
Kurotani Corporation

*Nonconsolidated Financial Statements
for the Year Ended August 31, 2014,
and Independent Auditor's Report*

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, 2014, 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, 2014, 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 26, 2014

Kurotani Corporation

Nonconsolidated Balance Sheet August 31, 2014

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014		2014	2013	2014
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Notes 11 and 12)	¥ 897	¥ 1,399	\$ 8,622	Short-term bank loans (Notes 7 and 12)	¥ 5,588	¥ 2,100	\$ 53,726
Short-term investments (Note 12)	695	695	6,687	Current portion of long-term debt (Notes 7 and 12)	1,229	1,044	11,815
Receivables (Note 12):				Payables (Note 12):			
Trade notes	1,787	1,869	17,186	Trade notes	385	390	3,705
Electronically recorded monetary claims—operating	373		3,587	Trade accounts	818	1,504	7,863
Trade accounts	4,653	4,117	44,739	Other	261	290	2,506
Other	789	564	7,589	Income taxes payable (Note 12)	9	257	87
Inventories (Note 3)	3,431	1,920	32,990	Accrued expenses	34	27	328
Deferred tax assets (Note 10)	72	95	692	Other current liabilities	22	32	220
Prepaid expenses and other current assets	1,078	828	10,360				
Total current assets	13,775	11,487	132,452	Total current liabilities	8,346	5,644	80,250
PROPERTY, PLANT, AND EQUIPMENT—Net (Note 4):				LONG-TERM LIABILITIES:			
Land	1,521	1,521	14,626	Long-term debt (Notes 7 and 12)	1,349	1,861	12,973
Buildings and structures	462	497	4,444	Liability for retirement benefits (Note 8)	75	71	723
Machinery and equipment	331	238	3,186	Deferred tax liabilities (Note 10)	9		89
Furniture and fixtures	74	68	715				
Construction in progress		160		Total long-term liabilities	1,433	1,932	13,785
Total property, plant, and equipment—net	2,388	2,484	22,971	EQUITY (Note 9):			
INVESTMENTS AND OTHER ASSETS:				Common stock—authorized, 28,000,000 shares; issued, 7,168,600 shares in 2014 and 2013	1,000	1,000	9,615
Investment securities (Notes 5 and 12)	572	484	5,498	Capital surplus:			
Investments in unconsolidated subsidiary and associated company (Note 6)	212	157	2,042	Additional paid-in capital	293	293	2,818
Software	24	20	234	Other capital surplus	392	392	3,777
Deferred tax assets (Note 10)		4		Retained earnings:			
Other assets (Note 6)	49	173	459	Legal reserve	9	9	87
Total investments and other assets	857	838	8,233	Retained earnings—unappropriated	5,439	5,484	52,296
				Unrealized gain on available-for-sale securities	108	55	1,028
				Treasury stock—at cost, 108 shares in 2014 and 77 shares in 2013			
TOTAL	¥ 17,020	¥ 14,809	\$ 163,656	Total equity	7,241	7,233	69,621
				TOTAL	¥ 17,020	¥ 14,809	\$ 163,656

See notes to nonconsolidated financial statements.

Kurotani Corporation

Nonconsolidated Statement of Income Year Ended August 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2014</u>	<u>2013</u>	<u>2014</u>
NET SALES	¥ 51,001	¥ 50,084	\$ 490,393
COST OF SALES	<u>49,779</u>	<u>48,037</u>	<u>478,643</u>
Gross profit	1,222	2,047	11,750
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	<u>1,137</u>	<u>1,256</u>	<u>10,933</u>
Operating income	<u>85</u>	<u>791</u>	<u>817</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	11	10	102
Insurance income	7		66
Foreign exchange gain	18	19	169
Subsidy income		7	
Loss on derivative transactions	(5)	(99)	(47)
Interest expense	(73)	(68)	(707)
Gain on sales of property, plant, and equipment	2	2	18
Gain on sales of investment securities		13	
Gain on sales of insurances	162		1,559
Provision of allowance for doubtful accounts	(39)		(374)
Other—net	<u>4</u>	<u>2</u>	<u>45</u>
Other income (expenses)—net	<u>87</u>	<u>(114)</u>	<u>831</u>
INCOME BEFORE INCOME TAXES	<u>172</u>	<u>677</u>	<u>1,648</u>
INCOME TAXES (Note 10):			
Current	64	248	620
Deferred	<u>10</u>	<u>19</u>	<u>88</u>
Total income taxes	<u>74</u>	<u>267</u>	<u>708</u>
NET INCOME	<u>¥ 98</u>	<u>¥ 410</u>	<u>\$ 940</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.m):			
Basic net income	¥ 13.64	¥ 57.25	\$ 0.13
Cash dividends applicable to the year	20.00	20.00	0.19

