

CONSOLIDATED FINANCIAL INFORMATION

For First Three Months (April 1 – June 30, 2014)
of Fiscal Year Ending March 31, 2015

KYOKUTO SECURITIES CO., LTD.

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July 30, 2014

**CONSOLIDATED RESULTS FOR THE FIRST THREE MONTHS (APR-JUN 2014)
OF THE FISCAL YEAR ENDING MARCH 31, 2015 (SUMMARY)**

Name of company: **Kyokuto Securities Co., Ltd.**

Listed Stock Exchange: Tokyo Stock Exchange

Stock code number: 8706

URL: <http://www.kyokuto-sec.co.jp>

Company's representative: Kazuhiro KIKUCHI, President and Chief Executive Officer

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Scheduled date of filing of quarterly securities report: August 13, 2014

1. Consolidated Results for First Three Months (April 1- June 30, 2014) of the Fiscal Year 2014**(1) Consolidated Business Results** (Millions of yen with fractions less than a million yen discarded.)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Operating income	3,572 (118.3)	3,574 (0.0)
Net operating income	3,462 (115.0)	3,539 (2.2)
Operating profit	1,822 (334.9)	2,016 (10.6)
Ordinary profit	1,962 (320.1)	2,162 (10.2)
Net profit	3,657 (-)	1,499(-59.0)
Earnings per share	114.65 yen	47.01 yen
Earnings per share (diluted)	—	—

Note: 1. The figures in the parenthesis are percentage increase/decrease from the corresponding period of the previous fiscal year.

2. Comprehensive income: Three Months ended June 30, 2014: 1,485 million yen (-27.8%)

Three Months ended June 30, 2013: 2,056 million yen (702.7%)

(2) Consolidated Financial Condition

	June 30, 2014	March 31, 2014
Total assets (Millions of yen)	100,536	92,080
Net assets (Millions of yen)	45,950	46,269
Shareholders' equity ratio	41.7%	45.9%
Net assets per share	1,315.57 yen	1,323.78 yen

Note: Shareholders' equity:

June 30, 2014: 41,968 million yen. March 31, 2014: 42,230 million yen.

2. Matters Concerning Dividends

(Record date)	Dividends per share				
	End of 1 st Qr.	End of 2 nd Qr.	End of 3 rd Qr.	End of FY	Annual Total
FY2013	—	70.00 yen	—	56.00 yen	126.00 yen
FY2014	—	—	—	—	—

3. Forecast of Consolidated Business Results for Fiscal Year Ending March 31, 2015

(Year from April 1, 2014 to March 31, 2015)

The Kyokuto Group does not disclose forecast of business results. Please see page 6 for further information.

(Notes)

(1) Changes in important subsidiary companies (i.e., changes in scope of consolidation)

No company was added to the scope of full/partial consolidation.

(2) Application of any accounting treatments peculiar to preparation of quarterly consolidated financial statements

The Company has not applied any accounting treatments peculiar to preparation of quarterly consolidated financial statements.

(3) Changes in accounting policies, changes in accounting estimates, or retrospective restatements

(a) Any changes caused by amendments to accounting standards: None

(b) Any changes other than (a): None.

(c) Any changes in accounting estimates: None.

(d) Retrospective restatements: None.

(4) Number of shares outstanding (common stock)

(a) Number of shares outstanding (including treasury shares)

June 30, 2014: 32,779,000 March 31, 2014: 32,779,000

(b) Number of treasury shares

June 30, 2014: 877,402 March 31, 2014: 877,386

(c) Average number of shares outstanding

April 1—June 30, 2014: 31,901,610 April 1—June 30, 2013: 31,902,037

***Quarterly review:**

The quarterly earnings figures included herein are disclosed without being reviewed by certified public accountants as required by the Financial Instruments and Exchange Law. The figures in quarterly consolidated financial statements are being reviewed by certified public accountants at the time of this release.

***Explanation concerning forecast of business results:**

As stated in 3. above, the Kyokuto Group does not disclose forecast of business results. Instead, the Kyokuto Group will endeavor to disclose preliminary business results by around tenth business day following the end of each fiscal year or quarter.

