



CONSOLIDATED FINANCIAL STATEMENTS
together with
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

as of March 31,2014

KUMAGAI GUMI CO., LTD.
TOKYO, JAPAN

Consolidated Balance Sheet

March 31, 2014

	(JPY million)	(US\$ thousand)
ASSETS		
CURRENT ASSETS:		
Cash and deposits	57,652	565,216
Notes receivable, accounts receivable from completed construction contracts and other	116,233	1,139,539
Allowance for doubtful accounts	(176)	(1,725)
Inventories	6,314	61,902
Deferred tax assets	1,742	17,078
Other	13,402	131,392
	<u>195,167</u>	<u>1,913,402</u>
INVESTMENTS AND OTHER ASSETS:		
Investment securities	12,582	123,353
Stocks of unconsolidated subsidiaries and affiliates	1,741	17,069
Long-term loans receivable	962	9,431
Long-term loans receivable from unconsolidated subsidiaries and affiliates	421	4,127
Long-term non-operating accounts receivable	4,032	39,529
Claims provable in bankruptcy, claims provable in rehabilitation and other	277	2,716
Deferred tax assets	7,069	69,304
Other	3,196	31,334
Allowance for doubtful accounts	(3,597)	(35,265)
	<u>26,683</u>	<u>261,598</u>
PROPERTY AND EQUIPMENT		
Land	10,003	98,069
Buildings	13,956	136,824
Machinery and equipment	14,405	141,225
Leased assets	191	1,873
Construction in progress	30	293
	<u>38,585</u>	<u>378,284</u>
Accumulated depreciation	<u>(24,505)</u>	<u>(240,245)</u>
	<u>14,080</u>	<u>138,039</u>
TOTAL ASSETS	<u><u>235,930</u></u>	<u><u>2,313,039</u></u>

	(JPY million)	(US\$ thousand)
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Short-term loans payable	14,626	143,392
Notes and accounts payable, trade	108,265	1,061,422
Advances received on uncompleted construction contracts	12,551	123,049
Accrued expenses	2,531	24,814
Income taxes payable	689	6,755
Deposits received from employees	1,773	17,382
Provision for loss on construction contracts	1,316	12,902
Other	16,393	160,715
	<u>158,144</u>	<u>1,550,431</u>
LONG-TERM LIABILITIES:		
Long-term loans payable	6,536	64,078
Net defined benefit liability	20,713	203,069
Other	76	745
	<u>27,325</u>	<u>267,892</u>
NET ASSETS:		
Shareholders' equity:		
Capital stock ;		
Authorized - 753,200,000 shares		
Issued - 297,544,607 shares	13,341	130,794
Capital surplus	7,878	77,235
Retained earnings	25,654	251,510
Treasury stock		
- 3,658,769 shares	(579)	(5,676)
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	3,605	35,343
Foreign currency translation adjustment	251	2,461
Remeasurements of defined benefit plans	(1,233)	(12,088)
Minority interests	1,544	15,137
Total net assets	<u>50,461</u>	<u>494,716</u>
	<u>235,930</u>	<u>2,313,039</u>

Consolidated Statement of Income and Statement of Comprehensive Income

For the year ended March 31, 2014

Consolidated Statement of Income

	(JPY million)	(US\$ thousand)
NET SALES:		
Completed construction contracts	328,900	3,224,510
COST OF SALES:		
Completed construction contracts	310,540	3,044,510
Gross profit	18,360	180,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>11,751</u>	<u>115,206</u>
Operating income	6,609	64,794
OTHER INCOME (EXPENSE):		
Interest and dividends income	159	1,559
Interest expenses	(555)	(5,441)
Other, net	<u>(564)</u>	<u>(5,530)</u>
Income before income taxes	5,649	55,382
Income taxes		
Current	774	7,588
Deferred	<u>498</u>	<u>4,882</u>
Income before minority interests	4,377	42,912
Minority interests in income	<u>77</u>	<u>755</u>
NET INCOME	<u><u>4,300</u></u>	<u><u>42,157</u></u>
	<u>(JPY)</u>	<u>(US\$)</u>
PER SHARE OF COMMON STOCK		
Basic net income	¥19.72	\$0.19
Diluted net income	¥11.50	\$0.11

Consolidated Statement of Comprehensive Income

	(JPY million)	(US\$ thousand)
Income before minority interests	4,377	42,912
Other comprehensive income		
Valuation difference on available-for-sale securities	1,566	15,353
Foreign currency translation adjustment	372	3,647
Share of other comprehensive income of associates accounted for using equity method	<u>(1)</u>	<u>(10)</u>
	1,937	18,990
Comprehensive income	<u>6,314</u>	<u>61,902</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	6,235	61,127
Comprehensive income attributable to minority interests	79	775

