

THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years Ended March 31, 2020 and 2019

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2020 and 2019

	Millions of yen			Millions of yen	
	2020	2019		2020	2019
ASSETS			LIABILITIES AND NET ASSETS		
Current Assets			Current Liabilities		
Cash and time deposits (Note 6 and 7)	¥ 5,224	¥ 1,923	Short-term loans payable (Note 7, 9 and 11)	¥ 15,561	¥ 25,225
Receivables			Current portion of long-term loans payable (Note 7 and 11)	1,062	7,071
Notes and accounts - trade (Note 7 and 15)	26,882	38,060	Lease obligations (Note 7 and 11)	120	116
Other accounts	989	16	Payables		
Allowance for doubtful receivables (Note 7)	(37)	(15)	Trade accounts (Note 7)	7,325	8,328
	<u>27,834</u>	<u>38,061</u>	Construction	389	392
Inventories			Advances received	11,577	1,232
Work-in-process (Note 10)	20,638	16,034	Income and enterprise taxes payable	76	89
Raw materials and supplies	586	598	Accrued expenses	1,214	2,066
	<u>21,224</u>	<u>16,632</u>	Provision for bonuses	328	303
Other current assets	3,403	4,607	Allowance for losses on contracts (Note 10)	3,464	5,191
Total current assets	<u>57,685</u>	<u>61,223</u>	Provision for product warranties	650	695
Property, Plant and Equipment			Other current liabilities	355	1,061
Land (Note 9 and 18)	2,582	2,583	Total current liabilities	<u>42,121</u>	<u>51,769</u>
Buildings and structures (Note 9 and 18)	14,671	14,639	Noncurrent Liabilities		
Machinery and equipment	12,377	12,536	Long-term loans payable (Note 7 and 11)	6,244	2,319
Leased assets	912	911	Lease obligations (Note 7 and 11)	453	568
Construction in progress	204	204	Deferred income tax liabilities (Note 13)	1,042	1,891
	<u>30,746</u>	<u>30,873</u>	Net defined benefit liability (Note 12)	2,845	2,678
Accumulated depreciation	(18,992)	(18,168)	Other noncurrent liabilities (Note 9)	757	852
	<u>11,754</u>	<u>12,705</u>	Total liabilities	<u>11,341</u>	<u>8,308</u>
Investments and Other Assets				<u>53,462</u>	<u>60,077</u>
Stocks of subsidiaries and affiliates (Note 7)	36	36	Net Assets (Note 14)		
Investment securities (Note 7 and 8)	5,797	8,702	Shareholders' equity		
Intangible assets	213	108	Common stock	5,253	5,253
Deferred income tax assets (Note 13)	-	352	Authorized - 12,000,000 shares		
Other assets	438	612	Issued - 6,908,359 shares		
Allowance for doubtful receivables	(10)	(11)	Capital surplus	3,125	3,125
	<u>6,474</u>	<u>9,799</u>	Retained earnings	11,491	10,786
Total assets	<u>¥ 75,913</u>	<u>¥ 83,727</u>	Treasury stock, at cost	(105)	(104)
			26,310 shares in March 2020		
			26,097 shares in March 2019		
			Total shareholders' equity	<u>19,764</u>	<u>19,060</u>
			Accumulated other comprehensive income		
			Net unrealized holding gains on securities	2,136	3,934
			Net unrealized holding gains on derivatives	(6)	-
			Foreign currency translation adjustments	691	782
			Remeasurements of defined benefit plans	(134)	(126)
			Total accumulated other comprehensive income	<u>2,687</u>	<u>4,590</u>
			Total net assets	<u>22,451</u>	<u>23,650</u>
			Total liabilities and net assets	<u>¥ 75,913</u>	<u>¥ 83,727</u>

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended March 31, 2020 and 2019

