THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years ended March 31, 2019 and 2018

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Years ended March 31,2019 and 2018

ASSETS	Millions of yen 2019	Millions of yen 2018
Current Assets		
Cash and time deposits (Note 6 and 7)	¥ 1,923	¥ 4,602
Receivables		
Notes and accounts - trade (Note 7)	38,060	27,393
Other accounts	16	63
Allowance for doubtful receivables (Note 7)	(15)	(17)
	38,061	27,439
Inventories		
Work-in-process (Note 10 and 23)	16,034	23,302
Raw materials and supplies	598	676
	16,632	23,978
Other current assets	4,607	1,240
Total current assets	61,223	57,259
Property, Plant and Equipment		
Land (Note 9 and 18)	2,583	2,666
Buildings and structures (Note 9 and 18)	14,639	14,417
Machinery and equipment	12,536	12,290
Leased assets	911	881
Construction in progress	204	67
	30,873	30,321
Accumulated depreciation	(18,168)	(16,851)
	12,705	13,470
Investments and Other Assets		
Stocks of subsidiaries and affiliates (Note 7)	36	36
Investment securities (Note 7 and 8)	8,702	7,956
Intangible assets	108	78
Deferred income tax assets (Note 4 and 13)	352	423
Other assets	612	463
Allowance for doubtful receivables	(11)	(15)
	9,799	8,941
Total assets	¥ 83,727	¥ 79,670

LIABILITIES AND NET ASSETS	Millions of yen 2019	Millions of yen 2018
Current Liabilities		
Short-term loans payable (Note 7, 9, 11 and 23)	¥ 25,225	¥ 20,107
Current portion of long-term loans payable (Note 7 and 11)	7,071	1,156
Lease obligations (Note 7 and 11)	116	110
Payables		
Trade accounts (Note 7)	8,328	10,575
Construction	392	272
Advances received	1,232	299
Income and enterprise taxes payable	89	56
Accrued expenses	2,066	1,124
Provision for bonuses	303	279
Allowance for losses on contracts (Note 10)	5,191	6,575
Provision for product warranties	695	1,118
Other current liabilities	1,061	695
Total current liabilities	51,769	42,366
Noncurrent Liabilities		
Long-term loans payable (Note 7 and 11)	2,319	9,422
Lease obligations (Note 7 and 11)	568	656
Deferred income tax liabilities (Note4 and 13)	1,891	1,744
Net defined benefit liability (Note 12)	2,678	2,635
Other noncurrent liabilities (Note 9)	852	958
	8,308	15,415
Total liabilities	60,077	57,781
Net Assets (Note 14)		
Shareholders' equity		
Common stock	5,253	5,253
Authorized - 12,000,000 shares		
Issued - 6,908,359 shares		
Capital surplus	3,125	3,125
Retained earnings	10,786	8,982
Treasury stock, at cost	(104)	(104)
26,097 shares in Mar 2019		
25,753 shares in Mar 2018		
Total shareholders' equity	19,060	17,256
Accumulated other comprehensive income		
Net unrealized holding gains on securities	3,934	3,343
Net unrealized holding gains on derivatives	-	261
Foreign currency translation adjustments	782	1,286
Remeasurements of defined benefit plans	(126)	(257)
Total accumulated other comprehensive income	4,590	4,633
Total net assets	23,650	21,889
Total liabilities and net assets	¥ 83,727	¥ 79,670

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2019 and 2018

	Millions of yen	
	2019	2018
Net sales	¥ 65,339	¥ 61,677
Cost of sales (Note 16)	60,036	53,782
Gross profit	5,303	7,895
Selling, general and administrative expenses	2,922	2,975
Operating profit	2,381	4,920
Other income (expenses)		
Interest and dividend income	144	281
Interest expense	(486)	(322)
Foreign exchange gain (loss)	176	(487)
Gain on sales of investment securities (Note 8)	325	405
Gain on sales of noncurrent assets (Note 22)	324	204
Loss on disaster (Note 24)	(991)	-
Other, net	(22)	62
	(530)	143
Income before income taxes	1,851	5,063
Income taxes (Note 13)		
Current	(52)	(46)
Refund	68	-
Deferred	(63)	149
Net income	1,804	5,166
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of the parent	¥ 1,804	¥ 5,166

