THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

Years ended March 31, 2014 and 2013

KPMG

Independent Auditor's Report

To the Board of Directors of THE KINKI SHARYO Co., Ltd.:

We have audited the accompanying consolidated financial statements of THE KINKI SHARYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of THE KINKI SHARYO Co., Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. From the year ended March 31, 2014, the Company and consolidated domestic subsidiary changed the depreciation method of property, plant and equipment other than buildings.

KPMG AZSA LLC

September 26, 2014
Osaka, Japan

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2014 and 2013

	Millions of yen 2014	Millions of yen 2013
ASSETS		
Current Assets		
Cash and time deposits (Note 5)	¥ 20,202	¥ 22,748
Receivables (Note 12)		
Trade notes	161	58
Trade accounts	3,632	2,495
Other accounts	174	481
Allowance for doubtful receivables	(9)	(4)
	3,958	3,030
Inventories		
Work-in-process	10,027	3,940
Raw materials and supplies	546	413
	10,573	4,353
Deferred income tax assets (Note 10)	596	946
Other current assets	474	239
Total current assets	35,803	31,316
Property, Plant and Equipment		
Land	2,704	2,704
Buildings and structures (Note 8)	9,508	9,127
Machinery and equipment	10,297	10,040
Construction in progress	29	39
	22,538	21,910
Accumulated depreciation	(14,950)	(14,846)
	7,588	7,064
Investments and Other Assets		
Unconsolidated subsidiaries and affiliates (Note 7)	36	36
Investment securities (Note 7)	5,913	5,654
Long-term receivables	152	148
Intangible assets	97	92
Deferred income tax assets (Note 10)	51	231
Long-term prepaid expenses	846	414
Allowance for doubtful receivables	(62)	(55)
	7,033	6,520
Total assets	¥ 50,424	¥ 44,900

	Millions of yen 2014	Millions of yen 2013
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payables		
Trade accounts	¥ 3,314	¥ 1,573
Construction	531	106
Advances received	7,532	1,964
Income and enterprise taxes payable	16	71
Accrued expenses	1,120	1,018
Allowance for losses on contracts	2,561	765
Provision for product warranties	196	461
Other current liabilities	291	570
Total current liabilities	15,561	6,528
Noncurrent Liabilities		
Deferred income tax liabilities (Note 10)	940	—
Retirement and severance benefits (Note 9)	—	1,500
Net defined benefit liabilities (Note 9)	2,336	—
Other noncurrent liabilities (Note 8)	1,324	1,419
	4,600	2,919
Total liabilities	20,161	9,447
Net Assets (Note 11)		
Shareholders' equity		
Common stock		
Authorized - 120,000,000 shares		
Issued - 69,083,597 shares	5,253	5,253
Capital surplus	3,125	3,125
Retained earnings	21,135	27,393
Treasury stock, at cost	(98)	(96)
237,423 shares in 2014		
232,534 shares in 2013		
Total shareholders' equity	29,415	35,675
Accumulated other comprehensive income		
Net unrealized holding gains on securities	1,428	1,262
Net unrealized holding gains on derivatives	—	2
Foreign currency translation adjustments	43	(1,486)
Remeasurements of defined benefit plans	(623)	—
Total accumurated other comprehensive imcome	848	(222)
Total net assets	30,263	35,453
Total liabilities and net assets	¥ 50,424	¥ 44,900

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2014 and 2013

	Millions of yen	
	2014	2013
Net sales (Note 12)	¥ 13,219	¥ 22,308
Cost of sales	14,740	19,163
Gross profit (loss)	(1,521)	3,145
Selling, general and administrative expenses	3,096	3,222
Operating loss	(4,617)	(77)
Other income (expenses)		
Interest and dividend income	127	134
Interest expense	(0)	(2)
Foreign exchange gain	69	128
Gain on sale of investment securities	—	270
Other, net	(42)	19
	154	549
Income (loss) before income taxes	(4,463)	472
Income taxes (Note 10)		
Current	(7)	(60)
Refund	27	—
Deferred	(1,471)	62
Net income (loss)	¥ (5,914)	¥ 474

