THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years ended March 31, 2017 and 2016

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, 2017 and 2016, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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, 2017 and 2016, 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 31, 2017
Osaka, Japan

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2017 and 2016

	Millions of yen	
	2017	2016
ASSETS		
Current Assets		
Cash and time deposits (Note 5 and 6)	¥ 3,991	¥ 4,553
Receivables		
Notes and accounts - trade	17,374	7,316
Other accounts	780	109
Allowance for doubtful receivables	(16)	(9)
	18,138	7,416
Inventories		
Work-in-process	23,986	21,101
Raw materials and supplies	780	621
	24,766	21,722
Deferred income tax assets (Note 11)	311	287
Other current assets	2,194	2,375
Total current assets	49,400	36,353
Property, Plant and Equipment		
Land (Note 15)	2,666	2,718
Buildings and structures (Note 8 and 15)	14,612	9,929
Machinery and equipment	12,435	11,101
Leased assets	831	-
Construction in progress	13	3,447
	30,557	27,195
Accumulated depreciation	(16,127)	(15,467)
	14,430	11,728
Investments and Other Assets		
Unconsolidated subsidiaries and affiliates (Note 6 and 7)	36	36
Investment securities (Note 6 and 7)	8,111	8,759
Intangible assets	91	81
Deferred income tax assets (Note 11)	-	161
Other assets	596	512
Allowance for doubtful receivables	(15)	(66)
	8,819	9,483
Total assets	¥ 72,649	¥ 57,564

	Millions of yen	
	2017	2016
LIABILITIES AND NET ASSETS		
Current Liabilities		
Short-term loans payable (Note 6 and 9)	¥ 5,825	¥ 1,206
Current portion of long-term loans payable (Note 6 and 9)	1,091	589
Lease obligations (Note 6 and 9)	99	-
Payables (Note 13)		
Trade accounts (Note 6)	8,485	6,515
Construction	1,362	1,234
Advances received	5,201	4,456
Income and enterprise taxes payable	80	131
Deferred income tax liabilities (Note 11)	31	-
Accrued expenses	1,419	1,134
Provision for bonuses	258	335
Allowance for losses on contracts	14,407	1,319
Provision for product warranties	759	550
Other current liabilities	633	569
Total current liabilities	39,650	18,038
Noncurrent Liabilities		
Long-term loans payable (Note 6 and 9)	10,516	2,354
Lease obligations (Note 6 and 9)	726	-
Deferred income tax liabilities (Note 11)	1,636	1,712
Net defined benefit liability (Note 10)	2,490	2,439
Other noncurrent liabilities (Note 8)	1,072	1,194
	16,440	7,699
Total liabilities	56,090	25,737
Net Assets (Note 12)		
Shareholders' equity		
Common stock	5,253	5,253
Authorized - 12,000,000 shares in 2017		
120,000,000 shares in 2016		
Issued - 6,908,359 shares in 2017		
69,083,597 shares in 2016		
Capital surplus	3,125	3,125
Retained earnings	3,816	18,633
Treasury stock, at cost	(102)	(101)
25,296 shares in 2017		
246,131 shares in 2016		
Total shareholders' equity	12,092	26,910
Accumulated other comprehensive income		
Net unrealized holding gains on securities	3,255	3,509
Net unrealized holding gains on derivatives	130	-
Foreign currency translation adjustments	1,371	1,756
Remeasurements of defined benefit plans	(289)	(348)
Total accumulated other comprehensive income	4,467	4,917
Total net assets	16,559	31,827
Total liabilities and net assets	¥ 72,649	¥ 57,564

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2017 and 2016

	Millions of yen	
	2017	2016
Net sales	¥ 45,544	¥ 44,021
Cost of sales	56,670	39,082
Gross profit (loss)	(11,126)	4,939
Selling, general and administrative expenses	3,099	3,515
Operating profit (loss)	(14,225)	1,424
Other income (expenses)		
Interest and dividend income	126	127
Interest expense	(165)	(13)
Foreign exchange gain (loss)	170	(283)
Commission fees	(614)	-
Gain on sales of investment securities	342	-
Gain on sales of noncurrent assets（Note 19）	64	-
Other, net	(273)	(47)
	(350)	(216)
Income (loss) before income taxes	(14,575)	1,208
Income taxes（Note 11）		
Current	(25)	(352)
Refund	109	—
Deferred	(119)	10
Net income (loss)	(14,610)	866
Net income (loss) attributable to non-controlling interests	—	—
Net income (loss) attributable to owners of the parent	¥ (14,610)	¥ 866

