. Long-term debt is used for capital expenditures.

Maturities of bank loans and bonds are less than five years after the balance sheet date.

Derivatives mainly include forward foreign currency contracts, options, and commodity forward contracts, which are used to manage exposure to risks of changes in foreign currency exchange rates of receivables and of fluctuations of nonferrous metal prices. Please see Note 11 for further details about derivatives.

### (3) *Risk Management for Financial Instruments*

#### *Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify default risk of customers at an early stage. With respect to derivative transactions, as a means of mitigating the risk of financial loss from defaults, the Company has adopted a policy of only dealing with creditworthy counterparties.

*Market risk management (foreign exchange risk and interest rate risk)*

Foreign currency bank deposits, bank loans, and trade receivables and payables are exposed to risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts and options.

Investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

With respect to derivative transactions, the Company has internal guidelines that prescribe the authority and the limit for each transaction by the corporate planning department. The director in charge of the corporate planning department is required to report the status and results of derivative transactions to the chief executive officer on a monthly and annual basis. Reconciliation of transactions and balances with counterparties is made by the corporate treasury department.

*Liquidity risk management*

Liquidity risk comprises the risk that the Company cannot meet its contractual obligations in full on maturity dates. The Company manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning by the corporate treasury department.

**(4) Fair Values of Financial Instruments**

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Also, please see Note 11 for details about the fair value of derivatives. The determination of the quoted price requires certain assumptions about related variable factors and the quoted price may fluctuate with different assumptions.

(a) Fair value of financial instruments

<u>August 31, 2013</u>	<u>Millions of Yen</u>		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥1,399	¥1,399	
Short-term investments	695	695	
Receivables	6,550	6,550	
Investment securities	<u>469</u>	<u>469</u>	—
Total	<u>¥9,113</u>	<u>¥9,113</u>	—
Short-term bank loans	¥2,100	¥2,100	
Payables	2,184	2,184	
Income taxes payable	257	257	
Long-term debt	<u>2,905</u>	<u>2,907</u>	¥2
Total	<u>¥7,446</u>	<u>¥7,448</u>	¥2

<u>August 31, 2012</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥1,563	¥1,563	
Short-term investments	701	701	
Receivables	6,080	6,080	
Investment securities	<u>406</u>	<u>406</u>	—
<b>Total</b>	<b><u>¥8,750</u></b>	<b><u>¥8,750</u></b>	<b>—</b>
Short-term bank loans	¥2,736	¥2,736	
Payables	1,612	1,612	
Income taxes payable	7	7	
Long-term debt	<u>2,291</u>	<u>2,297</u>	<u>¥6</u>
<b>Total</b>	<b><u>¥6,646</u></b>	<b><u>¥6,652</u></b>	<b><u>¥6</u></b>

<u>August 31, 2013</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$14,273	\$14,273	
Short-term investments	7,095	7,095	
Receivables	66,845	66,845	
Investment securities	<u>4,784</u>	<u>4,784</u>	—
<b>Total</b>	<b><u>\$92,997</u></b>	<b><u>\$92,997</u></b>	<b>—</b>
Short-term bank loans	\$21,429	\$21,429	
Payables	22,290	22,290	
Income taxes payable	2,627	2,627	
Long-term debt	<u>29,646</u>	<u>29,667</u>	<u>\$21</u>
<b>Total</b>	<b><u>\$75,992</u></b>	<b><u>\$76,013</u></b>	<b><u>\$21</u></b>

*Cash and cash equivalents*

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

*Investment securities*

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments. Information on the fair value of investment securities by classification is included in Note 5.

*Short-term investments, receivables, payables, income taxes payable, and short-term bank loans*

The fair values of short-term investments, receivables, payables, income taxes payable, and short-term bank loans approximate carrying value because of their short-term maturities. Therefore, the fair values are measured at carrying values.

*Long-term debt*

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Company's assumed corporate borrowing rate.

*Derivatives*

Information on the fair value of derivatives is included in Note 11.