	Yen	
Amounts per share		
Net income (loss)	¥ (85.90)	¥ 6.89
Cash dividends applicable to the year	¥ —	¥ 5.00

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2014 and 2013

	Millions of yen	
	2014	2013
Net income	¥ (5,914)	¥ 474
Other comprehensive income		
Net unrealized holding gains (losses) on securities	166	942
Net unrealized holding gains (losses) on derivatives	(2)	(12)
Foreign currency translation adjustments	1,529	837
Total other comprehensive income (Note 4)	1,693	1,767
Comprehensive income	(4,221)	2,241
Comprehensive income attributable to		
Owners of the parent	4,221	2,241

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2014 and 2013

		Millions of yen							
		Shareholders' equity				Accumulated other comprehensive income			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized holding gains on derivatives	Foreign currency translation adjustments	Total
Balance at April 1, 2012	69,083,597	¥ 5,253	¥ 3,125	¥ 27,263	¥ (95)	¥ 320	¥ 14	¥ (2,323)	¥ 33,557
Cash dividends paid at ￥5.00 per share	-	-	-	(344)	-	-	-	-	(344)
Net income (loss)	-	-	-	474	-	-	-	-	474
Treasury stock	-	-	-	-	(1)	-	-	-	(1)
Net changes during the year	-	-	-	-	-	942	(12)	837	1,767
Balance at March 31, 2013	69,083,597	¥ 5,253	¥ 3,125	¥ 27,393	¥ (96)	¥ 1,262	¥ 2	¥ (1,486)	¥ 35,453

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized holding gains on derivatives	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total
Balance at April 1, 2013	69,083,597	¥ 5,253	¥ 3,125	¥ 27,393	¥ (96)	¥ 1,262	¥ 2	¥ (1,486)	¥ -	¥ 35,453
Cash dividends paid at ￥5.00 per share	-	-	-	(344)	-	-	-	-	-	(344)
Net income (loss)	-	-	-	(5,914)	-	-	-	-	-	(5,914)
Treasury stock	-	-	-	-	(2)	-	-	-	-	(2)
Net changes during the year	-	-	-	-	-	166	(2)	1,529	(623)	1,070
Balance at March 31, 2014	69,083,597	¥ 5,253	¥ 3,125	¥ 21,135	¥ (98)	¥ 1,428	¥ -	¥ 43	¥ (623)	¥ 30,263

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2014 and 2013

	Millions of yen	
	2014	2013
Cash flows from operating activities		
Net income (loss) before income taxes	¥ (4,463)	¥ 472
Adjustments to reconcile net income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	554	737
Increase (decreace) in retirement benefits	(1,500)	260
Increase (decreace) in net defined benefit liability	1,713	-
Increase (decrease) in provision for product warranties	(264)	(169)
Increase (decrease) in allowance for losses on contracts	1,638	(158)
Interest and dividend income	(127)	(134)
Interest expense	0	2
Decrease (increase) in trade notes and accounts receivable	3,460	3,989
Decrease (increase) in inventories	(5,783)	4,449
Increase (decrease) in trade notes and trade accounts payable	1,635	(2,306)
Interest and dividends received	127	134
Interest paid	(0)	(2)
Income taxes paid	(61)	(1,100)
Income taxes refund	477	-
Gain on sale of investment securities	-	(270)
Increase (decrease) in accounts payable and accrued expenses	73	(556)
Other, net	(1,072)	(476)
Net cash provided by (used in) operating activities	(3,593)	4,872
Cash flows from investing activities		
Payments into time deposits	(6,901)	(5,400)
Proceeds from withdrawal from time deposits	5,901	5,400
Acquisitions of property, plant and equipment and intangible assets	(681)	(395)
Proceeds from sales of property, plant and equipment and intangible assets	1	1
Purchases of short term investment securities	(3,900)	(2,000)
Proceeds from sales of investment securities	-	274
Proceeds from sales of short term investment securities	3,900	2,000
Proceeds from liquidation of subsidiaries	-	42
Net cash (used in) investing activities	(1,680)	(78)
Cash flows from financing activities		
Cash dividends paid	(346)	(345)
Payments for treasury stock	(2)	(1)
Net cash (used in) financing activities	(348)	(346)
Effect of exchange rate changes on cash and cash equivalents	2,075	1,054
Net increase (decrease) in cash and cash equivalents	(3,546)	5,502
Cash and cash equivalents at beginning of year	21,948	16,446
Cash and cash equivalents at end of year (Note 5)	¥ 18,402	¥ 21,948

