THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years Ended March 31, 2021 and 2020

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2021 and 2020

	Millions of yen	
	2021	2020
ASSETS		
Current Assets		
Cash and time deposits (Notes 7 and 8)	¥ 4,353	¥ 5,224
Receivables		
Notes and accounts - trade (Notes 8 and 16)	27,755	26,882
Other accounts	19	989
Allowance for doubtful receivables (Note 8)	(35)	(37)
	27,739	27,834
Inventories		
Work-in-process (Note 11)	15,623	20,638
Raw materials and supplies	523	586
	16,146	21,224
Other current assets	653	3,403
Total current assets	48,891	57,685
Property, Plant and Equipment		
Land (Notes 10 and 19)	2,582	2,582
Buildings and structures (Notes 10 and 19)	14,599	14,671
Machinery and equipment	12,676	12,377
Leased assets	908	912
Construction in progress	8	204
	30,773	30,746
Accumulated depreciation	(19,532)	(18,992)
	11,241	11,754
Investments and Other Assets		
Stocks of subsidiaries and affiliates (Note 8)	36	36
Investment securities (Notes 8 and 9)	5,411	5,797
Intangible assets	215	213
Other assets	239	438
Allowance for doubtful receivables	(10)	(10)
	5,889	6,474
Total assets	¥ 66,021	¥ 75,913

	Millions of yen	
	2021	2020
LIABILITIES AND NET ASSETS		
Current Liabilities		
Short-term loans payable (Notes 8, 10 and 12)	¥ 15,170	¥ 15,561
Current portion of long-term loans payable (Notes 8 and 12)	6,234	1,062
Lease obligations (Notes 8 and 12)	435	120
Payables		
Trade accounts (Note 8)	7,976	7,325
Construction	723	389
Advances received	938	11,577
Income and enterprise taxes payable	535	76
Accrued expenses	1,016	1,214
Provision for bonuses	368	328
Allowance for losses on contracts (Note 11)	4,087	3,464
Provision for product warranties	567	650
Other current liabilities	1,790	355
Total current liabilities	39,839	42,121
Noncurrent Liabilities		
Long-term loans payable (Notes 8 and 12)	578	6,244
Lease obligations (Notes 8 and 12)	16	453
Deferred income tax liabilities (Note 14)	730	1,042
Net defined benefit liability (Note 13)	2,879	2,845
Other noncurrent liabilities (Note 10)	660	757
	4,863	11,341
Total liabilities	44,702	53,462
Net Assets (Note 15)		
Shareholders' equity		
Common stock	5,253	5,253
Authorized - 12,000,000 shares		
Issued - 6,908,359 shares		
Capital surplus	3,125	3,125
Retained earnings	12,152	11,491
Treasury stock, at cost	(105)	(105)
26,761 shares in March 2021		
26,310 shares in March 2020		
Total shareholders' equity	20,425	19,764
Accumulated other comprehensive income		
Net unrealized holding gains on securities	1,396	2,136
Net unrealized holding gains on derivatives	4	(6)
Foreign currency translation adjustments	(419)	691
Remeasurements of defined benefit plans	(87)	(134)
Total accumulated other comprehensive income	894	2,687
Total net assets	21,319	22,451
Total liabilities and net assets	¥ 66,021	¥ 75,913

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended March 31, 2021 and 2020

	Millions of yen	
	2021	2020
Net sales (Note 16)	¥ 49,419	¥ 41,054
Cost of sales (Note 17)	46,015	38,342
Gross profit	3,404	2,712
Selling, general and administrative expenses	3,084	3,008
Operating profit (loss)	320	(296)
Other income (expenses)		
Interest and dividend income	113	168
Interest expense	(196)	(372)
Foreign exchange gain (loss)	86	(376)
Commission fees	-	(74)
Insurance Income (Note 23)	41	1,012
Gain on sale of investment securities (Note 9)	705	1,013
Other, net	(43)	(47)
	706	1,324
Income before income taxes	1,026	1,028
Income taxes (Note 14)		
Current	(475)	(33)
Refund	106	-
Deferred	4	(290)
Net income	661	705
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of the parent	¥ 661	¥ 705