	Millions of yen	
	2020	2019
Net sales (Note 15)	¥ 41,054	¥ 65,339
Cost of sales (Note 16)	38,342	60,036
Gross profit	2,712	5,303
Selling, general and administrative expenses	3,008	2,922
Operating profit (loss)	(296)	2,381
Other income (expenses)		
Interest and dividend income	168	144
Interest expense	(372)	(486)
Foreign exchange gain (loss)	(376)	176
Commission fees	(74)	-
Insurance Income(Note 23)	1,012	-
Gain on sales of investment securities(Note 8)	1,013	325
Gain on sales of noncurrent assets(Note 22)	-	324
Loss on disaster(Note 24)	-	(991)
Other, net	(47)	(22)
	1,324	(530)
Income before income taxes	1,028	1,851
Income taxes(Note 13)		
Current	(33)	(52)
Refund	-	68
Deferred	(290)	(63)
Net income	705	1,804
Net income attributable to non-controlling interests	-	-
Net income attributable to owners of the parent	¥ 705	¥ 1,804

	Yen	
	2020	2019
Amounts per share(Note 21)		
Net income	¥ 102.41	¥ 262.11
Cash dividends applicable to the year(Note 14)	¥ —	¥ —

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended March 31, 2020 and 2019

	Millions of yen	
	2020	2019
Net income	¥ 705	¥ 1,804
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(1,798)	591
Net unrealized holding gains (losses) on derivatives	(6)	(261)
Foreign currency translation adjustments	(91)	(504)
Remeasurements of defined benefit plans	(8)	131
Total other comprehensive income (Note 5)	(1,903)	(43)
Comprehensive income	¥ (1,198)	¥ 1,761
Comprehensive income attributable to owners of the parent	(1,198)	1,761
Comprehensive income attributable to non-controlling interests	-	-

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended March 31, 2020 and 2019

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					Total
	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	Remeasure- ments of defined benefit plans		
Balance at April 1, 2019	6,908,359	¥ 5,253	¥ 3,125	¥ 10,786	¥ (104)	¥ 3,934	¥ -	¥ 782	¥ (126)	¥ 23,650	
Net income	-	-	-	705	-	-	-	-	-	705	
Purchase of treasury stock	-	-	-	-	(1)	-	-	-	-	(1)	
Net changes during the year	-	-	-	-	-	(1,798)	(6)	(91)	(8)	(1,903)	
Balance at March 31, 2020	6,908,359	¥ 5,253	¥ 3,125	¥ 11,491	¥ (105)	¥ 2,136	¥ (6)	¥ 691	¥ (134)	¥ 22,451	
Balance at April 1, 2018	6,908,359	¥ 5,253	¥ 3,125	¥ 8,982	¥ (104)	¥ 3,343	¥ 261	¥ 1,286	¥ (257)	¥ 21,889	
Net income	-	-	-	1,804	-	-	-	-	-	1,804	
Purchase of treasury stock	-	-	-	-	(0)	-	-	-	-	0	
Net changes during the year	-	-	-	-	-	591	(261)	(504)	131	(43)	
Balance at March 31, 2019	6,908,359	¥ 5,253	¥ 3,125	¥ 10,786	¥ (104)	¥ 3,934	¥ -	¥ 782	¥ (126)	¥ 23,650	

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2020 and 2019

	Millions of yen	
	2020	2019
Cash flows from operating activities		
Income before income taxes	¥ 1,028	¥ 1,851
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,349	1,462
Increase (decrease) in net defined benefit liability	158	173
Increase (decrease) in provision for product warranties	(44)	(424)
Increase (decrease) in allowance for losses on contracts	(1,727)	(1,384)
Interest and dividend income	(168)	(144)
Insurance income	(1,012)	-
Interest expense	372	486
Commission fees	74	-
Loss on disaster	-	991
Decrease (increase) in trade notes and accounts receivable	21,273	(9,946)
Decrease (increase) in inventories	(4,405)	6,938
Increase (decrease) in trade accounts payable	160	(6,125)
Increase (decrease) in accounts payable and accrued expenses	(459)	74
Other, net	(2,430)	(290)
Subtotal	14,169	(6,338)
Payments for loss on disaster	(680)	(88)
Interest and dividends received	168	144
Insurance income received	1,012	-
Interest paid	(406)	(393)
Income taxes paid	(47)	(82)
Income taxes refund	158	121
Net cash provided by (used in) operating activities	14,374	(6,636)
 Cash flows from investing activities		
Payments into time deposits	(9)	(38)
Proceeds from withdrawal of time deposits	9	38
Acquisitions of property, plant and equipment and intangible assets	(557)	(785)
Proceeds from sales of property, plant and equipment and intangible assets	4	410
Proceeds from sales of investment securities	1,327	434
Net cash provided by (used in) investing activities	774	59
 Cash flows from financing activities		
Net increase in short-term loans payable	(9,587)	5,217
Proceeds from long-term loans payable	4,926	-
Repayments of long-term loans payable	(7,057)	(1,135)
Repayments of lease obligations	(111)	(112)
Cash dividends paid	(1)	(0)
Purchases of treasury stock	(0)	(1)
Net cash provided by (used in) financing activities	(11,830)	3,969
 Effect of exchange rate changes on cash and cash equivalents	(17)	(41)
 Net increase (decrease) in cash and cash equivalents	3,301	(2,649)
Cash and cash equivalents at beginning of year	1,914	4,563
Cash and cash equivalents at end of year(Note 6)	¥ 5,215	¥ 1,914