	Yen	
Amounts per share (Note 21)		
Net income	¥ 262.11	¥ 750.50
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, 2019 and 2018

	Millions of yen			
	2019		2018	
Net income	¥	1,804	¥	5,166
Other comprehensive income				
Net unrealized holding gains on securities		591		88
Net unrealized holding gains (losses) on derivatives		(261)		131
Foreign currency translation adjustments		(504)		(85)
Remeasurements of defined benefit plans		131		32
Total other comprehensive income (Note 5)		(43)		166
Comprehensive income	¥	1,761	¥	5,332
Comprehensive income attributable to owners of the parent		1,761		5,332
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, 2019 and 2018

		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	Remeasure-ments of defined benefit plans	Total
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

	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	Total
Balance at April 1, 2017	6,908,359	¥ 5,253	¥ 3,125	¥ 3,816	¥ (102)	¥ 3,255	¥ 130	¥ 1,371	¥ (289)	¥ 16,559
Net income	-	-	-	5,166	-	-	-	-	-	5,166
Purchase of treasury stock	-	-	-	-	(2)	-	-	-	-	(2)
Net changes during the year	-	-	-	-	-	88	131	(85)	32	166
Balance at March 31, 2018	6,908,359	¥ 5,253	¥ 3,125	¥ 8,982	¥ (104)	¥ 3,343	¥ 261	¥ 1,286	¥ (257)	¥ 21,889

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2019 and 2018

	Millions of yen	
	2019	2018
Cash flows from operating activities		
Income before income taxes	¥ 1,851	¥ 5,063
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,462	1,434
Increase (decrease) in net defined benefit liability	173	178
Increase (decrease) in provision for product warranties	(424)	360
Increase (decrease) in allowance for losses on contracts	(1,384)	(7,833)
Interest and dividend income	(144)	(281)
Interest expense	486	323
Loss on disaster	991	-
Decrease (increase) in trade notes and accounts receivable	(9,946)	(15,264)
Decrease (increase) in inventories	6,938	507
Increase (decrease) in trade accounts payable	(6,125)	3,527
Increase (decrease) in accounts payable and accrued expenses	74	(301)
Other, net	(290)	311
Subtotal	(6,338)	(11,976)
Payments for loss on disaster	(88)	-
Interest and dividends received	144	281
Interest paid	(393)	(295)
Income taxes paid	(82)	(55)
Income taxes refund	121	54
Net cash provided by (used in) operating activities	(6,636)	(11,991)
Cash flows from investing activities		
Payments into time deposits	(38)	(29)
Proceeds from withdrawal of time deposits	38	-
Acquisitions of property, plant and equipment and intangible assets	(785)	(1,657)
Proceeds from sales of property, plant and equipment and intangible assets	410	208
Proceeds from sales of investment securities	434	689
Net cash provided by (used in) investing activities	59	(789)
Cash flows from financing activities		
Net increase in short-term loans payable	5,217	14,457
Proceeds from long-term loans payable	-	87
Repayments of long-term loans payable	(1,135)	(1,003)
Repayments of lease obligations	(112)	(59)
Cash dividends paid	(0)	(0)
Purchases of treasury stock	(1)	(1)
Net cash provided by (used in) financing activities	3,969	13,481
Effect of exchange rate changes on cash and cash equivalents	(41)	(119)
Net increase (decrease) in cash and cash equivalents	(2,649)	582
Cash and cash equivalents at beginning of year	4,563	3,981
Cash and cash equivalents at end of year (Note 6)	¥ 1,914	¥ 4,563

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 ¥140 million and ¥128 million for the years ended March 31, 2019 and 2018, 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.

2. Significant accounting policies (cont'd.)

(m) Retirement and severance benefits for employees (cont'd.)

Prior service cost is also recognized in expenses using the straight-line method over 10 years, 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.

(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, 2019 and 2018 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.

2. Significant accounting policies (cont'd.)

(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.

The consolidated overseas subsidiary also applies 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.

(u) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2019 presentation.