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. <u>Basis of presenting consolidated financial statements</u>
The accompanying consolidated financial statements of THE KINKI SHARYO CO., LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP") which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles in the United States of America ("US GAAP") and partially reflect the adjustments which are necessary to conform with Japanese GAAP. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

2. <u>Significant accounting policies</u>
<u>(a) Consolidation</u> - The consolidated financial statements include the accounts of the Company and three significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. Intercompany transactions and accounts have been eliminated.

<u>(b) Consolidated subsidiaries' fiscal year-ends</u> - The consolidated overseas subsidiaries have fiscal years ending on December 31. Significant transactions between December 31 and March 31, the fiscal year-end of the Company, are reflected in the consolidated financial statements.

<u>(c) Cash flow statements</u> - In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

2. Significant accounting policies (cont'd.)

(d) Allowance for doubtful receivables - The Company and its consolidated subsidiaries (the "Companies") provide for doubtful accounts principally at an amount based on management's estimate of the bad debt ratio plus the estimated uncollectible amount of certain individual receivables.

(e) Securities - Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair market values, including equity securities issued by subsidiaries and affiliates which are not consolidated or accounted for using the equity method, are stated at moving average cost.

(f) Derivatives and hedge accounting - The Companies state derivative financial instruments at fair value and recognize a change in the fair value as gain or loss unless the derivative financial instrument was accounted for with hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. However, in cases in which forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the contracts and the hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and

(b) the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction is recorded using the contracted forward rate, and no gain or loss on the forward foreign exchange contract is recognized.

2. Significant accounting policies (cont'd.)

(g) Inventories - Work-in-process is stated principally at identified cost. Raw materials and supplies are stated at cost determined by the moving average method. For balance sheet valuation, in the event that an impairment in the value of inventory is determined, the inventory is written down to the lower of cost of market using net realizable value.

(h) Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is calculated by the straight-line method over the estimated useful life of the asset.

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

The Company and its domestic consolidated subsidiary traditionally applied the declining-balance method to the depreciation of property, plant and equipment, other than buildings, and its overseas subsidiaries applied the straight-line method. But, from the year ended March 31, 2014, the Company and its domestic consolidated subsidiary changed the depreciation method to the straight-line method.

Though foreign production is expected to expand as a result of the foreign subsidiaries' decision to construct a factory, the depreciation method in the parent company and foreign subsidiaries is not same. Therefore, the Company readjusted the status of use for property, plant and equipment other than buildings. The existing facilities are expected to be used stably both now and in the future. For this reason, the Company changed the depreciation method.
Due to this change in depreciation method, depreciation expense for the year ended March 31, 2014 decreased by ¥175 million and operating loss, and loss before income taxes for the year ended March 31, 2014 decreased by ¥117 million from the amounts that would have been reported without the change.

(i) Intangible assets - Intangible assets are amortized by the straight-line method over the estimated useful life of the asset.

(j) Software costs - The Companies include software used for internal purposes in intangible assets and amortize it using the straight-line method over the estimated useful life of five years.

(k) Capitalized leases - Property, plant and equipment capitalized under finance leases are depreciated over the term of the lease.

2. Significant accounting policies (cont'd.)

(l) Research and development expenses - The Companies charge research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥285 million and ¥642 million for the years ended March 31, 2014 and 2013, respectively.