See accompanying Notes.

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

1. Basis of presenting consolidated financial statements

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 subsidiary 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. Significant accounting policies

(a) Consolidation - The consolidated financial statements include the accounts of the Company and two significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. There are no equity method affiliates. Intercompany transactions and accounts have been eliminated.

(b) Consolidated subsidiaries' fiscal year-ends - The consolidated overseas subsidiary has 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.

(c) Cash flow statements - 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 is 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,
 - (i) 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
 - (ii) 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 mainly 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 or market using net realizable value.

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

(i) Intangible assets (except for capitalized leases) - 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.

(l) Research and development expenses - The Companies charge research and development expenses to selling, general and administrative expenses as incurred. Research and development expenses amounted to ¥179 million and ¥140 million for the years ended March 31, 2020 and 2019, 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.

(n) Provision for bonuses - Provision for bonuses at the balance sheet date are based on the estimated amounts to be paid to employees in the future.

2. Significant accounting policies (cont'd.)

(o) 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 and at an amount based on management's estimate of the past expense ratio for sales.

(p) 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.

(q) 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.

(r) 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 subsidiary 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."

(s) Net income and cash dividends per share - Basic net income per share is computed by dividing income 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, 2020 and 2019 is not applicable because the Company has 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.

(t) 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.

Consolidated US subsidiary applies ASU 2014-09 "Revenue from Contracts with Customers." The amount expected to be received in exchange for promised goods or services is recognized as revenue at the time control of those goods or services is transferred to the customer.

(u) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2020 presentation.

3. Change in accounting policies

(Adoption of ASU2014-09 "Revenue from Contracts with Customers")

A consolidated US subsidiary which apply U.S. GAAP have adopted ASU 2014-09 "Revenue from Contracts with Customers." from the beginning of the current fiscal year.

The effect of this adjustment on the consolidated financial statements for the full year of the current fiscal year was immaterial.

4. Accounting standards issued but not yet adopted

The Company and its consolidated domestic subsidiary

The following standard and guidance have been issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(a) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.

Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(c) Effects of application

The Company and its consolidated domestic subsidiary are currently in the process of determining the effects of these new standards on the consolidated financial statements.

- "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued on March 31, 2020)

(a) Overview

This standard is revised to improve disclosures related to accounting principles and procedures when the alternative accounting standards are unclear.

(b) Effective date

This standard is effective from fiscal year ending on March 31, 2021.

- "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31, issued on March 31, 2020)

(a) Overview

This standard is intended for financial statement preparers to disclose the basis for accounting estimates which are likely to have a material impact on financial statements of the subsequent year, of the estimated amounts recorded in the current year.

(b) Effective date

This standard is effective from fiscal year ending on March 31, 2021.

4. Accounting standard issued but not yet adopted (cont'd.)

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, issued on July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, issued on July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, issued on July 4, 2019)
- "Implementation Guidance on Disclosure about Fair Value of Financial Instruments" (ASBJ Guidance No.19, issued on March 31, 2020)

(a) Overview

In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred to as "Fair Value Accounting Standards") were developed and issued. The Fair Value Accounting Standards are applicable to financial instruments in "Accounting Standard for Financial Instruments" and inventories held for trading purposes in "Accounting Standard for Measurement of Inventories".

Depending on inputs, the fair value of Financial instruments are classified either Level 1, 2 and 3 which determines the extent of disclosure.

(b) Effective date

This standard and guidance is effective from the beginning of the fiscal year ending March 31, 2022.