3. Accounting standard 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 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

(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.

Consolidated US subsidiary

A newly established or revised major accounting standard published before March 31, 2019, which has not been adopted, is set forth in the table belows.

The potential impact on the company’s financial statements from the adoption of the standard is under evaluation at the time of the preparation of the consolidated financial statements.

Standard	Outline of the new / revised standards	Date of adoption
Revenue from Contracts with Customers (ASU 2014-09)	ASU 2014-09 introduces a single comprehensive model that entities use to account for revenues from contracts with customers.	From the fiscal year ending March 31,2020

4. Changes in presentation method

Previous fiscal year（April 1, 2017 to March 31, 2018）

(Changes due to early application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) became applicable for the consolidated financial statements from the current fiscal year end. As a result, the Company adopted Statement No.28 and changed the presentation and related notes of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of 'investments and other assets' and 'noncurrent liabilities", respectively.

The notes related to tax effect accounting additionally included those described in Note 8 (excluding total amount of valuation reserves) and 9 of "Accounting Standard for Tax Effect Accounting", which are required by paragraph 3 to 5 of Statement No. 28.

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	
	2019	2018
Net unrealized holding gains (losses) on securities		
Increase during the year	¥ 1,179	¥ 533
Reclassification adjustments	(326)	(405)
Subtotal, before tax	853	128
Tax (expense) or benefit	(262)	(40)
Subtotal, net of tax	591	88
Net unrealized holding gains on derivatives		
Decrease during the year	(376)	188
Reclassification adjustments	-	-
Subtotal, before tax	(376)	188
Tax (expense) or benefit	115	(57)
Subtotal, net of tax	(261)	131
Foreign currency translation adjustments		
Increase (decrease) during the year	(504)	(85)
Reclassification adjustments	-	-
Subtotal, before tax	(504)	(85)
Tax (expense) or benefit	-	-
Subtotal, net of tax	(504)	(85)
Remeasurements of defined benefit plans		
Increase (decrease) during the year	66	(43)
Reclassification adjustments	65	75
Subtotal, before tax	131	32
Tax (expense) or benefit	-	-
Subtotal, net of tax	131	32
Total other comprehensive income	¥ (43)	¥ 166

6. 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, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Cash and time deposits (in balance sheets)	¥ 1,923	¥ 4,602
Time deposits maturing after three months	(9)	(39)
Cash and cash equivalents (in statements of cash flows)	¥ 1,914	¥ 4,563

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, 2019, 99.5% 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. <u>Financial instruments: disclosure (cont'd.)</u>

(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, 2019 and 2018 are as follows:

	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)

	Millions of yen		
	2018		
	Book value	Fair value	Difference
Cash and time deposits	¥ 4,602	¥ 4,602	¥ -
Notes and accounts receivable - trade ＊1	27,376	27,376	-
Investment securities	7,916	7,916	-
Trade accounts payable	(10,575)	(10,575)	-
Short-term loans payable	(20,107)	(20,107)	-
Long-term loans payable	(10,578)	(10,554)	(24)
Lease obligations	(766)	(766)	-
Derivatives			
Not applying hedge accounting	(13)	(13)	-
Applying hedge accounting	376	376	-

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 of which the maturities are short. Derivatives are valuated with 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	
	2019	2018
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	
	2019	
	Within one year	Over one year
Cash and time deposits	¥ 1,923	¥ -
Trade notes and trade accounts	38,060	-

	Millions of yen	
	2018	
	Within one year	Over one year
Cash and time deposits	¥ 4,602	¥ -
Trade notes and trade accounts	27,393	-

8. Securities

At March 31, 2019 and 2018, 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, 2019 and 2018 are as follows:

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

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

	Millions of yen		
	2018		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,002	¥ 7,835	¥ 4,833
Total	¥ 3,002	¥ 7,835	¥ 4,833

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

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

	Millions of yen		
	2018		
	Acquisition cost	Book value	Difference
Equity securities	¥ 98	¥ 81	¥ (17)
Total	¥ 98	¥ 81	¥ (17)

8. Securities (cont'd.)

(d) For the years ended March 31, 2019 and 2018, total sales of available-for-sale securities (equity securities) are ¥434 million and ¥689 million, and gain on the sales are ¥325 million and ¥405 million.