BUSINESS RESULTS

1. Business Results

During the first quarter (i.e., the period of three months from April 1 to June 30, 2014. Hereinafter called the “period”), the Japanese economy sustained a modest recovery, supported by the government’s positive economic and monetary policies.

In response to concerns about the negative impact on domestic economy due to the Consumption Tax hike and political unrest in some emerging countries, the stock market showed weak movements during the first part of the period, when the Nikkei Average temporarily dropped below the 14,000 yen level. However, since a decrease in demand due to reaction to last-minutes purchases before the tax hike was less than expected, the stock prices recovered in the last part of the period and the Nikkei Average closed at above 15,000 yen level.

The 10-year Japanese government bond yield showed a modest decline and closed at the level of 0.56% which is the lowest level since 2003. The Japanese yen was relatively strong over other major currencies during the first half, but struggled to find a direction in the latter half.

In this environment, we kept endeavoring to offer unique “in-season financial products” based on our “Face to Face” business model, in response to customers’ varied needs. As a result, the group’s consolidated earnings for the period sustained the same level of the corresponding previous period, with operating income recording 3,574 million yen (up 0.0%), net operating income also slightly increasing to 3,539 million yen (up 2.2%), ordinary profit increasing to 2,162 million yen (up 10.2%), but net profit halved to 1,499 million yen (down 59.0%).

Details of the period’s results are as follows:

(1) Commission Revenue

The total commission revenue for the period decreased 40.7% to 565 million yen, as shown in below:

(a) Brokerage commissions

We earned 236 million yen (down 58.0%) as brokerage commissions on equity securities. As a result, total amount of brokerage commissions including those on fixed-income securities was 241 million yen (down 58.1%).

(b) Fees on underwriting, selling and sales solicitation to professional investors

The amount of fees on underwriting, selling and sales solicitation to professional investors was 5 million yen (down 53.4%).

(c) Fees on handling of offering, selling and sales solicitation to professional investors

Fees on handling of offering, selling and sales solicitation to professional investors decreased 18.3% to 217 million yen, reflecting diminished sales of investment trusts.

(d) Other fees

Other fees consisting mainly of trailer fees and those derived from investment banking business were 100 million yen (up 1.9%).

(2) Gains/Loss on Trading

Trading in equity-related securities resulted in gains of 68 million yen (down 54.7%). Gains on bond trading increased 13.9% to 2,104 million yen. Adding gains on other trading of 2 million yen (loss of 0 million yen for the corresponding previous period), the total gains increased 8.9% to 2,175 million yen.

(3) Gains/Loss on Private Equity and Other Securities

Our consolidated subsidiary company, the FE Invest, Co., Ltd. recorded a gain of 0 million yen (loss of 50 million yen for the corresponding previous period) on private equity and other securities.

(4) Interest and Dividend Income

The period’s net interest and dividend income increased 98.8% to 463 million yen.

(5) Other Operating Income

Other operating income consisting of fees and rent on real estate earned by consolidated subsidiaries totaled 334 million yen (up 1.8%).

(6) Operating Expenses

Operating expenses for the period were 1,523 million yen (down 7.1 %).

(7) Non-operating Income/Expenses

Non-operating income for the period consisting mainly of dividends on investment securities totaled 191 million yen (down 11.2 %), while non-operating expenses amounted to 45 million yen (down 39.8%), including interest payments. As a result, we recorded net non-operating profit of 146 million yen (up 4.2 %).

(8) Extraordinary Profit/Loss

We realized extraordinary profit of 55 million yen (down 98.6%), due to sales of fixed assets. With the amount of extraordinary loss being 32 million yen (up 34.8%), which came chiefly from loss on valuation of investment securities, we recorded a net extraordinary gains of 23 million yen (down 99.4%).