(c) Effects of application

The Company and its consolidated domestic subsidiary are currently in the process of determining the effects of these new standards on the consolidated financial statements.

5. Comprehensive income information

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

	Millions of yen			
	2020		2019	
Net unrealized holding gains (losses) on securities				
Increase during the year	¥	(1,578)	¥	1,179
Reclassification adjustments		(1,013)		(326)
Subtotal, before tax		(2,591)		853
Tax (expense) or benefit		793		(262)
Subtotal, net of tax		(1,798)		591
Net unrealized holding gains on derivatives				
Decrease during the year		(6)		(376)
Reclassification adjustments		-		-
Subtotal, before tax		(6)		(376)
Tax (expense) or benefit		-		115
Subtotal, net of tax		(6)		(261)
Foreign currency translation adjustments				
Increase (decrease) during the year		(91)		(504)
Reclassification adjustments		-		-
Subtotal, before tax		(91)		(504)
Tax (expense) or benefit		-		-
Subtotal, net of tax		(91)		(504)
Remeasurements of defined benefit plans				
Increase (decrease) during the year		(39)		66
Reclassification adjustments		31		65
Subtotal, before tax		(8)		131
Tax (expense) or benefit		-		-
Subtotal, net of tax		(8)		131
Total other comprehensive income	¥	(1,903)	¥	(43)

6. Cash flow information

The reconciliation 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, 2020 and 2019 are as follows:

	Millions of yen			
	2020		2019	
Cash and time deposits (in balance sheets)	¥	5,224	¥	1,923
Time deposits maturing after three months		(9)		(9)
Cash and cash equivalents (in statements of cash flows)	¥	5,215	¥	1,914

7. 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 with high creditworthiness. At March 31, 2020, 99.2% of the operating receivables are due from specific major customers. The Companies decrease the risk by managing the notes and receivables according to internal credit control rules.

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

Investment securities - Investment securities comprise mostly stocks and are evaluated for fair value or prices provided by the financial condition of corporations on a quarterly basis.

Trade accounts payable - Payment terms of payable are less than one year.

Loans payable - Short-term loans payable are used mainly for financing operating capital and long-term loans payable are used primarily for financing capital investments.

Lease obligations - Lease obligations are used primarily for financing capital investments.

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

(b) Fair values of financial instruments

The book values of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2020 and 2019 are as follows:

	Millions of yen		
	2020		
	Book value	Fair value	Difference
Cash and time deposits	¥ 5,224	¥ 5,224	¥ -
Notes and accounts receivable - trade *1	26,845	26,845	-
Investment securities	5,758	5,758	-
Trade accounts payable	(7,325)	(7,325)	-
Short-term loans payable	(15,561)	(15,561)	-
Long-term loans payable	(7,306)	(7,300)	(6)
Lease obligations	(573)	(573)	(0)
Derivatives			
Not applying hedge accounting	-	-	-
Applying hedge accounting	(6)	(6)	-

	Millions of yen		
	2019		
	Book value	Fair value	Difference
Cash and time deposits	¥ 1,923	¥ 1,923	¥ -
Notes and accounts receivable - trade *1	38,045	38,045	-
Investment securities	8,662	8,662	-
Trade accounts payable	(8,328)	(8,328)	-
Short-term loans payable	(25,225)	(25,225)	-
Long-term loans payable	(9,390)	(9,370)	(20)
Lease obligations	(684)	(684)	(0)

Notes *1 Allowance for doubtful receivables associated with notes and accounts receivable has been deducted.

*2 The figures in parentheses indicate liabilities.

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

The fair value of the financial instruments in the table above approximates the book value in case in which the maturities are short. The value of derivatives are determined using the rate of the foreign currency forward exchange contract, and long-term loans payable and lease obligations are calculated by discounting the principal and interest payments by the assumed discount rates for similar new loans or lease transactions.

Financial instruments for which the fair value is difficult to determine are as follows:

	Millions of yen	
	2020	2019
Unlisted stocks	¥ 40	¥ 40
Stocks of subsidiaries and affiliates (unlisted stocks)	36	36

Unlisted stocks and stocks of subsidiaries and affiliates (unlisted stocks) are not included in investment securities above because they have no estimated fair value.