(e) Loaned securities classified as securities as of March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Equity securities	¥ 7,938	¥ 6,987

9. Pledged assets

At March 31, 2019 and 2018, the following assets are pledged as collateral for short-term loans payable of ¥2,000 million:

	Millions of yen	
	2019	2018
Land	¥ 179	¥ 179

At March 31, 2019 and 2018, the following assets are pledged as collateral for deposits on contracts of ¥248 million and ¥328 million, respectively, and deposits from tenants of ¥70 million (included in other noncurrent liabilities):

	Millions of yen	
	2019	2018
Buildings, net book value	¥ 391	¥ 414

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, 2019 and 2018, the inventories associate with allowance for losses on contracts are ¥2,346 million and ¥4,308 million.
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 represents short-term loans from banks at a weighted average annual rate of 1.5% and 1.6% at March 31, 2019 and 2018, respectively.

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

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

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

		Millions of yen
Years ending March 31,		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:

		Millions of yen
Years ending March 31,		2019
2021	¥	118
2022		435
2023		10
2024		5
2025 and after		-
	¥	568

Long-term loans payable as of March 31, 2018 are as follows:

		Millions of yen
		2018
Loans from banks, due through 2023 at weighted average rate of 1.1% in 2018	¥	10,578
Less current portion		1,156
	¥	9,422

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, 2018 are as follows:

	Millions of yen	
Years ending March 31,	2018	
2020	¥	7,086
2021		1,088
2022		1,246
2023		2
2024 and after		-
	¥	9,422

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2018 are summarized as follows:

	Millions of yen	
Years ending March 31,	2018	
2020	¥	111
2021		112
2022		429
2023		4
2024 and after		-
	¥	656

The Company enters into contracts with financial institutions for committed credit lines.
As of March 31, 2019 and 2018, the amounts of unexercised committed credit lines are as follows:

	Millions of yen			
	2019		2018	
Total committed credit lines	¥	10,200	¥	17,000
Unexercised committed credit lines	¥	-	¥	11,000

12. 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 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			
	2019		2018	
Balance at April 1, 2018 and 2017	¥	2,635	¥	2,490
Service cost		189		178
Interest cost		20		19
Actuarial loss (gain)		(65)		43
Benefits paid		(101)		(95)
Balance at March 31, 2019 and 2018	¥	2,678	¥	2,635

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

	Millions of yen			
	2019		2018	
Unfunded retirement benefit obligations	¥	2,678	¥	2,635
Total net liability for retirement benefits at March 31, 2019 and 2018	¥	2,678	¥	2,635
Net defined benefit liability		2,678		2,635
Total net liability for retirement benefits at March 31, 2019 and 2018	¥	2,678	¥	2,635

(c) Retirement benefit costs

	Millions of yen			
	2019		2018	
Service cost	¥	189	¥	178
Interest cost		20		19
Net actuarial loss amortization		55		61
Net prior service cost amortization		11		14
	¥	275	¥	272

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

(d) Remeasurements of defined benefit plans

	Millions of yen			
	2019		2018	
Prior service cost	¥	11	¥	14
Actuarial loss		120		18
	¥	131	¥	32

(e) Accumulated remeasurements of defined benefit plans

	Millions of yen			
	2019		2018	
Unrecognized prior service cost	¥	-	¥	(11)
Unrecognized actuarial loss		(126)		(246)
	¥	(126)	¥	(257)

(f) Actuarial assumptions

The principal actuarial assumptions at March 31, 2019 and 2018 (expressed as weighted averages) are as follows:

	2019	2018
Discount rate	0.8%	0.8%
Expected salary increase rate	1.8%	1.9%

Defined contribution plans

Contributions for the defined contribution plans in 2019 and 2018 are ¥343 million and ¥321 million, respectively.

13. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Deferred income tax assets:		
Net operating loss carryforwards ＊2	¥ 2,850	¥ 2,907
Allowance for losses on contracts	1,587	2,014
Net defined benefit liability	821	809
Loss on disaster	304	-
Valuation loss on inventories	215	369
Provision for product warranties	213	343
Excess depreciation	183	242
Research and development expenses	122	355
Provision for bonuses	93	86
Other	380	375
	6,768	7,500
Valuation reserve for net operating loss carryforwards ＊2	(2,831)	(2,904)
Valuation reserve for deductible temporary differences	(3,510)	(3,999)
Valuation reserve -total ＊1	(6,341)	(6,903)
Total deferred income tax assets	427	597
Deferred income tax liabilities:		
Net unrealized holding gains on securities	(1,736)	(1,474)
Accelerated depreciation	(72)	(120)
Net unrealized holding gains on derivatives	-	(115)
Other	(158)	(209)
Total deferred income tax liabilities	(1,966)	(1,918)
Net deferred income tax liabilities	¥ (1,539)	¥ (1,321)

Notes ＊1 The amount of valuation reserve decreased by ¥562 million. The main reason of this decrease is a ¥451 million decrease in the Company's valuation reserve for allowance for losses on contracts.

13. Income taxes (cont'd.)

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

Current fiscal year (April 1, 2018 to March 31, 2019)

	Millions of yen						
Year ending March 31,	2020	2021	2022	2023	2024	2025 and after	Total
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.

Previous fiscal year (April 1, 2017 to March 31, 2018)

	Millions of yen						
Year ending March 31,	2019	2020	2021	2022	2023	2024 and after	Total
Net operating loss carryforwards ＊3	—	—	—	—	¥ 907	¥ 2,000	¥ 2,907
Valuation reserve	—	—	—	—	(907)	(1,997)	(2,904)
Net deferred income tax assets	—	—	—	—	—	¥ 3	¥ 3

＊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, 2019 and 2018 after tax effect accounting is applied.

	2019	2018
Statutory tax rate	30.6 %	30.9 %
Permanently nondeductible expenses	0.9	0.3
Permanently nontaxable expenses	(3.9)	(1.0)
Taxation on per capita basis	0.4	0.2
Change in valuation reserve	(30.4)	(32.6)
Other	4.9	0.2
Effective tax rate	2.5 %	(2.0) %

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

	2019			
	Number of shares			
	April 1, 2018	Increase	Decrease	March 31, 2019
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)

	2018			
	Number of shares			
	April 1, 2017	Increase	Decrease	March 31, 2018
Common stock	6,908,359	-	-	6,908,359
Treasury stock	25,296	457	-	25,753

The increase in treasury stock of 457 shares is due to the acquisition of fractional shares.

(b) Dividends

At March 31, 2019 and 2018, there is no dividend paid.

15. Related party transactions

At March 31, 2019 and 2018, there is no significant related party transactions.

16. Cost of Sales

For the years ended March 31,2019 and 2018, reversal of allowance for losses on contracts deducted from the cost of sales is ¥7,729 million and ¥1,383 million, respectively.

17. Derivative transactions

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

Information on derivatives for which hedge accounting is not applied at March 31, 2018 is as follows:

	Millions of yen							
	2018							
	Contract amount							
	Total		Due after one year		Fair value		Gain(loss)	
Non-market transactions:								
Selling								
US dollar	¥	1,460	¥	-	¥	(13)	¥	(13)
Total	¥	1,460	¥	-	¥	(13)	¥	(13)

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

Information on derivatives for which hedge accounting is applied at March 31, 2019 is as follows:

	Millions of yen					
	2019					
	Contract amount					
	Total		Due after one year		Fair value	
Foreign currency forward exchange contracts:						
Selling						
US dollar（receivables - trade）＊1	¥	5,979	¥	-	¥	-
Total	¥	5,979	¥	-	¥	-

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

17. Derivative transactions (cont'd)

Information on derivatives for which hedge accounting is applied at March 31, 2018 is as follows:

	Millions of yen					
	2018					
	Contract amount				Fair value	
	Total		Due after one year			
Foreign currency forward exchange contracts:						
Selling						
US dollar（forecasted transaction）	¥	6,003	¥	3,141	¥	283
US dollar（receivables – trade）＊1		10,045		-		-
Total	¥	16,048	¥	3,141	¥	283
Buying						
Euro（forecasted transaction）	¥	750	¥	-	¥	81
GB pound（forecasted transaction）		82		-		12
Euro（payables - trade）＊1		87		-		-
GB pound（payables - trade）＊1		16		-		-
Total	¥	935	¥	-	¥	93

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 receivables - trade or 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 receivables - trade or the payables - trade.

