THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years ended March 31, 2016 and 2015

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, 2016 and 2015, 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of THE KINKI SHARYO Co., Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, 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, 2016
Osaka, Japan

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2016 and 2015

	Millions of yen 2016	Millions of yen 2015
ASSETS		
Current Assets		
Cash and time deposits (Note 5 and 6)	¥ 4,553	¥ 9,156
Receivables (Note 13)		
Notes and accounts - trade (Note 6)	7,316	4,509
Other accounts	109	544
Allowance for doubtful receivables	(9)	(11)
	7,416	5,042
Inventories		
Work-in-process	21,101	19,719
Raw materials and supplies	621	763
	21,722	20,482
Deferred income tax assets (Note 11)	287	392
Other current assets	2,375	1,275
Total current assets	36,353	36,347
Property, Plant and Equipment		
Land (Note 15)	2,718	2,704
Buildings and structures (Note 8 and 15)	9,929	9,940
Machinery and equipment	11,101	10,482
Construction in progress	3,447	146
	27,195	23,272
Accumulated depreciation	(15,467)	(15,319)
	11,728	7,953
Investments and Other Assets		
Unconsolidated subsidiaries and affiliates (Note 7)	36	36
Investment securities (Note 6 and 7)	8,759	8,937
Long-term receivables	210	139
Intangible assets	81	83
Deferred income tax assets (Note 11)	161	62
Long-term prepaid expenses	302	663
Allowance for doubtful receivables	(66)	(69)
	9,483	9,851
Total assets	¥ 57,564	¥ 54,151

	Millions of yen 2016	Millions of yen 2015
LIABILITIES AND NET ASSETS		
Current Liabilities		
Short-term loans payable (Note 6 and 9)	¥ 1,206	¥ -
Current portion of long-term loans payable (Note 6 and 9)	589	-
Payables (Note 13)		
Trade accounts (Note 6)	6,515	7,409
Construction	1,234	358
Advances received	4,456	6,440
Income and enterprise taxes payable	131	25
Deferred income tax liabilities (Note 11)	-	4
Accrued expenses	1,469	1,492
Allowance for losses on contracts	1,319	1,067
Provision for product warranties	550	638
Other current liabilities	569	432
Total current liabilities	18,038	17,865
Noncurrent Liabilities		
Long-term loans payable (Note 6 and 9)	2,354	-
Deferred income tax liabilities (Note 11)	1,712	1,870
Net defined benefit liability (Note 10)	2,439	2,449
Other noncurrent liabilities (Note 8)	1,194	1,249
	7,699	5,568
Total liabilities	25,737	23,433
Net Assets (Note 12)		
Shareholders' equity		
Common stock		
Authorized - 120,000,000 shares		
Issued - 69,083,597 shares	5,253	5,253
Capital surplus	3,125	3,125
Retained earnings	18,633	17,767
Treasury stock, at cost	(101)	(99)
246,131 shares in 2016		
241,977 shares in 2015		
Total shareholders' equity	26,910	26,046
Accumulated other comprehensive income		
Net unrealized holding gains on securities	3,509	3,555
Net unrealized holding gains on derivatives	-	4
Foreign currency translation adjustments	1,756	1,545
Remeasurements of defined benefit plans	(348)	(432)
Total accumulated other comprehensive income	4,917	4,672
Total net assets	31,827	30,718
Total liabilities and net assets	¥ 57,564	¥ 54,151

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2016 and 2015

	Millions of yen	
	2016	2015
Net sales (Note 13)	¥ 44,021	¥ 22,104
Cost of sales	39,082	21,791
Gross profit (loss)	4,939	313
Selling, general and administrative expenses	3,515	3,420
Operating profit (loss)	1,424	(3,107)
Other income (expenses)		
Interest and dividend income	127	129
Interest expense	(13)	—
Foreign exchange gain (loss)	(283)	(80)
Subsidy income	90	84
Other, net	(137)	(12)
	(216)	121
Income (loss) before income taxes	1,208	(2,986)
Income taxes (Note 11)		
Current	(352)	(79)
Deferred	10	(288)
Net income (loss)	866	(3,353)
Net income (loss) attributable to non-controlling interests	—	—
Net income (loss) attributable to owners of the parent	¥ 866	¥ (3,353)