See notes to nonconsolidated financial statements.

Kurotani Corporation

**Nonconsolidated Statement of Changes in Equity
Year Ended August 31, 2014**

	Outstanding Number of Shares of Common Stock	Millions of Yen							Total Equity
		Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain on Available-for-Sale Securities	Treasury Stock	
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, SEPTEMBER 1, 2012	7,168,600	¥ 593	¥ 293	¥ 799	¥9	¥ 5,253	¥ (47)		¥ 6,900
Transfer from other capital surplus		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	7,168,523	1,000	293	392	9	5,484	55		7,233
Net income						98			98
Cash dividends, ¥20 per share						(143)			(143)
Purchase of treasury stock	(31)								
Net change in the year							53		53
BALANCE, AUGUST 31, 2014	<u>7,168,492</u>	<u>¥ 1,000</u>	<u>¥ 293</u>	<u>¥ 392</u>	<u>¥9</u>	<u>¥ 5,439</u>	<u>¥ 108</u>		<u>¥ 7,241</u>

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain on Available-for-Sale Securities	Treasury Stock	Total Equity
		Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, AUGUST 31, 2013	\$ 9,615	\$ 2,818	\$ 3,777	\$ 87	\$ 52,735	\$ 517		\$ 69,549
Net income					940			940
Cash dividends, \$0.19 per share					(1,379)			(1,379)
Purchase of treasury stock								
Net change in the year						511		511
BALANCE, AUGUST 31, 2014	<u>\$ 9,615</u>	<u>\$ 2,818</u>	<u>\$ 3,777</u>	<u>\$ 87</u>	<u>\$ 52,296</u>	<u>\$ 1,028</u>		<u>\$ 69,621</u>

See notes to nonconsolidated financial statements.

Kurotani Corporation

Nonconsolidated Statement of Cash Flows Year Ended August 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes	¥ 172	¥ 677	\$ 1,648
Adjustments for:			
Income taxes—paid	(326)	(4)	(3,136)
Depreciation and amortization	207	193	1,993
Increase in allowance for doubtful accounts	39		374
Foreign exchange loss—net		159	
Gain on sales of investment securities		(13)	
Changes in assets and liabilities:			
Increase in receivables	(1,052)	(470)	(10,114)
Increase in inventories	(1,511)	(430)	(14,525)
(Decrease) increase in payables	(721)	572	(6,929)
Increase in liability for retirement benefits	4	3	40
Other—net	(314)	(154)	(3,030)
Total adjustments	(3,674)	(144)	(35,327)
Net cash (used in) provided by operating activities	(3,502)	533	(33,679)
INVESTING ACTIVITIES:			
Payments into time deposits	(1,071)	(1,071)	(10,300)
Proceeds from withdrawal of time deposits	1,071	1,077	10,299
Purchases of property, plant, and equipment	(197)	(291)	(1,898)
Proceeds from sales of property, plant, and equipment	2	2	19
Purchases of investment securities	(8)	(8)	(81)
Proceeds from sales of investment securities		113	
Investments in unconsolidated subsidiary and associated company	(55)	(141)	(533)
Purchases of software and other intangible assets	(12)	(11)	(115)
Other—net	280	(8)	2,703
Net cash provided by (used in) investing activities	10	(338)	94
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	3,149	(791)	30,280
Proceeds from long-term debt	800	1,500	7,692
Repayments of long-term debt	(1,127)	(885)	(10,839)
Dividends paid	(143)	(179)	(1,379)
Net cash provided by (used in) financing activities	2,679	(355)	25,754
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS			
	7	(4)	82
NET DECREASE IN CASH AND CASH EQUIVALENTS	(806)	(164)	(7,749)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,399	1,563	13,450
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 11)	¥ 593	¥ 1,399	\$ 5,701

See notes to nonconsolidated financial statements.