2. Financial Condition

(1) Assets

The total assets as of June 30, 2014 increased 8,455 million yen to 100,536 million yen from 92,080 million yen as of March 31, 2014. Current assets decreased 6,810 million yen to 59,224 million yen from 66,035 million yen. While trading assets slightly increased 1,280 million yen to 33,911 million yen from 32,631 million yen, cash and bank deposits decreased 5,267 million yen to 7,615 million yen from 12,883 million yen and assets pertaining to margin transactions declined by 1,638 million yen to 5,749 million yen from 7,387 million yen. Fixed assets grew 15,277 million yen to 41,247 million yen from 25,969 million yen, due to an increase of tangible fixed assets through a purchase of fixed assets at the subsidiaries, which increased 15,155 million yen to 30,783 million yen from 15,627 million yen.

(2) Liabilities

The total liabilities as of June 30, 2014 grew 8,774 million yen to 54,585 million yen from 45,811 million yen as of March 31, 2014. Current liabilities decreased 6,510 million yen to 34,080 million yen from 40,591 million yen. While payable to customers and others increased 1,083 million yen to 9,539 million yen from 8,456 million yen, short-term borrowings decreased 5,039 million yen to 22,171 million yen from 27,211 million yen and accrued income taxes decreased 2,326 million yen to 512 million yen from 2,839 million yen. Fixed liabilities increased 15,283 million yen to 20,482 million yen from 5,199 million yen, reflecting a net increase resulting from an increase in long-term borrowings which grew 14,497 million yen to 17,692 million yen from 3,195 million yen.

(3) Net Assets

Net assets as of June 30, 2014 decreased 318 million yen to 45,950 million yen from 46,269 million yen as of March 31, 2014, due to a decrease in retained earnings, which decreased 286 million yen to 30,712 million yen from 30,999 million yen.

3. Forecast of Consolidated Business Results for Fiscal Year Ending March 31, 2015

(Year from April 1, 2014 to March 31, 2015)

The Kyokuto group's operating income consists mainly of commission revenue and gain/loss on principal trading, and substantial part of its income comes from business activities in the equity and fixed income securities markets. The amount of income we earned from our business in the equity market accounted for 14.9% (12.1% as commissions and 2.8% as gains on trading) and 9.1% (6.3% as commissions and 2.8% as gains on trading) of consolidated net operating income in the

fiscal years ended March 2014 and 2013, respectively. Similarly, 57.2% and 73.5% of consolidated net operating income in the two fiscal years, respectively were derived from our business activity in the bond market. While we have endeavored to make our revenue structure resilient to market changes by diversifying revenue sources such as those from investment banking business, our operating income is still susceptible to trends of the securities markets, and thus may fluctuate unexpectedly, depending on the market situation. In addition, we have, while adhering to a business model of face-to-face consultation, offered varied financial products in response to the evolving needs of customers. In this course of business, we at times take relatively heavy positions of foreign currency-denominated fixed-income securities, exposing ourselves to risk of recording large amount of unrealized gains or loss that may be caused by unexpected, sudden changes in foreign exchange markets.

Movement of securities markets and foreign exchange markets is influenced by various factors, including, among others, overseas and/or domestic political or economic developments, corporate performance, interest rates, fiscal policy changes and so forth. Accordingly, in order to predict the group's future business results, we need to grasp future movements of the markets by properly foreseeing these factors—that can hardly be done. In addition, as for investment banking business, it is almost impossible for us to predict every future business opportunity. We believe that disclosing earnings forecast in such circumstance where there is a high probability that the forecast sharply deviates from the actual outcome due to many uncertain factors may well result in sending a wrong message to the market, thereby causing adverse influence on investment judgment of investors and shareholders to the ultimate detriment of fair price discovery.

For the reasons mentioned in the above, we refrain from disclosing earnings forecast and instead, we will endeavor to disclose actual business results as early as possible. We will disclose preliminary consolidated results by around tenth business day following the end of each fiscal year or quarter, by which business result figures are expected to be available.

4. Matters concerning notes to summary information

(1) Changes in scope of consolidation and application of equity method

During the period, no company was added to or removed from the scope of full consolidation and partial consolidation under the equity method.