	Yen	
Amounts per share		
Net income (loss)	¥ (2,122.49)	¥ 125.75
Cash dividends applicable to the year（Note 12）	¥ —	¥ 3.00

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2017 and 2016

	Millions of yen	
	2017	2016
Net income (loss)	¥ (14,610)	¥ 866
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(254)	(46)
Net unrealized holding gains (losses) on derivatives	130	(4)
Foreign currency translation adjustments	(385)	211
Remeasurements of defined benefit plan	59	84
Total other comprehensive income (Note 4)	(450)	245
Comprehensive income	¥ (15,060)	¥ 1,111
Comprehensive income attributable to owners of the parent	(15,060)	1,111
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, 2017 and 2016

		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, 2015	69,083,597	¥ 5,253	¥ 3,125	¥ 17,767	¥ (99)	¥ 3,555	¥ 4	¥ 1,545	¥ (432)	¥ 30,718
Net income (loss)	-	-	-	866	-	-	-	-	-	866
Purchase of treasury stock	-	-	-	-	(2)	-	-	-	-	(2)
Net changes during the year	-	-	-	-	-	(46)	(4)	211	84	245
Balance at March 31, 2016	69,083,597	¥ 5,253	¥ 3,125	¥ 18,633	¥ (101)	¥ 3,509	¥ -	¥ 1,756	¥ (348)	¥ 31,827

	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, 2016	69,083,597	¥ 5,253	¥ 3,125	¥ 18,633	¥ (101)	¥ 3,509	¥ -	¥ 1,756	¥ (348)	¥ 31,827
Cash dividends paid at ￥3.00 per share（Note 12）	-	-	-	(207)	-	-	-	-	-	(207)
Net income (loss)	-	-	-	(14,610)	-	-	-	-	-	(14,610)
Purchase of treasury stock	-	-	-	-	(1)	-	-	-	-	(1)
Net changes during the year	(62,175,238)	-	-	-	-	(254)	130	(385)	59	(450)
Balance at March 31, 2017	6,908,359	¥ 5,253	¥ 3,125	¥ 3,816	¥ (102)	¥ 3,255	¥ 130	¥ 1,371	¥ (289)	¥ 16,559

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2017 and 2016

	Millions of yen 2017	Millions of yen 2016
Cash flows from operating activities		
Income (loss) before income taxes	¥ (14,575)	¥ 1,208
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,157	762
Increase (decrease) in net defined benefit liability	110	74
Increase (decrease) in provision for product warranties	209	(88)
Increase (decrease) in allowance for losses on contracts	13,088	252
Interest and dividend income	(126)	(127)
Interest expense	165	13
Decrease (increase) in trade Notes and accounts receivable	(8,931)	(4,628)
Decrease (increase) in inventories	(3,672)	(1,296)
Increase (decrease) in Notes and trade accounts payable	2,180	(2,128)
Increase (decrease) in accounts payable and accrued expenses	505	24
Other, net	(1,008)	1,172
Subtotal	(10,898)	(4,762)
Interest and dividends received	126	127
Interest paid	(144)	(7)
Income taxes paid	(107)	(396)
Net cash provided by (used in) operating activities	(11,023)	(5,038)
Cash flows from investing activities		
Payments into time deposits	(10)	-
Proceeds from withdrawal from time deposits	-	28
Acquisitions of property, plant and equipment and intangible assets	(4,016)	(3,741)
Proceeds from sales of property, plant and equipment and intangible assets	960	2
Purchases of investment securities	-	(10)
Proceeds from sales of investment securities	626	-
Net cash provided by (used in) investing activities	(2,440)	(3,721)
Cash flows from financing activities		
Net increase in short-term loans payable	4,351	1,211
Proceeds from long-term loans payable	9,408	2,955
Repayments of long-term loans payable	(694)	-
Repayments of lease obligations	(49)	-
Cash dividends paid	(207)	(2)
Purchases of treasury stock	(2)	(2)
Net cash provided by (used in) financing activities	12,807	4,162
Effect of exchange rate changes on cash and cash equivalents	84	22
Net increase (decrease) in cash and cash equivalents	(572)	(4,575)
Cash and cash equivalents at beginning of year	4,553	9,128
Cash and cash equivalents at end of year（Note 5）	¥ 3,981	¥ 4,553

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

2. Significant accounting policies

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

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

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

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

(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 operations 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 ¥237 million and ¥631 million for the years ended March 31, 2017 and 2016, 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.