(m) Retirement and severance benefits for employees - Under the terms of the Company's and its consolidated domestic subsidiary's unfunded lump-sum retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, base salary at the time of retirement and the reason for retirement. The Company also has a funded noncontributory pension plan which covers a portion of total retirement benefits.

In order to provide for the employees' retirement benefits, the Company and its consolidated domestic subsidiary accrue the liability as of the end of the fiscal year in an amount based on the estimated projected benefit obligation and value of plan assets. Actuarial gains and losses are recognized in expenses using the straight-line method over 10 years, which is within the average of the estimated remaining service years of employees, commencing from the following period.

Prior service cost is also recognized in expenses using the straight-line method over 10 years, commencing from the following period. The unamortized net transition obligation is being amortized over 15 years by the straight-line method from the year ended March 31, 2001.

2. Significant accounting policies (cont'd.)
(m) Retirement and severance benefits for employees (cont'd.)
(Change in Accounting Policy)
Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiary have applied the Accounting Standard for Retirement Benefit (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Standard")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance") except for Article 35 of the Standard and the Article 67 of the Guidance). Under the Standard, the difference between the amount of retirement benefit obligations and the value of plan assets has been recognized as a liability for retirement benefits, and actuarial gains and losses and past service costs that were unrecognized in the past fiscal year have been recognized as asset/liability for retirement benefits.

In accordance with the transitional accounting in Article 37 of the Standard, the effect of the changes in accounting policies arising from the initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income at the current fiscal year-end. As a result of the application, net defined benefit liability in the amount of ¥2,336 million has been recognized, and accumulated other comprehensive income has decreased by ¥623 million in the consolidated balance sheet at the fiscal year-end compared with the amounts of that would have been reported without the application. Net assets per share increased by ¥9.05.

(n) Provision for product warranties - A provision for product warranties is provided at the balance sheet date when future losses for product warranties can be reasonably estimated.

(o) Allowance for losses on contracts - An allowance for losses on contracts is provided at the balance sheet date when future losses on particular contracts can be reasonably estimated.

(p) Income taxes - Income taxes comprise corporate tax, prefectural and municipal inhabitants taxes and enterprise tax. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(q) Translation of foreign currencies - Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Financial statements of the consolidated overseas subsidiaries are translated at the rates in effect at the balance sheet date, except for net assets accounts, which are translated at historical rates, and revenue and expense accounts, which are translated at the average exchange rates in effect during the year. The resulting translation adjustments are reflected in the consolidated financial statements as "foreign currency translation adjustments."

2. Significant accounting policies (cont'd.)

(r) Net income (loss) and cash dividends per share - Basic net income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share for the years ended March 31, 2014 and 2013 was not applicable because the Company had no dilutive common shares. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

(s) Revenue and related cost recognition – The Company generally records the revenues and related costs on construction contracts by the percentage-of-completion method if the progress of the construction activity can be reliably measured, otherwise, the completed contract method is applied. The progress, or percent of the contract completed, as of the end of the reporting period is measured by the proportion of the cost incurred as of the end of the period to the estimated total cost.

The consolidated overseas subsidiaries also apply the percentage-of-completion method, and the progress or percent of the contract completed as of the end of the reporting period is measured by the proportion of the physical contract work completed.

(t) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2014 presentation.

3. Unapplied accounting standards

-Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)

-Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

（Refer also to the ASBJ homepage for a summary in English of the accounting standard.)

(a) Summary

To attribute expected benefit to specific periods, the standard now allows a choice of benefit formula basis or straight-line basis. The method for determining the discount rate has also been amended.

(b) Effective dates

Amendments related to the determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

3. Unapplied accounting standards (cont'd.)

(c) Effect of application of the standard

Due to this change, operating income, ordinary income and income before income taxes for the year ended March 31, 2015 have little effect.