(2) Changes in accounting policies—application of accounting standards, etc concerning consolidated financial statement

There has been no change in accounting principles, procedures or itemization with respect to preparation of quarterly consolidated financial statements

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY ended Mar. 31, 2014	As of June 30, 2014
Assets		
Current assets:		
Cash and bank deposits	12,883	7,615
Segregated cash and statutory deposits	9,046	8,433
Trading assets	32,631	33,911
Securities inventory, etc.	32,631	33,911
Net receivables pertaining to contracts to be settled	275	705
Private equity and other securities	12	12
Assets pertaining to margin transactions	7,387	5,749
Loans to customers on margin transactions	7,003	5,304
Cash collateral to finance companies for securities borrowed	383	444
Other current assets	3,806	2,800
Provision for doubtful debts	—8	—4
Total current assets	66,035	59,224
Fixed assets:		
Tangible fixed assets	15,627	30,783
Buildings	3,900	10,380
Land	11,270	19,916
Other	455	485
Intangible fixed assets	82	75
Investments and other assets	10,260	10,389
Investment securities	8,168	8,184
Other	2,135	2,248
Provision for doubtful debts	—43	—43
Total fixed assets	25,969	41,247
Differed assets	75	64
Total assets	92,080	100,536

	FY ended Mar. 31, 2014	As of June 30, 2014
Liabilities		
Current liabilities:		
Trading liabilities	—	7
Derivative contracts	—	7
Liabilities pertaining to margin transactions	442	671
Borrowings for margin transactions	14	240
Cash collateral for borrowed securities sold short	427	431
Payables to customers and others	8,456	9,539
Short-term borrowings	27,211	22,171
Accrued income taxes	2,839	512
Accrued bonuses to employees	331	168
Other current liabilities	1,311	1,008
Total current liabilities	40,591	34,080
Fixed liabilities		
Long-term borrowings	3,195	17,692
Provision for retirement/severance benefits to employees	56	45
Other fixed liabilities	1,948	2,745
Total fixed liabilities	5,199	20,482
Statutory reserve		
Financial instruments trading liability reserve	20	21
Total statutory reserve	20	21
Total liabilities	45,811	54,585
Net Assets		
Shareholders' equity		
Capital stock	5,251	5,251
Capital surplus	4,774	4,774
Retained earnings	30,999	30,712
Treasury stock	— 863	— 863
Total shareholders' equity	40,162	39,875
Accumulated other comprehensive income		
Unrealized gains on other securities	2,068	2,093
Total accumulated other comprehensive income	2,068	2,093
Minority interests	4,038	3,981
Total net assets	46,269	45,950
Total liabilities and net assets	92,080	100,536

(2) Consolidated Income Statement (For First Three Months Ended June 30, 2014)

(Millions of yen)

	3 months ended June 30, 2013	3 months ended June 30, 2014
Operating income		
Commissions and fees	953	565
Brokerage commissions	575	241
Fees on underwriting, selling and sales solicitation to professional investors	12	5
Fees for handling of offering, selling and sales solicitation to professional investors	266	217
Other fees	98	100
Gains or loss on trading	1,997	2,175
Net gains or loss on private equity and other securities	-50	0
Interest and dividend income	343	498
Other operating income	328	334
Total operating income	3,572	3,574
Financial expenses	109	34
Net operating income	3,462	3,539
Operating Expenses		
Transaction-related expenses	149	168
Personnel expenses	990	834
Real estate-related expenses	153	143
Data processing and office supplies	154	134
Depreciation and amortization	47	85
Miscellaneous taxes and dues	58	34
Other	87	121
Total operating expenses	1,640	1,523
Operating Profit	1,822	2,016
Non-operating income		
Dividends received	97	70
Reversal of provision for doubtful debts	58	3
Interest on securities	-	79
Other	59	38
Total non-operating income	215	191
Non-operating expenses		
Loss on investments in TK (<i>Tokumei Kumiai</i>)	39	0
Interest paid	21	29
Amortization of opening expenses	8	15
Other	5	0
Total non-operating expenses	75	45
Ordinary profit	1,962	2,162
Extraordinary profit		
Gains on sales of investment securities	3,970	-
Reversal of financial instruments trading liability reserve	1	-
Gains on sales of fixed assets	-	55
Total extraordinary profit	3,971	55
Extraordinary loss		
Loss on liquidation of fixed assets	21	-
Loss on valuation of investment securities	0	31
Provision of financial instruments trading liability reserve	-	0
Other	1	-
Total extraordinary loss	23	32
Net profit or loss before taxes	5,909	2,185