Kurotani Corporation

Notes to Nonconsolidated Financial Statements Year Ended August 31, 2014

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 2013 nonconsolidated financial statements to conform to the classifications used in 2014.

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 ¥104 to \$1, the approximate rate of exchange at August 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 subsidiary. Investments in subsidiary and associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, 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 that 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. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. 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 7 years for machinery.

g. Software—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method over five years.

h. 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 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.

i. Retirement and Pension Plans—The employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's 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.

j. 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.

k. 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.

l. 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.

- m. 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.

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, 2014 and 2013.

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.

3. INVENTORIES

Inventories as of August 31, 2014 and 2013, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>
Merchandise	¥ 6	¥ 5	\$ 55
Finished products	620	376	5,957
Work in process	132	101	1,270
Raw materials and supplies	<u>2,673</u>	<u>1,438</u>	<u>25,708</u>
Total	<u>¥ 3,431</u>	<u>¥ 1,920</u>	<u>\$ 32,990</u>

4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of August 31, 2014 and 2013, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>
Land	¥ 1,521	¥ 1,521	\$ 14,626
Buildings and structures	2,185	2,173	21,008
Machinery and equipment	2,375	2,153	22,841
Furniture and fixtures	299	281	2,880
Construction in progress		160	
Acquisition cost	<u>6,380</u>	<u>6,288</u>	<u>61,355</u>
Accumulated depreciation	<u>(3,992)</u>	<u>(3,804)</u>	<u>(38,384)</u>
Net book value	<u>¥ 2,388</u>	<u>¥ 2,484</u>	<u>\$ 22,971</u>

5. INVESTMENT SECURITIES

Investment securities as of August 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2014</u>	<u>2013</u>	<u>2014</u>
Investment securities:			
Marketable equity securities	¥ 557	¥ 469	\$ 5,354
Nonmarketable equity securities	<u>15</u>	<u>15</u>	<u>144</u>
Total	<u>¥ 572</u>	<u>¥ 484</u>	<u>\$ 5,498</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, 2014 and 2013, were as follows:

	Millions of Yen			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>August 31, 2014</u>				
Equity securities	¥ 397	¥ 163	¥ 3	¥ 557
Total	<u>¥ 397</u>	<u>¥ 163</u>	<u>¥ 3</u>	<u>¥ 557</u>
<u>August 31, 2013</u>				
Equity securities	¥ 388	¥ 93	¥ 12	¥ 469
Total	<u>¥ 388</u>	<u>¥ 93</u>	<u>¥ 12</u>	<u>¥ 469</u>
	Thousands of U.S. Dollars			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>August 31, 2014</u>				
Equity securities	\$ 3,816	\$ 1,566	\$ 28	\$ 5,354
Total	<u>\$ 3,816</u>	<u>\$ 1,566</u>	<u>\$ 28</u>	<u>\$ 5,354</u>

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

The investment securities of subsidiary and associated company whose fair value cannot be reliably determined are measured at the original acquisition costs. The carrying amounts of such investment securities of subsidiary and associated company were ¥212 million (\$2,042 thousand) at August 31, 2014, and ¥157 million at August 31, 2013.