Maturity value after closing date

	Millions of yen	
	2020	
	Within one year	Over one year
Cash and time deposits	¥ 5,224	¥ -
Trade notes and trade accounts	26,882	-

	Millions of yen	
	2019	
	Within one year	Over one year
Cash and time deposits	¥ 1,923	¥ -
Trade notes and trade accounts	38,060	-

8. Securities

At March 31, 2020 and 2019, information on securities is 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, 2020 and 2019 are as follows:

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

		Millions of yen		
		2020		
	Acquisition cost	Book value	Difference	
Equity securities	¥ 2,502	¥ 5,629	¥ 3,127	
Total	¥ 2,502	¥ 5,629	¥ 3,127	

		Millions of yen		
		2019		
	Acquisition cost	Book value	Difference	
Equity securities	¥ 2,893	¥ 8,570	¥ 5,677	
Total	¥ 2,893	¥ 8,570	¥ 5,677	

Securities with book value (fair value) that don't exceed acquisition cost

		Millions of yen		
		2020		
	Acquisition cost	Book value	Difference	
Equity securities	¥ 176	¥ 129	¥ (47)	
Total	¥ 176	¥ 129	¥ (47)	

		Millions of yen		
		2019		
	Acquisition cost	Book value	Difference	
Equity securities	¥ 98	¥ 92	¥ (6)	
Total	¥ 98	¥ 92	¥ (6)	

8. Securities (cont'd.)

(d) For the years ended March 31, 2020 and 2019, total sales of available-for-sale securities (equity securities) are ¥1,327 million and ¥434 million respectively, and the gain on the sales are ¥1,013 million and ¥325 million respectively.

(e) Loaned securities classified as securities as of March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	2019
Equity securities	¥ -	¥ 7,938

9. Pledged assets

At March 31, 2020 and 2019, the following assets are pledged as collateral for short-term loans payable of ¥2,000 million:

	Millions of yen	
	2020	2019
Land	¥ 179	¥ 179

At March 31, 2020 and 2019, the following assets are pledged as collateral for deposits on contracts of ¥167 million and ¥248 million, respectively, and deposits from tenants of ¥70 million (included in other noncurrent liabilities):

	Millions of yen	
	2020	2019
Buildings, net book value	¥ 371	¥ 391

10. Allowance for losses on contracts

Inventories for contracts with anticipated losses and allowance for losses on contracts are not offset. For the years ended March 31, 2020 and 2019, the inventories associated with the allowance for losses on contracts are ¥1,078 million and ¥2,346 million, respectively.

These amounts are included in "Work-in-process."

11. Short-term loans payable, long-term loans payable and lease obligations

Short-term loans payable substantially represent short-term loans from banks at a weighted average annual rate of 1.3% and 1.5% at March 31, 2020 and 2019, respectively.

Long-term loans payable as of March 31, 2020 are as follows:

	Millions of yen	
	2020	
Loans from banks, due through 2022 at an weighted average rate of 0.8% in 2020	¥	7,306
Less current portion		1,062
	¥	6,244

The aggregate annual maturities of long-term loans payable outstanding at March 31, 2020 are as follows:

	Millions of yen	
Years ending March 31,	2020	
2022	¥	6,241
2023		3
2024 and after		-
	¥	6,244

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2020 are as follows:

	Millions of yen	
Years ending March 31,	2020	
2021	¥	120
2022		436
2023		11
2024		5
2025		1
2026 and after		-
	¥	573

Long-term loans payable as of March 31, 2019 are as follows:

	Millions of yen	
	2019	
Loans from banks, due through 2022 at an weighted average rate of 0.9% in 2019	¥	9,390
Less current portion		7,071
	¥	2,319

11. Short-term loans payable, long-term loans payable and lease obligations (cont'd.)

The aggregate annual maturities of long-term loans payable outstanding at March 31, 2019 are as follows:

Years ending March 31,	Millions of yen	
	2019	
2021	¥	1,073
2022		1,243
2023		3
2024 and after		-
	¥	2,319

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2019 are as follows:

Years ending March 31,	Millions of yen	
	2019	
2020	¥	116
2021		118
2022		435
2023		10
2024		5
2025 and after		-
	¥	684

The Company enters into contracts with financial institutions for committed credit lines. As of March 31, 2020 and 2019, the amounts of unexercised committed credit lines are as follows:

	Millions of yen			
	2020		2019	
Total committed credit lines	¥	-	¥	10,200
Unexercised committed credit lines	¥	-	¥	-

12. Retirement and severance benefits

The Company provides for employee' 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 subsidiary provides a defined contribution pension plan.