2. Significant accounting policies (cont'd.)

(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 subsidiaries are translated at the rates in effect at the balance sheet date, except for net assets accounts, which are translated at historical rates, and revenue and expense accounts, which are translated at the average exchange rates in effect during the year. The resulting translation adjustments are reflected in the consolidated financial statements as "foreign currency translation adjustments."

(s) Net income (loss) and cash dividends per share - Basic net income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share for the years ended March 31, 2017 and 2016 was not applicable because the Company had no dilutive common shares. Cash dividends per share presented in the accompanying consolidated statements of operations 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.

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

(u) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2017 presentation.

3. <u>Change in accounting policies</u>

Previous fiscal year (April 1, 2015 to March 31, 2016)

(Adoption of accounting standard for business combinations)

The Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013 (hereinafter, “Statement No.21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013 (hereinafter, “Statement No.22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013 (hereinafter, “Statement No.7”)) (together, the “Business Combination Accounting Standards”), from the year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests.” Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the beginning of the year ended March 31, 2016, prospectively.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities. ”

There was no effect on the consolidated financial statements of the year ended March 31, 2016.

(Additional Information)

Current fiscal year (April 1, 2016 to March 31, 2017)

(Adoption of implementation guidance on recoverability of deferred tax assets)

The Company and its consolidated domestic subsidiary have adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets”(ASBJ Guidance No. 26, March 28, 2016) from the year ended March 31, 2017.

4. Comprehensive income information

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

	Millions of yen	
	2017	2016
Net unrealized holding gains (losses) on securities		
Increase (decrease) during the year	¥ (20)	¥ (188)
Reclassification adjustments	(343)	-
Subtotal, before tax	(363)	(188)
Tax (expense) or benefit	109	142
Subtotal, net of tax	(254)	(46)
Net unrealized holding gains (losses) on derivatives		
Increase (decrease) during the year	188	(8)
Reclassification adjustments	-	-
Subtotal, before tax	188	(8)
Tax (expense) or benefit	(58)	4
Subtotal, net of tax	130	(4)
Foreign currency translation adjustments		
Increase (decrease) during the year	(385)	211
Reclassification adjustments	-	-
Subtotal, before tax	(385)	211
Tax (expense) or benefit	-	-
Subtotal, net of tax	(385)	211
Remeasurements of defined benefit plan		
Increase (decrease) during the year	(19)	(0)
Reclassification adjustments	78	84
Subtotal, before tax	59	84
Tax (expense) or benefit	-	-
Subtotal, net of tax	59	84
Total other comprehensive income	¥ (450)	¥ 245

5. Cash flow information

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Cash and time deposits (in balance sheets)	¥ 3,991	¥ 4,553
Time deposits maturing after three months	(10)	-
Cash and cash equivalents (in statements of cash flows)	¥ 3,981	¥ 4,553

6. Financial instruments: disclosure

(a) Qualitative information on financial instruments

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

Trade notes and accounts receivable — Because of the nature of the business, the credit risk associated with trade notes and accounts receivable is concentrated with a limited number of major customers with high creditworthiness. 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.

(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, 2017 and 2016 were as follows:

	Millions of yen		
	2017		
	Book value	Fair value	Difference
Cash and time deposits	¥ 3,991	¥ 3,991	¥ -
Notes and accounts receivable - trade ＊1	17,358	17,358	-
Investment securities	7,972	7,972	-
Trade accounts payable	(8,485)	(8,485)	-
Short-term loans payable	(5,825)	(5,825)	-
Long-term loans payable	(11,607)	(11,581)	26
Lease obligations	(825)	(825)	-
Derivatives			
Not applying hedge accounting	-	-	-
Applying hedge accounting	188	188	-

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

	Millions of yen		
	2016		
	Book value	Fair value	Difference
Cash and time deposits	¥ 4,553	¥ 4,553	¥ -
Notes and accounts receivable - trade ＊1	7,308	7,308	-
Investment securities	8,619	8,619	-
Trade accounts payable	(6,515)	(6,515)	-
Short-term loans payable	(1,206)	(1,206)	-
Long-term loans payable	(2,943)	(2,952)	(9)
Derivatives			
Not applying hedge accounting	48	48	-
Applying hedge accounting	-	-	-

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

＊2 The figures in parenthesis indicate liabilities.