4. Comprehensive income information

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen	
	2014	2013
Net unrealized holding gains on securities		
Increase (decrease) during the year	¥ 258	¥ 1,462
Reclassification adjustments	-	-
Subtotal, before tax	258	1,462
Tax (expense) or benefit	(92)	(520)
Subtotal, net of tax	166	942
Net unrealized holding gains on derivatives		
Increase (decrease) during the year	(3)	(20)
Reclassification adjustments	-	-
Subtotal, before tax	(3)	(20)
Tax (expense) or benefit	1	8
Subtotal, net of tax	(2)	(12)
Foreign currency translation adjustments		
Increase (decrease) during the year	1,529	837
Reclassification adjustments	-	-
Subtotal, before tax	1,529	837
Tax (expense) or benefit	-	-
Subtotal, net of tax	1,529	837
Total other comprehensive income	¥ 1,693	¥ 1,767

5. Cash flow information

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
Cash and time deposits (in balance sheets)	¥ 20,202	¥ 22,748
Time deposits maturing after three months	(1,800)	(800)
Cash and cash equivalents (in statements of cash flows)	¥ 18,402	¥ 21,948

6. Financial instruments: disclosure

(a) Qualitative information on financial instruments

Short-term deposits－The Companies use short-term deposits to manage excess funds.

Trade notes and accounts receivable － Because of the nature of the business, the credit risk associated with trade notes and accounts receivable is concentrated with a limited number of major customers. The Companies decrease the risk by managing the notes and receivables according to internal credit control rules.

Foreign currency exchange contracts － The Company uses foreign currency exchange contracts only to hedge foreign currency exchange risk, not for speculative purposes, and enters into such contracts according to the Company's internal rules.

Investments securities － Investments securities comprise mostly stocks and are evaluated for fair value on a quarterly basis.

(b) Fair values of financial instruments

The book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2014 and 2013 were as follows:

	Millions of yen		
	2014		
	Book value	Fair value	Difference
Cash and time deposits	¥ 20,202	¥ 20,202	¥ -
Trade notes and trade accounts receivable	3,784	3,784	-
Investment securities	5,613	5,613	-
Trade notes and trade accounts payable	3,314	3,314	-

	Millions of yen		
	2013		
	Book value	Fair value	Difference
Cash and time deposits	¥ 22,748	¥ 22,748	¥ -
Trade notes and trade accounts receivable	2,549	2,549	-
Investment securities	5,355	5,355	-
Trade notes and trade accounts payable	1,573	1,573	-
Derivatives			
Not applying hedge accounting	-	-	-
Applying hedge accounting	3	3	-

6. Financial instruments: disclosure (cont'd.)

The fair value of the financial instruments in the table above, except for some trade accounts, approximates the book value because the maturities are short. Some trade accounts are valuated with the rate of the foreign currency exchange contract, and some, such as trade accounts with maturities over a year, are discounted to their present value.

Financial instruments for which the fair value was difficult to determine were as follows:

	Millions of yen	
	2014	2013
Unlisted stocks	¥ 336	¥ 336

Unlisted stocks were not included in investment securities above because they had no market value.

Maturity value after closing date

	Millions of yen	
	2014	
	Within a year	Over a year
Cash and time deposits	¥ 20,202	¥ -
Trade notes and trade accounts	3,793	-

	Millions of yen	
	2013	
	Within a year	Over a year
Cash and time deposits	¥ 22,748	¥ -
Trade notes and trade accounts	2,553	-

7. Securities

At March 31, 2014 and 2013, information on securities was as follows:

a. Trading securities: None

b. Bonds intended to be held to maturity with readily determinable fair values: None

c. Available-for-sale securities with readily determinable fair value as of March 31, 2014 and 2013 were as follows:

Securities with book value (fair value) that exceeded acquisition cost

	Millions of yen		
	2014		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,390	¥ 5,598	¥ 2,208
Other	9	15	6
Total	¥ 3,399	¥ 5,613	¥ 2,214

	Millions of yen		
	2013		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,384	¥ 5,337	¥ 1,953
Other	9	13	4
Total	¥ 3,393	¥ 5,350	¥ 1,957

Securities with book value (fair value) that did not exceed acquisition cost

	Millions of yen		
	2014		
	Acquisition cost	Book value	Difference
Equity securities	¥ -	¥ -	¥ -
Other	-	-	-
Total	¥ -	¥ -	¥ -

	Millions of yen		
	2013		
	Acquisition cost	Book value	Difference
Equity securities	¥ 6	¥ 5	¥ (1)
Other	-	-	-
Total	¥ 6	¥ 5	¥ (1)

7. Securities (cont'd.)

d. For the years ended March 31, 2013 total sales of available-for-sale securities were ¥274 million, and profits on the sales were ¥270 million, respectively.