	Yen	
Amounts per share		
Net income (loss)	¥ 12.58	¥ (48.71)
Cash dividends applicable to the year	¥ 3.00	¥ —

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2016 and 2015

	Millions of yen	
	2016	2015
Net income (loss)	¥ 866	¥ (3,353)
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(46)	2,126
Net unrealized holding gains (losses) on derivatives	(4)	4
Foreign currency translation adjustments	211	1,503
Remeasurement of defined benefit plan	84	191
Total other comprehensive income (Note 4)	245	3,824
Comprehensive income	¥ 1,111	¥ 471
Comprehensive income attributable to owners of the parent	1,111	471
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, 2016 and 2015

Millions of yen

	Number of shares of common stock	Shareholders' equity				Accumulated other comprehensive income				
		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, 2014	69,083,597	¥ 5,253	¥ 3,125	¥ 21,135	¥ (98)	¥ 1,428	¥ -	¥ 43	¥ (623)	¥ 30,263
Cumulative effects of changes in accounting policies	-	-	-	(15)	-	-	-	-	-	(15)
Restated balance	69,083,597	5,253	3,125	21,120	(98)	1,428	-	43	(623)	30,248
Net income (loss)	-	-	-	(3,353)	-	-	-	-	-	(3,353)
Purchase of treasury stock	-	-	-	-	(1)	-	-	-	-	(1)
Net changes during the year	-	-	-	-	-	2,127	4	1,502	191	3,824
Balance at March 31, 2015	69,083,597	¥ 5,253	¥ 3,125	¥ 17,767	¥ (99)	¥ 3,555	¥ 4	¥ 1,545	¥ (432)	¥ 30,718

	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

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2016 and 2015

	Millions of yen	
	2016	2015
Cash flows from operating activities		
Income (loss) before income taxes	¥ 1,208	¥ (2,986)
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	762	657
Increase (decrease) in net defined benefit liability	74	289
Increase (decrease) in provision for product warranties	(88)	441
Increase (decrease) in allowance for losses on contracts	252	(1,499)
Interest and dividend income	(127)	(129)
Interest expense	13	-
Decrease (increase) in trade notes and accounts receivable	(4,628)	(2,307)
Decrease (increase) in inventories	(1,296)	(8,996)
Increase (decrease) in notes and trade accounts payable	(2,128)	3,734
Increase (decrease) in accounts payable and accrued expenses	24	343
Other, net	1,172	(572)
Subtotal	(4,762)	(11,025)
Interest and dividends received	127	129
Interest paid	(7)	-
Income taxes paid	(396)	(60)
Net cash provided by (used in) operating activities	(5,038)	(10,956)
Cash flows from investing activities		
Payments into time deposits	-	(528)
Proceeds from withdrawal from time deposits	28	2,300
Acquisitions of property, plant and equipment and intangible assets	(3,741)	(1,113)
Proceeds from sales of property, plant and equipment and intangible assets	2	1
Purchases of investment securities	(10)	(3,100)
Proceeds from sales of investment securities	-	5
Proceeds from sales of short term investment securities	-	3,100
Net cash provided by (used in) investing activities	(3,721)	665
Cash flows from financing activities		
Net increase in short-term loans payable	1,211	-
Proceeds from long-term loans payable	2,955	-
Cash dividends paid	(2)	(2)
Purchases of treasury stock	(2)	(2)
Net cash provided by (used in) financing activities	4,162	(4)
Effect of exchange rate changes on cash and cash equivalents	22	1,021
Net increase (decrease) in cash and cash equivalents	(4,575)	(9,274)
Cash and cash equivalents at beginning of year	9,128	18,402
Cash and cash equivalents at end of year (Note 5)	¥ 4,553	¥ 9,128

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 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 - 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 - 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 ¥631 million and ¥545 million for the years ended March 31, 2016 and 2015, 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.