- (b) Financial instruments whose fair value cannot be reliably determined as of August 31, 2013 and 2012, are as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥ 15	¥15	\$ 190
Investments in unconsolidated subsidiary	157	16	1,607

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>August 31, 2013</u>				
Cash and cash equivalents	¥1,393			
Short-term investments	695			
Receivables	<u>6,550</u>	_____	_____	_____
Total	<u>¥8,638</u>	=====	=====	=====
<u>August 31, 2012</u>				
Cash and cash equivalents	¥1,557			
Short-term investments	701			
Receivables	<u>6,080</u>	_____	_____	_____
Total	<u>¥8,338</u>	=====	=====	=====
	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>August 31, 2013</u>				
Cash and cash equivalents	\$14,213			
Short-term investments	7,095			
Receivables	<u>66,845</u>	_____	_____	_____
Total	<u>\$88,153</u>	=====	=====	=====

Please see Note 6 for annual maturities of long-term debt.





## 12. RELATED-PARTY DISCLOSURES

Transactions of the Company with an unconsolidated subsidiary for the years ended August 31, 2013 and 2012, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Purchases	¥2,063	¥99	\$21,050

The balances due to or from this unconsolidated subsidiary at August 31, 2013 and 2012, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Advance payments	¥282	¥99	\$2,885

## 13. SUBSEQUENT EVENT

The following appropriation of retained earnings as of August 31, 2013, was approved at the shareholders' meeting held on November 20, 2013:

	<u>Millions of Yen</u>	<u>Thousands of</u>
		<u>U.S. Dollars</u>
Year-end cash dividends, ¥10 (\$0.10) per share	¥72	\$731

## 14. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### (1) *Description of Reportable Segments*

The Company has two segments, "nonferrous metals segment" and "art crafts segment." The nonferrous metals segment is engaged in the manufacture and sales of ingot, and processing and sales of scrap. The majority of sales are in the nonferrous metals business and, therefore, it is not required to disclose separate financial information by segment.

### (2) *Information about Products and Services*

	<u>Millions of Yen</u>			
	<u>2013</u>			
	<u>Ingots</u>	<u>Scrap</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	¥18,419	¥31,173	¥492	¥50,084

	Millions of Yen			
	2012			
	<u>Ingots</u>	<u>Scrap</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	¥19,702	¥28,361	¥543	¥48,606

	Thousands of U.S. Dollars			
	2013			
	<u>Ingots</u>	<u>Scrap</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	\$ 187,944	\$ 318,095	\$ 5,024	\$ 511,063

(3) *Information about Geographical Areas*

(a) *Sales*

	Millions of Yen				
	2013				
	<u>Japan</u>	<u>Asia</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	¥37,348	¥11,328	¥1,118	¥290	¥50,084

	Millions of Yen				
	2012				
	<u>Japan</u>	<u>Asia</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	¥36,307	¥11,565	¥467	¥267	¥48,606

	Thousands of U.S. Dollars				
	2013				
	<u>Japan</u>	<u>Asia</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	\$ 381,102	\$ 115,589	\$ 11,411	\$ 2,961	\$ 511,063

Note: Sales are classified in countries or regions based on location of customers.

(b) *Property, plant, and equipment*

Property, plant, and equipment exist in Japan only; thus, there is no requirement to disclose such information.

(4) *Information about Major Customers*

<u>Name of Customers</u>	2013	
	Millions of Yen	
	<u>Sales</u>	<u>Related Segment Name</u>
MITSUBISHI MATERIALS CORPORATION	¥5,643	Nonferrous metals segment
JX Nippon Mining & Metals Corporation	5,503	Nonferrous metals segment

<u>Name of Customers</u>	2013	
	Thousands of U.S. Dollars	
	<u>Sales</u>	<u>Related Segment Name</u>
MITSUBISHI MATERIALS CORPORATION	\$ 57,583	Nonferrous metals segment
JX Nippon Mining & Metals Corporation	56,151	Nonferrous metals segment

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