8. Pledged assets

At March 31, 2014 and 2013, the following assets were pledged as collateral for deposits on contracts of ¥649 million and ¥730 million, respectively, and deposits from tenants of ￥70 million (included in other liabilities in noncurrent liabilities):

	Millions of yen	
	2014	2013
Buildings, net book value	¥ 507	¥ 531

9. Retirement and severance benefits

The Company provides for employees' retirement and severance benefits under two plans, a defined contribution pension plan and unfunded lump-sum benefits plan. The Company's consolidated domestic subsidiary provides an unfunded lump-sum benefits plan, and its consolidated overseas subsidiaries provide a defined contribution pension plan.

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2013.

	Millions of yen
	2013
Benefit obligation	¥ (2,274)
Funded status:	
Benefit obligation in excess of plan assets	(2,274)
Unrecognized net transition obligation	252
Unrecognized actuarial differences	439
Unrecognized prior service cost	83
Total	(1,500)
Retirement and severance benefits in the consolidated balance sheets	¥ (1,500)

Note: (a) The consolidated domestic subsidiary has adopted the alternative treatment under the accounting standards for retirement benefits allowed for small business entities.

9. Retirement and severance benefits (cont'd.)

	Millions of yen
	2013
Service cost	¥ 111
Interest cost	38
Amortization of net transition obligation	126
Amortization of actuarial differences	66
Amortization of prior service cost	14
Other	142
Net periodic benefit cost	497

Note: (a) Service cost included severance and pension costs of the consolidated domestic subsidiary which had adopted the alternative treatment under the accounting standards for retirement benefits allowed for small business entities.

(b) "Other" was payment for the defined contribution pension plans of the consolidated overseas subsidiaries.

The discount rate used by the Companies at March 31, 2013 was 1.3%. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated total number of service years.

The following table sets forth the changes in retirement benefit obligations and funded status of the Companies at March 31, 2014.

Defined benefit plans

(1) Movement in retirement benefit obligations, except for plans that applied the simplified method

	Millions of yen
	2014
Balance at April 1, 2013	¥ 2,274
Service cost	120
Interest cost	28
Actuarial loss (gain)	74
Benefits paid	(160)
Balance at March 31,2014	2,336

9. Retirement and severance benefits (cont'd.)

(2) Reconciliation from retirement benefit obligations to liability for retirement benefits

	Millions of yen
	2014
Unfunded retirement benefit obligations	¥ 2,336
Total net liability (asset) for retirement benefits at March 31, 2014	2,336
Liability for retirement benefits	2,336
Total net liability (asset) for retirement benefits at March 31, 2014	2,336

(3) Retirement benefit costs

	Millions of yen
	2014
Service cost	¥ 120
Interest cost	28
Net actuarial loss amortization	85
Net prior service cost amortization	14
Net transition obligations amortization	126
	373

(4) Accumulated adjustments for retirement benefits

	Millions of yen
	2014
Unrecognized prior service cost	¥ (68)
Unrecognized actuarial loss	(429)
Unrecognized transition obligations	(126)
	(623)

(5) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) are as follows;

	2014
Discount rate	1.3%

(6) Payment to contribution plan

Payment to contribution plan in 2014 was ¥179 million.

10. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

		Millions of yen
		2014
Deferred income tax assets:		
Net operating loss carryforwaeds	¥	1,337
Allowance for losses on contracts		1,005
Liablity for retirement benefits		829
Excess depreciation		244
Excess bonuses accrued		108
Provision for product warranties		70
Research and development		32
Other		428
		4,053
Valuation allowance		(3,406)
Total deferred income tax assets		647
Deferred income tax liabilities:		
Net unrealized holding gains on securities		(786)
Other		(154)
Total deferred income tax liabilities		(940)
Net deferred income tax liabilities	¥	(293)

		Millions of yen
		2013
Deferred income tax assets:		
Retirement and severance benefits	¥	541
Allowance for losses on contracts		301
Net operating loss carryforwaeds		300
Excess depreciation		251
Provision for product warranties		175
Excess bonuses accrued		116
Research and development		61
Other		530
		2,275
Valuation allowance		(252)
Total deferred income tax assets		2,023
Deferred income tax liabilities:		
Net unrealized holding gains on securities		(694)
Net unrealized holding gains on derivatives		(1)
Other		(151)
Total deferred income tax liabilities		(846)
Net deferred income tax assets	¥	1,177

10. Income taxes (cont'd)

(b) The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2013 after tax effect accounting was applied.

	2013
Statutory tax rate	38.0 %
Permanently nondeductible expenses	2.3
Permanently noninclusive revenue	(14.3)
Taxation on per capita basis	1.8
Pro forma standard taxation	2.8
Loss carryforwards	(20.1)
Valuation allowance for deferred income tax assets	2.8
Different tax rates applied to income of foreign subsidiaries	(6.3)
Other	(7.5)
Effective tax rate	(0.5) %

For the year ended March 31, 2014, the difference between the statutory tax rate and the effective tax rate after tax effect accounting was not described because the Company declared loss before income taxes.

11. Net assets

The Japanese Corporate Law (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve was included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

12. Related party transactions

At March 31, 2014 and 2013, Kintetsu Corporation ("KC") directly owned 14% of the Company's outstanding common stock and indirectly owned another 30% through The Master Trust Bank of Japan, Ltd. The Company's sales to KC for the years ended March 31, 2014 and 2013 were ¥121 million and ¥2,165 million, respectively. Receivables from KC at March 31, 2014 and 2013 were ¥4 million and ¥24 million, respectively.

13. Derivative transactions

At March 31, 2014, there were no derivatives for which hedge accounting had either been applied or not applied.

Information on derivatives for which hedge accounting had been applied at March 31, 2013 was as follows:

	Millions of yen	
	2013	
	Contract or notional amount	Fair value
Foreign exchange forward contracts:		
buying		
Euro	¥ 65	¥ 68
Total	¥ 65	¥ 68

Fair values in the above table were calculated based on future exchange rates.

14. Fair value of investment and rental property

The Company owns real estate for lease in Osaka and other prefectures. The income from the real estate for lease was ￥657 million and ￥659 million as of and for the years ended March 31, 2014 and 2013, respectively. The book value (balance), net changes during the year and fair value of the real estate for lease were as follows:

Current related		Millions of yen
		2014
Balance at April 1, 2013	¥	1,795
Net changes during the year		(27)
Balance at March 31, 2014		1,768
Fair value at March 31, 2014		8,557

Current related		Millions of yen
		2013
Balance at April 1, 2012	¥	1,935
Net changes during the year		(140)
Balance at March 31, 2013		1,795
Fair value at March 31, 2013		8,585

15. Segment information

(a) General information about reportable segments

Reportable segment information of the Company is the obtainable financial information which is made available to and used by the Officers Committee and Board of Directors to determine the allocation of management resources and to evaluate business performance. The Company has a Rail Transit Division that focuses on manufacturing rolling stock. It formulates strategy and deals with business about trains and the related parts and maintenance for the JR group, private railways and subways. In addition, the Company deals with the lease of real estate. Therefore, the reportable segments of the Company are that of "Rolling Stock" and "Lease of Real Estate."

(b) Basis of measurement for reportable segment profit or loss, segment assets, segment liabilities and other material items

The accounting policies for reportable segment information are basically the same as in Note 2, "Significant accounting policies."