Corporate tax, inhabitant tax and business tax	2,134	501
Adjustments for corporate tax, etc.	122	223
Total corporate tax, etc.	2,257	725
Net profit before minority interests	3,652	1,460
Minority interests	-5	-39
Net profit	3,657	1,499

(Consolidated Comprehensive Income Statement)

(Millions of yen)

	3 months ended June 30, 2013	3 months ended June 30, 2014
Net profit before minority interests	3,652	1,460
Other comprehensive income		
Unrealized gains/loss on other securities	-1,595	24
Total other comprehensive income	-1,595	24
Comprehensive income	2,056	1,485
Consisting of:		
Comprehensive income pertaining to shareholders of parent company	2,061	1,524
Comprehensive income pertaining to minority shareholders	-5	-39

(3) Note on going concern

Not applicable.

(4) Note on substantial change in shareholders' equity, if any

Not applicable.

[Referential Data]

Referential Date on Consolidated Business Results for First Three Months Ended June 30, 2014

(1) Commissions and fees earned

(a) Commissions and fees by sources

(Millions of yen)

	3 months ended June 30, 2013	3 months ended June 30, 2014	Change		Year ended Mar. 31, 2014
				%	
Brokerage commissions	575	241	-334	-58.1	1,590
(Equities)	(563)	(236)	(-326)	(-58.0)	(1,556)
(Bonds)	(1)	(0)	(-1)	(-99.3)	(2)
Fees for underwriting, selling and sales solicitation to professional investors	12	5	-6	-53.4	46
(Equities)	(12)	(5)	(-6)	(-53.4)	(46)
(Bonds)	(-)	(-)	(-)	(-)	(-)
Fees for handling of offering, selling and sales solicitation to professional investors	266	217	-48	-18.3	821
Other fees	98	100	1	1.9	401
Total	953	565	-387	-40.7	2,860

(b) Commissions and fees by instruments

(Millions of yen)

	3 months ended June 30, 2013	3 months ended June 30, 2014	Change		Year ended Mar. 31, 2014
				%	
Equities	577	244	-333	-57.7	1,615
Bonds	1	1	-0	-39.3	4
Beneficiary securities	370	315	-55	-14.8	1,207
Other	3	4	1	34.9	32
Total	953	565	-387	-40.7	2,860

(2) Gains/loss on trading

(Millions of yen)

	3 months ended June 30, 2013	3 months ended June 30, 2014	Change		Year ended Mar. 31, 2014
				%	
Equities, etc.	151	68	-82	-54.7	371
Bonds, etc.	1,847	2,104	257	13.9	7,613
Other	-0	2	2	-	-0
Total	1,997	2,175	177	8.9	7,984

[Referential Data]

Referential Date on Business Results for First Three Months Ended June 30, 2013

(1) Volume/value of equity trading (except trading in derivatives)

(Million shares/Millions of yen)

	3 months ended June 30, 2013		3 months ended June 30, 2014		Change %		Year ended Mar. 31, 2014	
	Number of shares	Trade value	Number of shares	Trade value	Number of shares	Trade value	Number of shares	Trade value
Total	938	407,695	565	217,281	-39.7	-46.7	3,052	1,344,915
(Agency)	(174)	(109,353)	(112)	(48,739)	(-35.3)	(-55.4)	(568)	(348,375)
(Principal)	(764)	(298,341)	(452)	(168,541)	(-40.7)	(-43.5)	(2,483)	(996,539)
(Agency)/Total (%)	18.6%	26.8%	20.0%	22.4%			18.6%	25.9%
Total/TSE volume (%)	0.16 %	0.09%	0.16 %	0.08%			0.17%	0.09%
Brokerage commission per share	3.20 yen		2.08yen				2.71 yen	