Defined benefit plans

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

	Millions of yen	
	2020	2019
Balance at April 1, 2019 and 2018	¥ 2,678	¥ 2,635
Service cost	229	189
Interest cost	21	20
Actuarial loss (gain)	40	(65)
Benefits paid	(123)	(101)
Balance at March 31, 2020 and 2019	¥ 2,845	¥ 2,678

- (b) Reconciliation from retirement benefit obligations to liability for retirement benefits

	Millions of yen	
	2020	2019
Unfunded retirement benefit obligations	¥ 2,845	¥ 2,678
Total net liability for retirement benefits at March 31, 2020 and 2019	¥ 2,845	¥ 2,678
Net defined benefit liability	2,845	2,678
Total net liability for retirement benefits at March 31, 2020 and 2019	¥ 2,845	¥ 2,678

- (c) Retirement benefit costs

	Millions of yen	
	2020	2019
Service cost	¥ 229	¥ 189
Interest cost	21	20
Net actuarial loss amortization	31	55
Net prior service cost amortization	-	11
	¥ 281	¥ 275

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

(d) Remeasurements of defined benefit plans

	Millions of yen	
	2020	2019
Prior service cost	¥ -	¥ 11
Actuarial gain(loss)	(9)	120
	¥ (9)	¥ 131

(e) Accumulated remeasurements of defined benefit plans

	Millions of yen	
	2020	2019
Unrecognized actuarial loss	(134)	(126)
	¥ (134)	¥ (126)

(f) Actuarial assumptions

The principal actuarial assumptions at March 31, 2020 and 2019 (expressed as weighted averages) are as follows:

	2020	2019
Discount rate	0.8%	0.8%
Expected salary increase rate	1.8%	1.8%

Defined contribution plans

Contributions to the defined contribution plans in 2020 and 2019 are ¥335 million and ¥343 million, respectively.

13. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	2019
Deferred income tax assets:		
Net operating loss carryforwards *2	¥ 3,368	¥ 2,850
Allowance for losses on contracts	1,050	1,587
Net defined benefit liability	870	821
Valuation loss on inventories	199	215
Provision for product warranties	199	213
Research and development expenses	117	122
Excess depreciation	116	183
Provision for bonuses	101	93
Loss on disaster	49	304
Other	464	380
	6,533	6,768
Valuation reserve for net operating loss carryforwards *2	(3,368)	(2,831)
Valuation reserve for deductible temporary differences	(3,165)	(3,510)
Valuation reserve -total *1	(6,533)	(6,341)
Total deferred income tax assets	-	427
Deferred income tax liabilities:		
Net unrealized holding gains on securities	(943)	(1,736)
Accelerated depreciation	-	(72)
Other	(99)	(158)
Total deferred income tax liabilities	(1,042)	(1,966)
Net deferred income tax liabilities	¥ (1,042)	¥ (1,539)

Notes *1 The valuation reserve increased by ¥192 million. The main reason for this increase is a ¥538 million decrease in the consolidated US subsidiary's valuation reserve for net operating loss carryforwards.

13. Income taxes (cont' d.)

* 2 Net operating loss carryforwards and deferred income tax assets by expiration periods are as follows:

Current Fiscal year ended March 31, 2020

Year ending March 31,	Millions of yen						Total
	2021	2022	2023	2024	2025	2026 and after	
Net operating loss carryforwards * 3	—	—	¥ 889	¥ 949	—	¥ 1,530	¥ 3,368
Valuation reserve	—	—	(889)	(949)	—	(1,530)	(3,368)
Net deferred income tax assets	—	—	—	—	—	—	—

* 3 Net operating loss carryforwards shown in the above table are after multiplying the statutory tax rate.

Previous Fiscal year ended March 31, 2019

Year ending March 31,	Millions of yen						Total
	2020	2021	2022	2023	2024	2025 and after	
Net operating loss carryforwards * 3	—	—	—	¥ 907	¥ 949	¥ 994	¥ 2,850
Valuation reserve	—	—	—	(907)	(949)	(975)	(2,831)
Net deferred income tax assets	—	—	—	—	—	¥ 19	¥ 19

* 3 Net operating loss carryforwards shown in the above table are after multiplying the statutory tax rate.