The fair value of the financial instruments in the table above approximates the book value because 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 was difficult to determine were as follows:

	Millions of yen	
	2017	2016
Unlisted stocks	¥ 139	¥ 139
Stocks of subsidiaries and affiliates (unlisted stocks)	36	36

Unlisted stocks were not included in investment securities, nonconsolidated subsidiaries and affiliates above because they had no fair value.

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

Maturity value after closing date

	Millions of yen			
	2017			
	Within a year		Over a year	
Cash and time deposits	¥	3,991	¥	-
Trade notes and trade accounts		17,374		-

	Millions of yen			
	2016			
	Within a year		Over a year	
Cash and time deposits	¥	4,553	¥	-
Trade notes and trade accounts		7,316		-

7. <u>Securities</u>

At March 31, 2017 and 2016, information on securities was as follows:

a. Trading securities: None

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

c. Available-for-sale securities with readily determinable fair value as of March 31, 2017 and 2016 were as follows:

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

	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,185	¥ 7,883	¥ 4,698
Other	-	-	-
Total	¥ 3,185	¥ 7,883	¥ 4,698

	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,461	¥ 8,519	¥ 5,058
Other	9	16	7
Total	¥ 3,470	¥ 8,535	¥ 5,065

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

	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 98	¥ 89	¥ (9)
Other	-	-	-
Total	¥ 98	¥ 89	¥ (9)

	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 98	¥ 84	¥ (14)
Other	-	-	-
Total	¥ 98	¥ 84	¥ (14)

7. Securities (cont'd.)

d. For the year ended March 31, 2017, total sales of available-for-sale securities (equity securities and other) were ¥627 million, and profits on the sales were ¥342 million.

e. Loaned securities classified as securities as of March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Equity securities	¥ 7,843	¥ -

8. Pledged assets

At March 31, 2017 and 2016, the following assets were pledged as collateral for deposits on contracts of ¥408 million and ¥489 million, respectively, and deposits from tenants of ￥70 million (included in other noncurrent liabilities):

	Millions of yen	
	2017	2016
Buildings, net book value	¥ 437	¥ 460

9. 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 2.0% and 1.2% at March 31, 2017 and 2016, respectively.

Long-term loans payable as of March 31, 2017 were as follows:

	Millions of yen
	2017
Loans from banks, due through 2022 at weighted average rate of 1.2% in 2017	¥ 11,607
Less current portion	1,091
	¥ 10,516

9. 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, 2017 were as follows:

	Millions of yen	
Years ending March 31,	2017	
2019	¥	1,093
2020		7,094
2021		1,096
2022		1,233
2023 and after		-
	¥	10,516

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2017 were summarized as follows:

	Millions of yen	
Years ending March 31,	2017	
2019	¥	100
2020		102
2021		103
2022		421
2023 and after		-
	¥	726

Long-term loans payable as of March 31, 2016 were as follows:

	Millions of yen	
	2016	
Loans from banks, due through 2020 at weighted average rate of 3.9% in 2016	¥	2,943
Less current portion		589
	¥	2,354

9. 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, 2016 were as follows:

		Millions of yen
Years ending March 31,		2016
2018	¥	589
2019		589
2020		588
2021		588
2022 and after		-
	¥	2,354

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2016 were summarized as follows:

		Millions of yen
Years ending March 31,		2016
2018	¥	-
2019		-
2020		-
2021		-
2022 and after		-
	¥	-

The Company entered into contracts with financial institutions for committed credit lines. As of March 31, 2017 and 2016, the amounts of unexercised committed credit lines were as follows:

	Millions of yen			
		2017		2016
Total committed credit lines	¥	17,000	¥	-
Unexercised committed credit lines	¥	17,000	¥	-