(2) Volume of underwriting, offering and selling

(Million shares/Millions of yen)

		3 months ended June 30, 2013	3 months ended June 30, 2014	Change %	Year ended Mar. 31, 2014
Underwriting	Equities (Number of shares)	0	0	456.3	0
	Equities (Yen volume)	28	156	443.8	835
	Bonds (Face value)	—	—	—	—
	CPs, foreign instruments, etc.	—	—	—	—
Offering/selling	Equities (Number of shares)	0	0	443.7	0
	Equities (Yen volume)	27	157	471.1	1,069
	Bonds (Yen volume at face value)	45	171	275.9	959
	Beneficiary securities	36,501	24,827	-32.0	107,777
	CPs, foreign instruments, etc.	862	2,500	190.0	10,017

(3) Net capital regulation ratio

(Millions of yen)

		June 30, 2013	June 30, 2014	Mar. 31, 2014
Basic items	(A)	36,587	38,095	36,817
Complementary items	Appraisal difference (appraisal profit) of other securities, etc.	1,999	2,093	2,068
	Financial instruments trading liability reserve	12	21	20
	Provision for doubtful debts	69	4	8
	Total (B)	2,081	2,119	2,097
Deductible assets	(C)	15,274	16,245	16,601
Unfixed net capital (A) + (B) – (C)	(D)	23,394	23,969	22,313
Amount of risk correspondents	Market risk correspondence	3,419	4,397	3,868
	Trade party risk correspondence	570	342	699
	Basic risk correspondence	1,290	1,545	1,485
	Total (E)	5,280	6,285	6,053
Net capital regulation ratio	(D)/(E) × 100%	442.9%	381.3%	368.6%

(4) Number of directors/auditors and employees

	June 30, 2013	June 30, 2014	Mar. 31, 2014
Directors and auditors	9	9	9
Employees	245	248	239

[Referential Data]

Consolidated Income Statement for Latest Five Quarters

(Millions of yen)

	Qr. ended June 30, 2013	Qr. ended Sept. 30, 2013	Qr. ended Dec. 31, 2013	Qr. ended Mar. 31, 2014	Qr. ended June 30, 2014
I. Operating income	3,572	3,456	3,273	3,602	3,574
1. Commissions and fees	953	652	698	555	565
2. Gains or loss on trading	1,997	1,809	1,758	2,419	2,175
3. Gains on private equity and other securities	−50	145	26	—	0
4. Interest and dividend income	343	321	328	345	498
5. Other operating income	328	528	461	282	334
II. Financial expenses	109	187	342	−55	34
Net operating income	3,462	3,269	2,931	3,657	3,539
III. Operating Expenses	1,640	1,719	1,467	1,645	1,523
1. Transaction-related expenses	149	195	172	157	168
2. Personnel expenses	990	904	802	870	834
3. Real estate-related expenses	153	169	161	224	143
4. Data processing and office supplies	154	150	151	140	134
5. Depreciation and amortization	47	52	57	72	85
6. Miscellaneous taxes and dues	58	84	42	60	34
7. Provision for doubtful debts	—	12	−12	—	—
8. Other	87	150	91	119	121
Operating Profit	1,822	1,549	1,463	2,012	2,016
IV. Non-operating income	215	325	148	164	191
V. Non-operating expenses	75	34	19	43	45
Ordinary profit	1,962	1,840	1,593	2,132	2,162
VI. Extraordinary profit	3,971	89	497	464	55
VII. Extraordinary loss	23	661	4	134	32
Net profits before taxes	5,909	1,269	2,087	2,462	2,185
Corporate tax, residential tax and business tax	2,134	628	488	1,142	501
Adjustments for corporate tax, etc.	122	−20	193	−169	223
Net profit before minority interest	3,652	661	1,404	1,490	1,460
Minority interest	−5	−759	−1	−22	−39
Net profit	3,657	1,421	1,405	1,512	1,499