(Change in Accounting Policy)

The Company and its consolidated domestic subsidiary have adopted Article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, "Guidance No. 25")) from the year ended March 31, 2015 and have changed the determination of retirement benefit obligation and current service cost. In addition, the Company and its consolidated domestic subsidiary have changed the method used to attribute expected benefits to periods from the straight-line method to the benefit formula basis and the method used to determine the discount rate from the method in which the average remaining service years were regarded as almost the same as the bond maturity to the method in which a single weighted average discount rate reflecting the estimated timing and amount of benefit payment is used.

In accordance with Article 37 of Statement No. 26, the effect of changing the method used to determine retirement benefit obligation and current service cost has been recognized in retained earnings at the beginning of the preceding fiscal year.

As a result of the application, the liability for retirement benefits obligation increased by ¥ 15 million and retained earnings decreased by ¥15 million at the beginning of the preceding fiscal year. The effect on profit and loss and the effect on net assets per share and net income (loss) per share were immaterial.

(n) Provision for product warranties - A provision for product warranties is provided at the balance sheet date when future losses for product warranties can be reasonably estimated and at an amount based on management's estimate of the past expense ratio for sales.

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

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

2. Significant accounting policies (cont'd.)

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

(r) Net income (loss) and cash dividends per share - Basic net income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share for the years ended March 31, 2016 and 2015 was not applicable because the Company had no dilutive common shares. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

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

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

(t) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2016 presentation.

3. Change in accounting policies

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 current fiscal year. 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 current fiscal year 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 is no effect on the consolidated financial statements of the current fiscal year.

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			
	2016		2015	
Net unrealized holding gains on securities				
Increase (decrease) during the year	¥	(188)	¥	3,025
Reclassification adjustments		-		-
Subtotal, before tax		(188)		3,025
Tax (expense) or benefit		142		(899)
Subtotal, net of tax		(46)		2,126
Net unrealized holding gains on derivatives				
Increase (decrease) during the year		(8)		8
Reclassification adjustments		-		-
Subtotal, before tax		(8)		8
Tax (expense) or benefit		4		(4)
Subtotal, net of tax		(4)		4
Foreign currency translation adjustments				
Increase (decrease) during the year		211		1,503
Reclassification adjustments		-		-
Subtotal, before tax		211		1,503
Tax (expense) or benefit		-		-
Subtotal, net of tax		211		1,503
Remeasurement of defined benefit plan				
Increase (decrease) during the year		(0)		(30)
Reclassification adjustments		84		221
Subtotal, before tax		84		191
Tax (expense) or benefit		-		-
Subtotal, net of tax		84		191
Total other comprehensive income	¥	245	¥	3,824

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, 2016 and 2015 were as follows:

	Millions of yen			
	2016		2015	
Cash and time deposits (in balance sheets)	¥	4,553	¥	9,156
Time deposits maturing after three months		-		(28)
Cash and cash equivalents (in statements of cash flows)	¥	4,553	¥	9,128

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 Market Value or prices provided by the financial condition of corporation on a quarterly basis.

(b) Fair values of financial instruments

The book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2016 and 2015 were as follows:

	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	-	-	-

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

	Millions of yen		
	2015		
	Book value	Fair value	Difference
Cash and time deposits	¥ 9,156	¥ 9,156	¥ -
Notes and accounts receivable – trade ＊1	4,498	4,498	-
Investment securities	8,807	8,807	-
Trade accounts payable	(7,409)	(7,409)	-
Derivatives			
Not applying hedge accounting	1	1	-
Applying hedge accounting	8	8	-

Note ＊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. Some trade accounts are valuated with the rate of the foreign currency forward exchange contract, and some are discounted to their present value.

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

	Millions of yen	
	2016	2015
Unlisted stocks	¥ 175	¥ 166

Unlisted stocks were not included in investment securities, non-consolidated subsidiaries and affiliates above because they had no market value.