(b) The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2020 and 2019 after tax effect accounting is applied.

	2020	2019
Statutory tax rate	- %	30.6 %
Permanently nondeductible expenses	-	0.9
Permanently nontaxable expenses	-	(3.9)
Taxation on per capita basis	-	0.4
Change in valuation reserve	-	(30.4)
Other	-	4.9
Effective tax rate	- %	2.5 %

The significant differences between the statutory tax rate and effective tax rates for the year ended March 31, 2020 has been omitted as the total difference was less than 5% of the statutory tax rate.

14. Net assets

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 Japanese Corporate Law (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 is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, both of these appropriations generally require a 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.

(a) Number and type of shares issued and number and type of shares of treasury stock

	2020			
	Number of shares			
	<u>April 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2020</u>
Common stock	6,908,359	-	-	6,908,359
Treasury stock	26,097	213	-	26,310

The increase in treasury stock of 213 shares is due to the acquisition of fractional shares.

	2019			
	Number of shares			
	<u>April 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2019</u>
Common stock	6,908,359	-	-	6,908,359
Treasury stock	25,753	344	-	26,097

The increase in treasury stock of 344 shares is due to the acquisition of fractional shares.

14. Net assets (cont'd)

(b) Dividends

At March 31, 2020 and 2019, there is no dividends paid.

15. Related party transactions

At March 31, 2020, Kintetsu Railway Co., Ltd. ("Kintetsu") directly own 30.4% of the Company's outstanding common stock. The Company's sales to Kintetsu for the year ended March 31, 2020 amounted to ¥2,790 million. Receivables from Kintetsu at March 31, 2020 were ¥16 million.

At March 31, 2019, there is no significant related party transactions.

16. Cost of Sales

For the years ended March 31, 2020 and 2019, reversals of the allowance for losses on contracts deducted from the cost of sales is ¥1,727 million and ¥1,383 million, respectively.

17. Derivative transactions

At March 31, 2020 and 2019, there are no derivatives for which hedge accounting have not been applied.

Information on derivatives for which hedge accounting is applied at March 31, 2020 is as follows:

	Millions of yen		
	2020		
	Contract amount		Fair value
	Total	Due after one year	
Foreign currency forward exchange contracts:			
Buying			
Euro (forecasted transaction)	¥ 562	¥ -	¥ (6)
Euro (payables - trade) *1	46	-	-
Total	¥ 608	¥ -	¥ (6)

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

Note *1 Foreign currency forward exchange contracts for which the designation method is applied are accounted for together with the payables - trade that are the hedged items. As a result, the fair values of those contracts are included in the fair values of the payables - trade.

(a) Finance leases

(As lessee)

Non-ownership-transfer Finance lease transactions

Leased assets consist mainly of machinery and equipment of factory and tools, furniture and fixtures at the head office and software for server at the head office.

(b) Operating leases

(As lessee)

Obligations under operating leases at March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	2019
Payments due within one year	¥ 118	¥ 136
Payments due after one year	502	627
Total payments remaining	¥ 620	¥ 763

20. 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 concerning trains and the related parts and maintenance for the JR group, public and private railways and subways in Japan and foreign countries. 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."

20. Segment information (cont'd)

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

Current Fiscal year ended March 31, 2020 :

	Millions of yen							
	Reportable segments			Adjustment	Consolidated			
	Rolling Stock	Lease of Real Estate						
Net sales	¥	40,261	¥	793	¥	(0)	¥	41,054
Segment								
Profit (loss)		(45)		692		(943)		(296)
Segment assets		69,539		1,586		4,788		75,913
Segment liabilities		29,991		808		22,663		53,462
Depreciation and amortization		1,274		23		52		1,349
Increase in tangible and intangible assets		462		-		92		554

1. Adjustments are as follows:

(a) Adjustment of segment loss of ¥(943) million is corporate expenses of ¥(943) million that are not attributable to reportable segments and represents administrative expenses of the Company.