Consolidated Statement of Cash Flows

For the year ended March 31, 2014

	(JPY million)	(US\$ thousand)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income taxes and minority interests	5,649	55,382
Depreciation and amortization	965	9,461
Impairment loss	344	3,373
Increase (decrease) in allowance for doubtful accounts	(960)	(9,412)
Increase (decrease) in provision for retirement benefits	(18,915)	(185,441)
Increase (decrease) in net defined benefit liability	18,768	184,000
Interest and dividends income	(159)	(1,559)
Interest expenses	555	5,441
Foreign exchange losses (gains)	(17)	(167)
Equity in (earnings) losses of affiliates	(133)	(1,304)
Loss on retirement of noncurrent assets	40	392
Loss (gain) on sales of noncurrent assets	(11)	(108)
Decrease (increase) in notes and accounts receivable-trade	(10,757)	(105,461)
Decrease (increase) in costs on uncompleted construction contracts	293	2,873
Increase (decrease) in notes and accounts payable-trade	23,155	227,010
Increase (decrease) in advances received on uncompleted construction contracts	1,643	16,108
Increase (decrease) in other assets	938	9,196
Other, net	1,502	14,726
Sub-total	22,900	224,510
Interest and dividends income received	167	1,637
Interest expenses paid	(557)	(5,461)
Income taxes paid	(694)	(6,804)
Net cash provided by operating activities	21,816	213,882
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(918)	(9,000)
Proceeds from sales of property, plant and equipment	13	127
Purchase of short-term and long term investment securities	(229)	(2,245)
Payments of loans receivable	(152)	(1,490)
Collection of loans receivable	288	2,824
Other, net	629	6,166
Net cash used in investing activities	(369)	(3,618)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term loans payable	239	2,343
Proceeds from long-term loans payable	2,247	22,029
Repayment of long term loans payable	(3,851)	(37,755)
Cash dividends paid to minority shareholders	(46)	(451)
Other, net	(61)	(597)
Net cash used in financing activities	(1,472)	(14,431)
EFFECT ON EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	468	4,589
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,443	200,422
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	37,167	364,382
CASH AND CASH EQUIVALENTS AT END OF PERIOD	57,610	564,804

Notes to the Consolidated Financial Statements

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

Kumagai Gumi Co.,Ltd.(the Company) and its consolidated subsidiaries (the Companies) prepared their financial statements in accordance with accounting principles and practices generally accepted in Japan.

The accompanying consolidated financial statements of the Companies are translations of the consolidated financial statements prepared by the Company in accordance with the Japanese Financial Instruments and Exchange Law and audited by Gyosei & Co..

In consideration of the purpose of the consolidated financial statements, most of their footnotes have been omitted.

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

- Consolidation

The Company applies the control or influence standard for determining the criteria of subsidiaries and affiliates included within the scope of consolidation.

The consolidated financial statements include the accounts of the Company, seven of its consolidated subsidiaries and three of its affiliates accounted for applying the equity method as at and for the year ended March 31, 2014.

The subsidiaries which are consolidated with the Company are listed below:

<u>Company Name</u>	<u>Fiscal Year-End</u>
GAEART TK Co., Ltd.	31 Mar. 2014
Technos Co., Ltd.	31 Mar. 2014
K&E Co., Ltd.	31 Mar. 2014
Techno-Space Creates Co., Ltd.	31 Mar. 2014
FATEC Co., Ltd.	31 Mar. 2014
Technical Support Co., Ltd.	31 Mar. 2014
Taiwan Kumagai Co., Ltd.	31 Dec. 2013

All significant intercompany accounts and transactions are eliminated in consolidation. Investments in unconsolidated subsidiaries and affiliates that are not accounted for applying the equity method are stated at cost.

The Company consolidates such subsidiaries' financial statements as of each subsidiary's most recent year-end. Unusual significant transactions occurring between subsidiaries' year-ends and the Company's are adjusted on consolidation.

2. UNITED STATES DOLLAR AMOUNTS

The United States dollar amounts included in the accompanying consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of JPY102=US\$1, which was the approximate exchange rate at March 31, 2014.

These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into United States dollars at that rate.

3. SUBSEQUENT EVENTS

A construction failure was found in the apartment complex in Yokohama that the Company built in March 2003, and it became necessary for the Company to take measures to ensure the security of its residents. Although allowance for estimated cost was recorded on the financial statements for the year ended March 31, 2014, through discussions in June 2014 with the parties concerned, a situation that could require a review of the allowance has arisen. However, countermeasures are still in discussion, and it is difficult to estimate the impact at this time. It should be noted that if additional spending in the future becomes necessary, it could have a material impact on the financial condition, results of operations and cash flows from the next fiscal year.