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The amount deducted directly from investments and other assets as of August 31, 2014 and 2013, was as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2014</u>	<u>2013</u>	<u>U.S. Dollars</u>
Other assets	¥ 39		\$ 374

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of August 31, 2014 and 2013, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2014</u>	<u>2013</u>	<u>U.S. Dollars</u>
Unsecured bank loans with a weighted-average interest rate of 0.96% (2014)	¥ 5,588	¥ 2,100	\$ 53,726

Long-term debt as of August 31, 2014 and 2013, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2014</u>	<u>2013</u>	<u>U.S. Dollars</u>
Unsecured bank loans due serially to 2018 with a weighted-average interest rate of 0.79% (2014)	¥ 2,578	¥ 2,905	\$ 24,788
Total	2,578	2,905	24,788
Less current portion	<u>(1,229)</u>	<u>(1,044)</u>	<u>(11,815)</u>
Long-term debt, less current portion	<u>¥ 1,349</u>	<u>¥ 1,861</u>	<u>\$ 12,973</u>

Annual maturities of long-term debt as of August 31, 2014, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of</u>
		<u>U.S. Dollars</u>
Within one year	¥ 1,229	\$ 11,815
In the 2nd year	670	6,438
In the 3rd year	369	3,552
In the 4th year	245	2,355
In the 5th year and thereafter	<u>65</u>	<u>628</u>
Total	<u>¥ 2,578</u>	<u>\$ 24,788</u>

8. RETIREMENT BENEFITS

a. *Overview of the Company's Retirement Benefit Plan*

The employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's 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 (the simplified method).

b. Defined Benefit Plan

Movement in liability for retirement benefits of the defined benefits plan applying the simplified method for the year ended August 31, 2014, was as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Balance at September 1, 2013	¥ 71	\$ 683
Retirement benefit cost	8	81
Benefits paid	<u>(4)</u>	<u>(41)</u>
Balance at August 31, 2014	<u>¥ 75</u>	<u>\$ 723</u>

Reconciliation from retirement benefit obligations to liability for retirement benefits as of August 31, 2014, was as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Unfunded retirement benefit obligations	<u>¥ 75</u>	<u>\$ 723</u>
Total net liability for retirement benefits at August 31, 2014	<u>¥ 75</u>	<u>\$ 723</u>

Retirement benefit cost of the defined benefit plan applying the simplified method for the year ended August 31, 2014, was ¥8 million (\$81 thousand).

c. Defined Contribution Pension Plan

The amount of contributions to the defined contribution plan for the year ended August 31, 2014, was ¥9 million (\$87 thousand).

d. As of August 31, 2013

Retirement Benefits at August 31, 2013

	<u>Millions of Yen</u>
Unfunded retirement benefit obligations	¥ 71
Total net liability for retirement benefits	<u>¥ 71</u>

Retirement Benefit Cost for the Year Ended August 31, 2013

	<u>Millions of Yen</u>
Service costs	¥ 7
Contributions to the defined contribution plan	<u>9</u>
Total	<u>¥ 16</u>

9. 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 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.

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.

10. 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% for the years ended August 31, 2014 and 2013.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of August 31, 2014 and 2013, are as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2014</u>	<u>2013</u>	<u>U.S. Dollars</u>
			<u>2014</u>
Deferred tax assets:			
Inventories	¥ 61	¥ 66	\$ 587
Accrued expenses	11	9	104
Accrued enterprise tax	1	19	7
Depreciation and amortization	16	17	151
Liability for retirement benefits	26	25	256
Investment securities	15	15	142
Provision of allowance for doubtful accounts	14		132
Other		<u>2</u>	
Subtotal	<u>144</u>	<u>153</u>	<u>1,379</u>
Less valuation allowance	<u>(27)</u>	<u>(27)</u>	<u>(259)</u>
Total	<u>117</u>	<u>126</u>	<u>1,120</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(53)	(27)	(510)
Other	<u>(1)</u>	<u>—</u>	<u>(7)</u>
Total	<u>(54)</u>	<u>(27)</u>	<u>(517)</u>
Net deferred tax assets	<u>¥ 63</u>	<u>¥ 99</u>	<u>\$ 603</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, 2014, with the corresponding figures for 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Normal effective statutory tax rate	37.8 %	37.8 %
Expenses not deductible for income tax purposes	4.4	0.9
Accumulated earnings tax		1.1
Per capita levy of corporate tax	2.5	0.6
Effect of tax rate reduction	2.9	
Tax credit	(3.8)	
Other—net	<u>(0.8)</u>	<u>(1.0)</u>
Actual effective tax rate	<u>43.0%</u>	<u>39.4 %</u>

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 37.8% to 35.4%. The effect of this change is not material.