10. Retirement and severance benefits

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

Defined benefit plans

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

	Millions of yen			
	2017		2016	
Balance at April 1, 2016 and 2015	¥	2,439	¥	2,449
Service cost		154		146
Interest cost		19		18
Actuarial loss (gain)		19		0
Benefits paid		(141)		(174)
Balance at March 31, 2017 and 2016	¥	2,490	¥	2,439

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

	Millions of yen			
	2017		2016	
Unfunded retirement benefit obligations	¥	2,490	¥	2,439
Total net liability (asset) for retirement benefits at March 31, 2017 and 2016	¥	2,490	¥	2,439
Net defined benefit liability		2,490		2,439
Total net liability (asset) for retirement benefits at March 31, 2017 and 2016	¥	2,490	¥	2,439

(3) Retirement benefit costs

	Millions of yen			
	2017		2016	
Service cost	¥	154	¥	146
Interest cost		19		19
Net actuarial loss amortization		64		70
Net prior service cost amortization		14		14
	¥	251	¥	249

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

(4) Remeasurements of defined benefit plans

	Millions of yen			
	2017		2016	
Prior service cost	¥	14	¥	14
Actuarial loss		45		70
	¥	59	¥	84

(5) Accumulated remeasurements of defined benefit plans

	Millions of yen			
	2017		2016	
Unrecognized prior service cost	¥	(25)	¥	(40)
Unrecognized actuarial loss		(264)		(308)
	¥	(289)	¥	(348)

(6) Actuarial assumptions

The principal actuarial assumptions at March 31, 2017 and 2016 (expressed as weighted averages) were as follows:

	2017	2016
Discount rate	0.8%	0.8%
Expected salary increase rate	2.1%	2.1%

Defined contribution plans

Contributions for the defined contribution plans in 2017 and 2016 were ¥264 million and ¥212 million, respectively.

11. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Deferred income tax assets:		
Allowance for losses on contracts	¥ 4,450	¥ 407
Net operating loss carryforwards	2,167	1,938
Net defined benefit liability	764	746
Excess depreciation	284	162
Valuation loss on inventories	274	94
Provision for product warranties	232	169
Provision for bonuses	80	103
Research and development expenses	43	280
Other	807	647
	9,101	4,546
Valuation allowance	(8,555)	(4,098)
Total deferred income tax assets	546	448
Deferred income tax liabilities:		
Net unrealized holding gains on securities	(1,434)	(1,543)
Accelerated depreciation	(209)	-
Net unrealized holding gains on derivatives	(58)	-
Other	(201)	(169)
Total deferred income tax liabilities	(1,902)	(1,712)
Net deferred income tax liabilities	¥ (1,356)	¥ (1,264)

(b) The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2016 after tax effect accounting was applied.

	2016
Statutory tax rate	33.1 %
Permanently nondeductible expenses	0.8
Taxation on per capita basis	0.8
Change in valuation allowance for deferred income tax assets	(10.7)
Difference of tax rates applied to income of foreign subsidiaries	3.3
Other	1.0
Effective tax rate	28.3 %

11. Income taxes (cont'd.)

For the year ended March 31, 2017, the difference between the statutory tax rate and the effective tax rate after tax effect accounting was not described because the Company declared a loss before income taxes.

Adjustment of deferred income tax assets and liabilities for enacted changes in tax laws and rates:

Following the enactment on March 29, 2016 of "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and "Act for Partial Amendment of the Council Tax Act, etc." (Act No. 13 of 2016), the effective statutory tax rate used to measure deferred income tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to be eliminated in the fiscal year beginning on or after April 1, 2016 and to 30.6% for temporary differences expected to be eliminated in the fiscal year beginning on or after April 1, 2018.

As a result, deferred income tax liabilities decreased by ¥91 million and income taxes - deferred decreased by ¥9 million. Net unrealized holding gains on securities increased by ¥83 million.

12. 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 was 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.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. 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.

1. Number and type of shares issued and number and type of shares of treasury stock

	2017			
	Number of shares			
	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	69,083,597	-	(62,175,238)	6,908,359
Treasury stock	246,131	3,004	(223,839)	25,296

The Company consolidated every 10 shares into one share on October 1, 2016 based on the number of shares held by shareholders listed in the shareholders' register as of September 30, 2016. As a result, the number of issued shares decreased by 62,175,238 shares. The increase in treasury stock of 3,004 shares was due to the acquisition of fractional shares. The decrease in treasury stock of 223,839 shares was due to the consolidation of shares.