	Yen	
Amounts per share (Note 22)		
Net income	¥ 96.22	¥ 102.41
Cash dividends applicable to the year	¥ 30.00	¥ —

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended March 31, 2021 and 2020

	Millions of yen	
	2021	2020
Net income	¥ 661	¥ 705
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(740)	(1,798)
Net unrealized holding gains (losses) on derivatives	10	(6)
Foreign currency translation adjustments	(1,110)	(91)
Remeasurements of defined benefit plans	47	(8)
Total other comprehensive income (Note 6)	(1,793)	(1,903)
Comprehensive income	¥ (1,132)	¥ (1,198)
Comprehensive income attributable to owners of the parent	(1,132)	(1,198)
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, 2021 and 2020

		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, 2020	6,908,359	¥ 5,253	¥ 3,125	¥ 11,491	¥ (105)	¥ 2,136	¥ (6)	¥ 691	¥ (134)	¥ 22,451
Net income	-	-	-	661	-	-	-	-	-	661
Purchase of treasury stock	-	-	-	-	(0)	-	-	-	-	(0)
Net changes during the year	-	-	-	-	-	(740)	10	(1,110)	47	(1,793)
Balance at March 31, 2021	6,908,359	¥ 5,253	¥ 3,125	¥ 12,152	¥ (105)	¥ 1,396	¥ 4	¥ (419)	¥ (87)	¥ 21,319

	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, 2019	6,908,359	¥ 5,253	¥ 3,125	¥ 10,786	¥ (104)	¥ 3,934	¥ -	¥ 782	¥ (126)	¥ 23,650
Net income	-	-	-	705	-	-	-	-	-	705
Purchase of treasury stock	-	-	-	-	(1)	-	-	-	-	(1)
Net changes during the year	-	-	-	-	-	(1,798)	(6)	(91)	(8)	(1,903)
Balance at March 31, 2020	6,908,359	¥ 5,253	¥ 3,125	¥ 11,491	¥ (105)	¥ 2,136	¥ (6)	¥ 691	¥ (134)	¥ 22,451

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2021 and 2020

	Millions of yen	
	2021	2020
Cash flows from operating activities		
Income before income taxes	¥ 1,026	¥ 1,028
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,182	1,349
Increase (decrease) in net defined benefit liability	81	158
Increase (decrease) in provision for product warranties	(83)	(44)
Increase (decrease) in allowance for losses on contracts	640	(1,727)
Interest and dividend income	(113)	(168)
Insurance income	(41)	(1,012)
Interest expense	197	372
Commission fees	-	74
Decrease (increase) in trade notes and accounts receivable	(12,574)	21,273
Decrease (increase) in inventories	5,045	(4,405)
Increase (decrease) in trade accounts payable	3,386	160
Increase (decrease) in accounts payable and accrued expenses	(51)	(459)
Other, net	1,472	(2,430)
Subtotal	167	14,169
Payments for loss on disaster	(31)	(680)
Interest and dividends received	113	168
Insurance income received	41	1,012
Interest paid	(254)	(406)
Income taxes paid	(12)	(47)
Income taxes refund	-	158
Net cash provided by (used in) operating activities	24	14,374
Cash flows from investing activities		
Payments into time deposits	(9)	(9)
Proceeds from withdrawal of time deposits	9	9
Acquisitions of property, plant and equipment and intangible assets	(433)	(557)
Proceeds from sales of property, plant and equipment and intangible assets	1	4
Purchases of investment securities	(631)	-
Proceeds from sales of investment securities	935	1,327
Net cash provided by (used in) investing activities	(128)	774
Cash flows from financing activities		
Net increase in short-term loans payable	(128)	(9,587)
Proceeds from long-term loans payable	575	4,926
Repayments of long-term loans payable	(1,023)	(7,057)
Repayments of lease obligations	(120)	(111)
Cash dividends paid	-	(1)
Purchases of treasury stock	(0)	(0)
Net cash provided by (used in) financing activities	(696)	(11,830)
Effect of exchange rate changes on cash and cash equivalents	(70)	(17)
Net increase (decrease) in cash and cash equivalents	(870)	3,301
Cash and cash equivalents at beginning of year	5,215	1,914
Cash and cash equivalents at end of year (Note 7)	¥ 4,345	¥ 5,215

See accompanying Notes.