11. SUPPLEMENTAL CASH FLOWS INFORMATION

A reconciliation of cash and cash equivalents between the nonconsolidated balance sheet and the nonconsolidated statement of cash flows as of August 31, 2014 and 2013, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Cash and cash equivalents in the nonconsolidated balance sheet	¥ 897	¥ 1,399	\$ 8,622
Bank overdraft	<u>(304)</u>	<u> </u>	<u>(2,921)</u>
Cash and cash equivalents in the nonconsolidated statement of cash flows	<u>¥ 593</u>	<u>¥ 1,399</u>	<u>\$ 5,701</u>

12. 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, electronically recorded monetary claims—operating 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 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 13 for more detail 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 who is 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 13 for details of the fair value of derivatives. The determination of the quoted price requires certain assumptions for related variable factors and the quoted price may fluctuate with different assumptions.

(a) Fair value of financial instruments

<u>August 31, 2014</u>	<u>Millions of Yen</u>		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 897	¥ 897	
Short-term investments	695	695	
Receivables	7,602	7,602	
Investment securities	<u>557</u>	<u>557</u>	<u>—</u>
Total	<u>¥ 9,751</u>	<u>¥ 9,751</u>	<u>—</u>
Short-term bank loans	¥ 5,588	¥ 5,588	
Payables	1,464	1,464	
Income taxes payable	9	9	
Long-term debt	<u>2,578</u>	<u>2,585</u>	<u>¥7</u>
Total	<u>¥ 9,639</u>	<u>¥ 9,646</u>	<u>¥7</u>

<u>August 31, 2013</u>	Millions of Yen		
	<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>	<u>—</u>
Total	<u>¥ 9,113</u>	<u>¥ 9,113</u>	<u>—</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>	<u>¥2</u>
Total	<u>¥ 7,446</u>	<u>¥ 7,448</u>	<u>¥2</u>

<u>August 31, 2014</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 8,622	\$ 8,622	
Short-term investments	6,687	6,687	
Receivables	73,101	73,101	
Investment securities	<u>5,354</u>	<u>5,354</u>	<u>—</u>
Total	<u>\$ 93,764</u>	<u>\$ 93,764</u>	<u>—</u>
Short-term bank loans	\$ 53,726	\$ 53,726	
Payables	14,074	14,074	
Income taxes payable	87	87	
Long-term debt	<u>24,788</u>	<u>24,854</u>	<u>\$ 66</u>
Total	<u>\$ 92,675</u>	<u>\$ 92,741</u>	<u>\$ 66</u>

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 13.

- (b) Financial instruments whose fair value cannot be reliably determined as of August 31, 2014 and 2013, are as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Investments in equity instruments that do not have a quoted market price in an active market	¥ 15	¥ 15	\$ 144
Investments in unconsolidated subsidiary and associated company	212	157	2,042

(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, 2014</u>					
Cash and cash equivalents	¥ 893				
Short-term investments	695				
Receivables	7,602				
Total	<u>¥ 9,190</u>				
<u>August 31, 2013</u>					
Cash and cash equivalents	¥ 1,393				
Short-term investments	695				
Receivables	6,550				
Total	<u>¥ 8,638</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, 2014</u>					
Cash and cash equivalents	\$ 8,585				
Short-term investments	6,687				
Receivables	73,101				
Total	<u>\$ 88,373</u>				

Please see Note 7 for annual maturities of long-term debt.

13. DERIVATIVES

The Company enters into foreign currency forward contracts and options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company also enters into commodity forward contracts to hedge future price fluctuations of nonferrous metal inventories.