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

Maturity value after closing date

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

	Millions of yen	
	2015	
	Within a year	Over a year
Cash and time deposits	¥ 9,156	¥ -
Trade notes and trade accounts	4,509	-

7. Securities

At March 31, 2016 and 2015, 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, 2016 and 2015 were as follows:

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

	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

	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,559	¥ 8,789	¥ 5,230
Other	9	18	9
Total	¥ 3,568	¥ 8,807	¥ 5,239

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

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

	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥ -	¥ -	¥ -
Other	-	-	-
Total	¥ -	¥ -	¥ -

7. Securities (cont'd.)

d. For the year ended March 31, 2015, total sales of available-for-sale securities (equity securities) were ¥5 million, and profits on the sales were ¥3 million.

8. Pledged assets

At March 31, 2016 and 2015, the following assets were pledged as collateral for deposits on contracts of ¥489 million and ¥569 million, respectively, and deposits from tenants of ￥70 million (included in other noncurrent liabilities):

	Millions of yen	
	2016	2015
Buildings, net book value	¥ 460	¥ 484

9. Short-term loans payable and Long-term loans payable

Short-term loans payable substantially represents short-term loans from banks at a weighted average annual rate of 1.2% at March 31, 2016.

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

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

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			
	2016		2015	
Balance at April 1, 2015 and 2014	¥	2,449	¥	2,336
Cumulative effects of changes in accounting policies		-		15
Restated balance		2,449		2,351
Service cost		146		144
Interest cost		18		18
Actuarial loss (gain)		0		30
Benefits paid		(174)		(94)
Balance at March 31, 2016 and 2015	¥	2,439	¥	2,449

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

	Millions of yen			
	2016		2015	
Unfunded retirement benefit obligations	¥	2,439	¥	2,449
Total net liability (asset) for retirement benefits at March 31, 2016 and 2015	¥	2,439	¥	2,449
Net defined benefit liability		2,439		2,449
Total net liability (asset) for retirement benefits at March 31, 2016 and 2015	¥	2,439	¥	2,449

(3) Retirement benefit costs

	Millions of yen			
	2016		2015	
Service cost	¥	146	¥	144
Interest cost		19		18
Net actuarial loss amortization		70		81
Net prior service cost amortization		14		14
Net transition obligation amortization		-		126
	¥	249	¥	383

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

(4) Remeasurements of defined benefit plans

	Millions of yen			
	2016		2015	
Prior service cost	¥	14	¥	14
Actuarial loss		70		51
Transition obligation		-		126
	¥	84	¥	191

(5) Accumulated remeasurements of defined benefit plans

	Millions of yen			
	2016		2015	
Unrecognized prior service cost	¥	(40)	¥	(54)
Unrecognized actuarial loss		(308)		(378)
	¥	(348)	¥	(432)

(6) Actuarial assumptions

The principal actuarial assumptions at March 31, 2016 and 2015 (expressed as weighted averages) were as follows:

	2016	2015
Discount rate	0.8%	0.8%
Expected salary increase rate	2.1%	2.3%

Defined contribution plans

Contributions for the defined contribution plans in 2016 and 2015 were ¥212 million and ¥193 million, respectively.

11. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016		2015	
Deferred income tax assets:				
Net operating loss carryforwards	¥	1,938	¥	2,216
Net defined benefit liability		746		788
Allowance for losses on contracts		407		353
Research and development expenses		280		153
Provision for product warranties		169		211
Excess depreciation		162		216
Accrued bonuses		103		105
Valuation loss on inventories		94		273
Other		647		700
		4,546		5,015
Valuation allowance		(4,098)		(4,561)
Total deferred income tax assets		448		454
Deferred income tax liabilities:				
Net unrealized holding gains on securities		(1,543)		(1,685)
Net unrealized holding gains on derivatives		-		(4)
Other		(169)		(185)
Total deferred income tax liabilities		(1,712)		(1,874)
Net deferred income tax liabilities	¥	(1,264)	¥	(1,420)

(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 %

For the year ended March 31, 2015, 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.