(c) Information about reported segment profit or loss, segment assets, segment liabilities and other material items

Year ended March 31, 2014:

	Millions of yen			
	Reportable segment			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 12,450	¥ 771	¥ (2)	¥ 13,219
Segment income (loss)	(4,196)	657	(1,078)	(4,617)
Segment assets	37,965	1,785	10,674	50,424
Segment liabilities	13,824	1,389	4,948	20,161
Depreciation and amortization	493	28	33	554
Increase in tangible and intangible assets	1,054	0	61	1,115

1. Adjustments are as follows:

(a) Adjustment of segment income (loss) of (¥1,078 million) is corporate costs of (¥1,078 million) not allocated to either segment and represents the Control Department's cost.

(b) Adjustment of segment assets of ¥10,674 million is for assets of the Control Department.

15. Segment information (cont'd)

(c) Adjustment of segment liabilities of ¥4,948 million is for liabilities of the Control Department.

(d) Increase in tangible and intangible assets of ¥60 million is equipment investment for the Control Department.

2. Segment income (loss) is adjusted to operating income in the consolidated statements of income.

Year ended March 31, 2013:

	Millions of yen			
	Reportable segment			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 21,534	¥ 776	¥ (2)	¥ 22,308
Segment income (loss)	385	659	(1,121)	(77)
Segment assets	26,686	1,817	16,397	44,900
Segment liabilities	4,948	1,484	3,015	9,447
Depreciation and amortization	620	33	84	737
Increase in tangible and intangible assets	240	-	22	262

1. Adjustments are as follows:

(a) Adjustment of segment income (loss) of (¥1,121 million) is corporate costs of (¥1,121million) not allocated to either segment and reflects the Control Department's cost.

(b) Adjustment of segment assets of ¥16,397 million is for assets of the Control Department.

(c) Adjustment of segment liabilities of ¥3,015 million is for liabilities of the Control Department.

(d) Increase in tangible and intangible assets of ¥22 million is equipment investment for the Control Department.

2. Segment income (loss) is adjusted to operating income in the consolidated statements of income.

15. Segment information (cont'd)

Related information

Information for each country and area for the year ended March 31, 2014 was as follows:

(1) Net sales

Millions of yen				
Japan	North America	Africa	Asia	Consolidated
¥ 8,429	¥ 3,936	¥ 558	¥ 296	¥ 13,219

The principal countries and areas in each segment were as follows:

North America	United States of America
Africa	Arab Republic of Egypt
Asia	China (Hong Kong), United Arab Emirates

(2) Property, plant and equipment

Information about property, plant and equipment by geographic area is omitted because the amount of fixed assets held in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheet.

Information for major customers for the year ended March 31, 2014 was as follows:

Customer	Net sales (millions of yen)	Segment
West Japan Railway Company	2,415	Rolling stock
New Jersey Transit	2,260	Rolling stock
Osaka Municipal Transportation Bureau	1,853	Rolling stock
Los Angeles County Metropolitan Transit Authority	1,522	Rolling stock

Information for each country and area for the year ended March 31, 2013 was as follows:

(1) Net sales

Millions of yen				
Japan	North America	Africa	Asia	Consolidated
¥ 13,330	¥ 1,832	¥ 7,023	¥ 123	¥ 22,308

15. Segment information (cont'd)

The principal countries and areas in each segment were as follows:

North America	United States of America
Africa	Arab Republic of Egypt
Asia	China (Hong Kong)

(2) Property, plant and equipment

Information about property, plant and equipment by geographic area is omitted because the amount of fixed assets held in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheet.

Information for major customers for the year ended March 31, 2013 was as follows:

Customer	Net sales (Millions of yen)	Segment
Mitsubishi Corporation	6,770	Rolling stock
East Japan Railway Company	5,357	Rolling stock

Information about impairment loss on fixed assets for each segment for the year ended March 31, 2014 and 2013, respectively: None

Information about amortization of goodwill and the unamortized balance for each segment for the year ended March 31, 2014 and 2013, respectively: None

Information about profit from negative goodwill for each segment for the year ended March 31, 2014 and 2013, respectively: None