18. 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 is ¥687 million and ¥688 million for the years ended March 31, 2019 and 2018, respectively. The book value (balance), net changes during the year and fair value of the real estate for lease are as follows:

	Millions of yen	
	2019	
Balance at April 1, 2018	¥	1,617
Net changes during the year		(26)
Balance at March 31, 2019	¥	1,591
Fair value at March 31, 2019		9,943

18. Fair value of investment and rental property (cont'd)

	Millions of yen
	2018
Balance at April 1, 2017	¥ 1,644
Net changes during the year	(27)
Balance at March 31, 2018	¥ 1,617
Fair value at March 31, 2018	9,921

19. Leases

(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 head office and software for server at head office.

(b) Operating leases

Obligations under operating leases at March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Payments due within one year	¥ 136	¥ 120
Payments due after one year	627	808
Total payments remaining	¥ 763	¥ 928

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."

20. Segment information (cont'd)

(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

Current fiscal year（April 1, 2018 to March 31, 2019）:

	Millions of yen							
	Reportable segments							
	Rolling Stock		Lease of Real Estate		Adjustment		Consolidated	
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)

Previous fiscal year（April 1, 2017 to March 31, 2018）:

	Millions of yen			
	Reportable segments			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 60,884	¥ 793	¥ (0)	¥ 61,677
Segment Profit	5,156	688	(924)	4,920
Segment assets	74,569	1,635	3,466	79,670
Segment liabilities	27,564	999	29,218	57,781
Depreciation and amortization	1,368	27	39	1,434
Increase in tangible and intangible assets	552	-	15	567

1. Adjustments are as follows:

(a) Adjustment of segment profit of ¥(924) million is corporate expenses of ¥(924) million that are not attributable to reportable segments and represents administrative expenses of the Company.

(b) Adjustment of segment assets of ¥3,466 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) Adjustment of segment liabilities of ¥29,218 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥39 million is depreciation and amortization that are not allocable to any reportable segments.

(e) Increase in tangible and intangible assets of ¥15 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, 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

(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

Information for each country and area for the year ended March 31, 2018 is as follows:

(a) Net sales

Millions of yen				
Japan	United States of America	State of Qatar	Other	Consolidated
¥ 15,115	¥ 24,073	¥ 17,797	¥ 4,692	¥ 61,677

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

20. Segment information (cont'd)

(b) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 10,965	¥ 2,505	¥ 13,470

Information for major customers for the year ended March 31, 2018 is as follows:

Customer	Net sales (millions of yen)	Segment
Los Angeles County Metropolitan Transit Authority	¥ 20,989	Rolling stock
Mitsubishi Corporation	18,044	Rolling stock

21. Per share information

Per share information for the years ended March 31, 2019 and 2018 is as follows:

	Yen	
	2019	2018
Net assets per share	¥ 3,436.43	¥ 3,180.32
Net income per share	262.11	750.50

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.

	2019	2018
Net income (millions of yen)	1,804	5,166
Amounts not attributable to ordinary shares (millions of yen)	-	-
Net income attributable to ordinary shares (millions of yen)	1,804	5,166
Average number of shares outstanding during each year (shares)	6,882,465	6,882,859

22. Gain on sales of noncurrent assets

For the fiscal years ended March 31, 2019 and 2018, gain on the sales of noncurrent assets is gain on the sale of land.

23. Deferred payment contracts treated as financial transactions

Deferred payment contracts have been treated as financial transactions, and the amounts of the contracts as of March 31, 2019 and 2018 are included as follows:

	Millions of yen	
	2019	2018
Work-in-process	¥ -	¥ 957
Short-term loans payable	-	957

24. Loss on disaster

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

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, 2019 and 2018, and the consolidated statements of income, 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.

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 misstatement, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

August 30, 2019
Osaka, Japan