12. Net assets (cont'd)

	2016			
	Number of shares			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	69,083,597	-	-	69,083,597
Treasury stock	241,977	4,154	-	246,131

The increase in treasury stock of 4,154 shares was due to the acquisition of fractional shares.

2. Dividends

Dividends paid

Resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting, May 11, 2016	Common stock	207	3.00	March 31, 2017	June 13, 2017

Note: Consolidation of 10 shares into one share was implemented on October 1, 2016. For the dividend per share based on a resolution of the Board of Directors meeting held on May 11, 2016, the actual amount of dividends before the consolidation of shares is stated.

13. Related party transactions

At March 31, 2017, Kintetsu Track Engineering ("KTE") was the subsidiary of other related company. The Company's purchases related to construction of a new factory from KTE for the year ended March 31, 2017 were ¥1,534 million. Payables to KTE at March 31, 2017 were ¥410 million.

At March 31, 2016, Kintetsu Track Engineering ("KTE") was the subsidiary of other related company. The Company's purchases related to construction of a new factory from KTE for the year ended March 31, 2016 were ¥1,431 million. Payables to KTE at March 31, 2016 were ¥764 million.

14. Derivative transactions

Information on derivatives for which hedge accounting had been applied at March 31, 2017 is as follows:

	Millions of yen					
	2017					
	Contract amount				Fair value	
	Total		Due after one year			
Foreign currency forward exchange contracts:						
Selling						
US dollar（forecasted transaction）	¥	13,230	¥	10,522	¥	106
HK dollar（forecasted transaction）		829		-		1
HK dollar (receivables - trade)		1,046		-		(Note)
Total	¥	15,105	¥	10,522	¥	107
Buying						
Euro（forecasted transaction）	¥	3,286	¥	810	¥	60
GB pound（forecasted transaction）		272		103		21
Total	¥	3,558	¥	913	¥	81

Note: Forward foreign exchange contracts for which the designation method is applied are accounted for together with the receivables - 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.

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

At March 31, 2017, there were no derivatives for which hedge accounting had not been applied.

At March 31, 2016, there were no derivatives for which hedge accounting had been applied.

14. Derivative transactions (cont'd)

Information on derivatives for which hedge accounting had not been applied at March 31, 2016 is as follows:

	Millions of yen			
	2016			
	Contract amount		Fair value	Realized gain (loss)
	Total	Due after one year		
Foreign currency forward exchange contracts:				
Selling				
US dollar	¥ 516	¥ -	¥ 48	¥ 48
Total	¥ 516	¥ -	¥ 48	¥ 48

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

15. Fair value of investment and rental property

The Company owns real estate for lease in Osaka and other prefectures. The income from the real estate for lease was ￥693 million and ￥692 million for the years ended March 31, 2017 and 2016, respectively. The book value (balance), net changes during the year and fair value of the real estate for lease were as follows:

	Millions of yen
	2017
Balance at April 1, 2016	¥ 1,715
Net changes during the year	(71)
Balance at March 31, 2017	¥ 1,644
Fair value at March 31, 2017	9,971

Note: The decrease represents primarily the sale of real estate, in the amount of ¥48 million.

	Millions of yen
	2016
Balance at April 1, 2015	¥ 1,741
Net changes during the year	(26)
Balance at March 31, 2016	¥ 1,715
Fair value at March 31, 2016	8,616

16. Leases

(1) Finance leases

(As lessee)

Non-ownership-transfer finance lease transactions

Leased assets consist mainly of machinery and equipment.

(2) Operating leases

Obligations under operating leases at March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Payments due within one year	¥ 205	¥ 262
Payments due after one year	683	862
Total payments remaining	¥ 888	¥ 1,124

17. 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 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."

17. Segment information (cont'd)

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

Year ended March 31, 2017:

	Millions of yen			
	Reportable segments			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 44,745	¥ 800	¥ (1)	¥ 45,544
Segment profit (loss)	(13,858)	693	(1,060)	(14,225)
Segment assets	66,585	1,662	4,402	72,649
Segment liabilities	38,962	1,100	16,028	56,090
Depreciation and amortization	1,093	27	37	1,157
Increase in tangible and intangible assets	4,514	-	68	4,582

1. Adjustments are as follows:

(a) Adjustment of segment profit (loss) of ¥(1,060) million is corporate expenses of ¥(1,060) million not attributable to reportable segments and represents administrative expenses of the Company.