(b) Adjustment of segment assets of ¥4,788 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) Adjustment of segment liabilities of ¥22,663 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥52 million is depreciation and amortization that are not allocable to any reportable segments.

(e) Increase in tangible and intangible assets of ¥92 million is equipment investment that is not allocable to any reportable segments.

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

20. Segment information (cont'd)

Previous Fiscal year ended March 31, 2019 :

	Millions of yen				
	Reportable segments			Adjustment	Consolidated
	Rolling Stock	Lease of Real Estate			
Net sales	¥ 64,546	¥ 794	¥ (1)	¥ 65,339	
Segment Profit	2,579	687	(885)	2,381	
Segment assets	78,497	1,609	3,621	83,727	
Segment liabilities	24,109	903	35,065	60,077	
Depreciation and amortization	1,395	26	41	1,462	
Increase in tangible and intangible assets	823	-	48	871	

1. Adjustments are as follows:

(a) Adjustment of segment profit of ¥(885) million is corporate expenses of ¥(885) million that are not attributable to reportable segments and represents administrative expenses of the Company.

(b) Adjustment of segment assets of ¥3,621 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) Adjustment of segment liabilities of ¥35,065 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥41 million is depreciation and amortization that are not allocable to any reportable segments.

(e) Increase in tangible and intangible assets of ¥48 million is equipment investment that is not allocable to any reportable segments.

2. Segment profit is adjusted to operating profit in the consolidated statements of income.

20. Segment information (cont'd)

Related information

Information for each country and area for the year ended March 31, 2020 is as follows:

(a) Net sales

Millions of yen				
Japan	United States of America	State of Qatar	Other	Consolidated
¥ 19,413	¥ 17,450	¥ 2,338	¥ 1,853	¥ 41,054

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

Other	China (Hong Kong), United Arab Emirates, Arab Republic of Egypt
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(b) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 10,128	¥ 1,626	¥ 11,754

Information for major customers for the year ended March 31, 2020 is as follows:

Customer	Net sales (millions of yen)	Segment
Los Angeles County Metropolitan Transit Authority	¥ 12,736	Rolling stock
Tokyo Metro Co., Ltd.	4,289	Rolling stock
West Japan Railway Company	4,149	Rolling stock

Information for each country and area for the year ended March 31, 2019 is as follows:

(a) Net sales

Millions of yen				
Japan	United States of America	State of Qatar	Other	Consolidated
¥ 19,087	¥ 26,970	¥ 17,898	¥ 1,384	¥ 65,339

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

Other	China (Hong Kong), United Arab Emirates, Arab Republic of Egypt, Republic of the Philippines
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20. Segment information (cont'd)

(b) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 10,601	¥ 2,104	¥ 12,705

Information for major customers for the year ended March 31, 2019 is as follows:

Customer	Net sales (millions of yen)	Segment
Los Angeles County Metropolitan Transit Authority	¥ 22,110	Rolling stock
Mitsubishi Corporation	18,309	Rolling stock
West Japan Railway Company	8,377	Rolling stock

21. Per share information

Per share information for the years ended March 31, 2020 and 2019 is as follows:

	Yen	
	2020	2019
Net assets per share	¥ 3,262.20	¥ 3,436.43
Net income per share	102.41	262.11

Notes : (1) Diluted net income per share is not disclosed because there are no dilutive shares.

(2) Net income per share is calculated on the following basis.

	2020	2019
Net income (millions of yen)	705	1,804
Amounts not attributable to ordinary shares (millions of yen)	-	-
Net income attributable to ordinary shares (millions of yen)	705	1,804
Average number of shares outstanding during each year (shares)	6,882,190	6,882,465

22. Gain on sale of noncurrent assets

For the fiscal year ended March 31, 2019, gain on the sale of noncurrent assets is gain on the sale of land.

23. Insurance income

Insurance income is the insurance claim of ¥1,012 million received for damage caused by Typhoon No. 21 on September 4, 2018 and damage caused by heavy snowfall at the consolidated US subsidiary on March 9, 2018.

24. Loss on disaster

Loss on disaster of ¥991 million is a loss for damage to the Company's inventories and buildings caused by Typhoon No. 21 on September 4, 2018.



Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of THE KINKI SHARYO Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Yasuhiro Wada

Designated Engagement Partner

Certified Public Accountant

Seiko Ohashi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

September 4, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.