11. Income taxes (cont'd)

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.

13. Related party transactions

At March 31, 2016, Kintetsu Track Engineering ("KTE") was the subsidiary of other rerated company. The Company's purchases related to construction of the 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.

At March 31, 2015, Kintetsu Corporation ("KC") directly owned 14% of the Company's outstanding common stock and indirectly owned another 30% through The Master Trust Bank of Japan, Ltd. The Company's sales to KC for the year ended March 31, 2015 were ¥941 million. Receivables from KC at March 31, 2015 were ¥15 million.

14. Derivative transactions

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

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.

Information on derivatives for which hedge accounting had been applied at March 31, 2015 is as follows:

			Millions of yen		
			2015		
			Contract amount		Fair value
Hedge accounting method	Type	Main hedged item	Total	Due after one year	
Foreign currency forward exchange contracts that are subject to appropriated treatment	Foreign currency forward exchange contracts:				
	Selling				
	US dollar	Receivables	¥ 4,633	¥ -	¥ 13
	HK dollar	Receivables	274	-	(5)
Total			¥ 4,907	¥ -	¥ 8

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

14. Derivative transactions (cont'd)

Information on derivatives for which hedge accounting had not been applied at March 31, 2015 is as follows:

	Millions of yen							
	2015							
	Contract amount				Fair value		Realized gain (loss)	
	Total		Due after one year					
Foreign currency forward exchange contracts:								
Selling								
US dollar	¥	197	¥	-	¥	1	¥	1
Total	¥	197	¥	-	¥	1	¥	1

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 ￥692 million and ￥683 million for the years ended March 31, 2016 and 2015, 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	
	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

	Millions of yen	
	2015	
Balance at April 1, 2014	¥	1,768
Net changes during the year		(27)
Balance at March 31, 2015	¥	1,741
Fair value at March 31, 2015		8,614

16. Leases

Obligations under operating leases at March 31, 2016 and 2015 were as follows:

	Millions of yen	
	2016	2015
Payments due within one year	¥ 262	¥ 140
Payments due after one year	862	228
Total payments remaining	¥ 1,124	¥ 368

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, 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 segment 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 are 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, 2015:

	Millions of yen			
	Reportable segments			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 21,312	¥ 793	¥ (1)	¥ 22,104
Segment profit (loss)	(2,774)	683	(1,016)	(3,107)
Segment assets	49,358	1,758	3,035	54,151
Segment liabilities	16,094	1,296	6,043	23,433
Depreciation and amortization	590	27	40	657
Increase in tangible and intangible assets	933	-	8	941

1. Adjustments are as follows:
(a) Adjustment of segment profit (loss) of ¥(1,016) million is corporate expenses of ¥(1,016) million not attributable to reportable segment and represents administrative expenses of the Company.
(b) Adjustment of segment assets of ¥3,035 million is for surplus funds and assets that are not allocable to any reportable segments.
(c) Adjustment of segment liabilities of ¥6,043 million is for liabilities that are not allocable to any reportable segments.
(d) Depreciation and amortization of ¥40 million is depreciation and amortization that are not allocable to any reportable segments.
(e) Increase in tangible and intangible assets of ¥8 million is equipment investment that are 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, 2016 is as follows:

(1) Net sales

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

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

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

(2) Property, plant and equipment

Millions of yen		
Japan	North 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

17. Segment information (cont'd)

Information for each country and area for the year ended March 31, 2015 was as follows:

(1) Net sales

Millions of yen									
	Japan		North America		Africa		Asia		Consolidated
¥	12,382	¥	8,035	¥	1,214	¥	473	¥	22,104

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

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

(2) Property, plant and equipment

Millions of yen					
	Japan		North America		Consolidated
¥	7,363	¥	590	¥	7,953

Information for major customers for the year ended March 31, 2015 was as follows:

Customer	Net sales (millions of yen)	Segment
West Japan Railway Company	¥ 5,940	Rolling stock
Los Angeles County Metropolitan Transit Authority	5,530	Rolling stock
New Jersey Transit	2,281	Rolling stock

18. Per share information

Per share information at March 31, 2016 and 2015 was as follows:

	Yen	
	2016	2015
Net assets per share	¥ 462.35	¥ 446.21
Net income (loss) per share	12.58	(48.71)

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

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

	2016	2015
Net income (loss) (millions of yen)	866	(3,353)
Amounts not attributable to ordinary shares (millions of yen)	-	-
Net income (loss) attributable to ordinary shares (millions of yen)	866	(3,353)
Average number of shares outstanding during each year (shares)	68,839,459	68,843,932

19. Subsequent events

Consolidation of shares and change in the number of shares per share unit

The Company resolved at its board of directors meeting held on May 11, 2016 to submit a proposal for the consolidation of shares and a change in the number of shares per share unit to the 104th ordinary general meeting of shareholders. The proposal was approved at the said ordinary general meeting of shareholders held on June 29, 2016.

(a) Purpose of consolidation of shares and change in the number of shares per share unit

Japan’s stock exchanges have announced an “Action Plan for Consolidating Trading Units” with the aim of standardizing the trading units for common stock of all listed domestic corporations at 100 shares.

As a corporation listed on the Tokyo Stock Exchange, the Company respects the objectives of the plan and will change the trading unit (share unit) of stock of the Company from 1,000 shares to 100 shares. Along with the change in the share unit, the Company will also consolidate its shares (10 shares into one share) to maintain the level of investment unit considered desirable for its shares by the stock exchanges (50,000 yen or more and less than 500,000 yen).

(b) Details of consolidation of shares

(1) Class of shares to be consolidated

Common stock

(2) Consolidation method and ratio

The Company will consolidate 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.

(3) Decrease in number of shares due to consolidation

Number of outstanding shares before consolidation (as of March 31, 2016)	69,083,597 shares
Decrease in number of share due to consolidation	62,175,238 shares
Number of outstanding shares after consolidation	6,908,359 shares

Note: “Decrease in number of shares due to consolidation” and “Number of outstanding shares after consolidation” are theoretical values calculated by multiplying the number of outstanding shares before consolidation by the consolidation ratio.

19. Significant subsequent events (cont'd)

(c) Handling of fractional shares of less than one share

If any fractional shares of less than one share are created as a result of the consolidation of shares, such fractional shares will be disposed of together in accordance with the Companies Law and the proceeds will be distributed to shareholders who held the fractional shares in proportion to the number of their fractional shares.

(d) Number of authorized shares as of the effective date for the consolidation of shares

12,000,000 shares

Number of authorized shares will be decreased from 120 million shares to 12 million shares according to the ratio of the consolidated shares.

Pursuant to Article 182, paragraph 2 of the Companies Law, the total number of authorized shares as stipulated in Article 6 (Total number of shares that can be issued) of the Articles of incorporation shall be deemed to be changed from the current 120 million shares to 12 million shares on October 1, 2016, the effective date for the consolidation of shares.

(e) Details of changes in number of shares per share unit

Concurrently with the effectiveness of the consolidation of shares, the Company will change the number of shares per share unit for common stock from 1,000 to 100.

(f) Date for consolidation of shares and change in number of shares per share unit

Resolution at the board of directors meeting	May 11, 2016
Resolution at the ordinary general meeting of shareholders	June 29, 2016
Effective date for consolidation of shares and change in number of shares per share unit	October 1, 2016

(g)Effect on per share information

Per share information for the years ended March 31, 2016 and 2015 on the assumption that the consolidation of shares had been implemented as of April 1, 2014 is as follows;

	Yen	
	2016	2015
Net assets per share	¥ 4,623.49	¥ 4,462.14
Net income (loss) per share	125.75	(487.10)

Note: Diluted net income per share was not disclosed because there were no dilutive shares.