(b) Adjustment of segment assets of ¥4,402 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) Adjustment of segment liabilities of ¥16,028 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥37 million is depreciation and amortization that are not allocable to any reportable segments.

(e) Increase in tangible and intangible assets of ¥68 million is equipment investment that is not allocable to any reportable segments.

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

17. Segment information (cont'd)

Year ended March 31, 2016:

	Millions of yen			
	Reportable segments			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 43,222	¥ 800	¥ (1)	¥ 44,021
Segment profit (loss)	1,638	693	(907)	1,424
Segment assets	51,913	1,732	3,919	57,564
Segment liabilities	17,505	1,201	7,031	25,737
Depreciation and amortization	702	26	34	762
Increase in tangible and intangible assets	4,569	-	33	4,602

1. Adjustments are as follows:

(a) Adjustment of segment profit (loss) of ¥(907) million is corporate expenses of ¥(907) million not attributable to reportable segments and represents administrative expenses of the Company.

(b) Adjustment of segment assets of ¥3,919 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) Adjustment of segment liabilities of ¥7,031 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥34 million is depreciation and amortization that are not allocable to any reportable segments.

(e) Increase in tangible and intangible assets of ¥33 million is equipment investment that is not allocable to any reportable segments.

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

17. Segment information (cont'd)

Related information

Information for each country and area for the year ended March 31, 2017 is as follows:

(1) Net sales

Millions of yen				
Japan	United States of America	Africa	Asia	Consolidated
¥ 17,167	¥ 23,422	¥ 226	¥ 4,729	¥ 45,544

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

Africa	Arab Republic of Egypt
Asia	China (Hong Kong), State of Qatar, United Arab Emirates, Republic of the Philippines

(2) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 11,444	¥ 2,986	¥ 14,430

Information for major customers for the year ended March 31, 2017 is as follows:

Customer	Net sales (millions of yen)	Segment
Los Angeles County Metropolitan Transit Authority	¥ 18,252	Rolling stock
West Japan Railway Company	8,274	Rolling stock
New Jersey Transit	4,818	Rolling stock

17. Segment information (cont'd)

Information for each country and area for the year ended March 31, 2016 is as follows:

(1) Net sales

Millions of yen				
Japan	United States of America	Africa	Asia	Consolidated
¥ 19,504	¥ 20,769	¥ 394	¥ 3,354	¥ 44,021

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

Africa	Arab Republic of Egypt
Asia	China (Hong Kong), State of Qatar, United Arab Emirates

(2) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 8,982	¥ 2,746	¥ 11,728

Information for major customers for the year ended March 31, 2016 is as follows:

Customer	Net sales (millions of yen)	Segment
Los Angeles County Metropolitan Transit Authority	¥ 14,849	Rolling stock
Sendai City Transportation Bureau	7,063	Rolling stock
West Japan Railway Company	6,293	Rolling stock
New Jersey Transit	5,651	Rolling stock

18. Per share information

Per share information for the years ended March 31, 2017 and 2016 was as follows:

	Yen	
	2017	2016
Net assets per share	¥ 2,405.68	¥ 4,623.49
Net income (loss) per share	(2,122.49)	125.75

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

(2) The Company consolidated every 10 shares into one share on October 1, 2016 based on the number of shares held by shareholders listed in the final shareholders' register as of September 30, 2016.

Per share information for the years ended March 31, 2017 and 2016 is based on the assumption that the consolidation of shares had been implemented as of April 1, 2015.

(3) Net income (loss) per share was calculated on the following basis.

	2017	2016
Net income (loss) (millions of yen)	(14,610)	866
Amounts not attributable to ordinary shares (millions of yen)	-	-
Net income (loss) attributable to ordinary shares (millions of yen)	(14,610)	866
Average number of shares outstanding during each year (shares)	6,883,445	6,883,945

19. Gain on sales of noncurrent assets

For the fiscal year ended March 31, 2017, gain on the sales of noncurrent assets was mainly gain on the sales of land.