All derivative transactions are entered into to hedge foreign currency and nonferrous metal price exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, trading companies, and London Metal Exchange ("LME") brokers, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies, which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied as of August 31, 2014 and 2013

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>August 31, 2014</u>				
Commodity forward contracts:				
Selling	¥ 249		¥ (5)	¥ (5)
Buying	<u>252</u>		<u>1</u>	<u>1</u>
Total	<u>¥ 501</u>		<u>¥ (4)</u>	<u>¥ (4)</u>
<u>August 31, 2013</u>				
Commodity forward contracts:				
Selling	¥ 509		¥ 3	¥ 3
Buying	<u>472</u>		<u>(1)</u>	<u>(1)</u>
Total	<u>¥ 981</u>		<u>¥ 2</u>	<u>¥ 2</u>
	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>August 31, 2014</u>				
Commodity forward contracts:				
Selling	\$ 2,403		\$ (43)	\$ (43)
Buying	<u>2,433</u>		<u>14</u>	<u>14</u>
Total	<u>\$ 4,836</u>		<u>\$ (29)</u>	<u>\$ (29)</u>

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, trading companies, and LME brokers.

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

14. RELATED-PARTY TRANSACTIONS

Transactions of the Company with related parties for the years ended August 31, 2014 and 2013, were as follows:

	<u>2014</u>	
	<u>Millions of Yen</u>	
KH Premium Co., Ltd. (a company whose majority shares were owned by one of the Company's directors)	¥ 251	Sales of insurance
Satoru Kurotani (a close relative of one of the Company's directors)	33	Sales of insurance
	<u>2013</u>	
	<u>Millions of Yen</u>	
KUROTANI NORTH AMERICA INC. (subsidiary)	¥ 2,063	Purchase
	282	Advance payments
	<u>2014</u>	
	<u>Thousands of U.S. Dollars</u>	
KH Premium Co., Ltd. (a company whose majority shares were owned by one of the Company's directors)	\$ 2,415	Sales of insurance
Satoru Kurotani (a close relative of one of the Company's directors)	321	Sales of insurance

15. SUBSEQUENT EVENT

The following appropriation of retained earnings as of August 31, 2014, was approved at the shareholders' meeting held on November 26, 2014:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥10 (\$0.10) per share	¥ 72	\$ 689

16. 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." Nonferrous metals segment is engaged in the manufacture and sale of ingots, and processing and sales of scrap. The majority of sales are in the nonferrous metals business, and therefore, the Company is not required to disclose separate financial information by segment.

(2) *Information about Products and Services*

	Millions of Yen			
	2014			
	<u>Ingots</u>	<u>Scrap</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	¥ 20,184	¥ 30,129	¥ 688	¥ 51,001

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

	Thousands of U.S. Dollars			
	2014			
	<u>Ingots</u>	<u>Scrap</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	\$ 194,079	\$ 289,701	\$ 6,613	\$ 490,393

(3) *Information about Geographical Areas*

(a) *Sales*

	Millions of Yen				
	2014				
	<u>Japan</u>	<u>Asia</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	¥ 39,468	¥ 10,424	¥ 972	¥ 137	¥ 51,001

	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

	Thousands of U.S. Dollars				
	2014				
	<u>Japan</u>	<u>Asia</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	\$ 379,503	\$ 100,226	\$ 9,350	\$ 1,314	\$ 490,393

Note: Sales are classified by country or region based on the location of customers.

(b) *Property, plant, and equipment*

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

(4) *Information about Major Customers*

<u>Name of Customer</u>	<u>2014</u>	
	<u>Millions of Yen</u> <u>Sales</u>	<u>Related Segment Name</u>
Sumitomo Metal Mining Co., Ltd.	¥ 5,158	Nonferrous metals segment

<u>Name of Customer</u>	<u>2013</u>	
	<u>Millions of Yen</u> <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 Customer</u>	<u>2014</u>	
	<u>Thousands of</u> <u>U.S. Dollars</u> <u>Sales</u>	<u>Related Segment Name</u>
Sumitomo Metal Mining Co., Ltd.	\$ 49,598	Nonferrous metals segment

* * * * *