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

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

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

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

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

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

2. Significant accounting policies (cont'd.)

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

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

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

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

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

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

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

2. Significant accounting policies (cont'd.)

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

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

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

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

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

(l) Research and development expenses - The Companies charge research and development expenses to selling, general and administrative expenses as incurred. Research and development expenses amounted to ¥205 million and ¥179 million for the years ended March 31, 2021 and 2020, 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. Actuarial gains and losses are recognized in expenses using the straight-line method over 10 years, which is within the average of the estimated remaining service years of employees, commencing from the following period.

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

2. Significant accounting policies (cont'd.)

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

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

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

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

(s) Net income and cash dividends per share - Basic net income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share for the years ended March 31, 2021 and 2020 is not applicable because the Company has no dilutive common shares. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

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

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

(u) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2021 presentation.

3. Significant accounting estimates
1. Allowance for losses on contracts

(a) Carrying amounts in the current year's financial statements
In the consolidated balance sheet of the company and its consolidated subsidiaries as of March 31, 2021, an allowance for losses on contracts of ¥4,087 million was recognized. Included therein was ¥3,909 million of an allowance for losses on contracts recognized by the Company.

(b) Information on the nature of significant accounting estimates for identified items
As described in Note2, "Significant accounting policies, (p) Allowance for losses on contracts", an allowance for losses on contracts was provided for estimated future losses on particular contracts. In recognizing the allowance, total costs including direct selling expenses corresponding to total revenue need to be reasonably estimated. The total costs were estimated for each contract. Raw material prices might change and work hours for a contract could increase due to unexpected design or process amendments. Accordingly, estimating the total costs involved a high degree of uncertainty, and management's judgment on raw material prices and work hours for a contract had a significant effect on the estimate of total costs.

2. Impairment loss of long-lived assets in the factory of the Company's overseas subsidiary

(a) Carrying amounts in the current year's financial statements
The Palmdale factory of the Company's overseas subsidiary manufactures trains for the Los Angeles County Metropolitan Transportation Authority (LACMTA). The timing of construction completion was extended, which caused a decline in profitability, indicating impairment. Accordingly, the Company performed a recoverability test for the asset group during the current fiscal year; however, it determined that the recognition of an impairment loss was not necessary as the estimated undiscounted cash flows exceeded the carrying amount of the asset group amounted to ¥700 million.

(b) Information on the nature of significant accounting estimates for identified items
The Company's overseas subsidiary prepares its financial statements in accordance with generally accepted accounting principles in the United States of America (US GAAP). When the carrying amount of an asset group is deemed not recoverable and less than its fair value, the difference between them is recognized as an impairment loss. A recoverability test is required whenever there is an impairment indicator for an asset group. When the carrying amount of the asset group exceeds the total amount of the undiscounted cash flows expected from the use or final disposal of the asset group, the carrying amount is deemed not recoverable. In the recoverability test, future cash flows were estimated based on the three-year business plan of the Palmdale factory of the Company's overseas subsidiary prepared by management, which reflected orders expected to be received for new projects and a certain level of profits to be recognized attributable to LACMTA. Accordingly, estimating the potential effects of such orders and acquired profits involved a high degree of uncertainty, and management's judgment thereon had a significant effect on the estimated future cash flows.

4. Accounting standards issued but not yet adopted

The Company and its consolidated domestic subsidiary

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

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued on March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on March 26, 2021)

(a) Overview

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

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

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

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

(b) Effective date

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

(c) Effects of application

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

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

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

(a) Overview

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

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

(b) Effective date

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

(c) Effects of application

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

5. Changes in presentation method

(Adoption of Accounting Standard for Disclosure of Accounting Estimates)

The Company and its subsidiaries adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" (March 31, 2020) to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the Notes to Consolidated Financial Statements.

The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

6. Comprehensive income information

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

	Millions of yen	
	2021	2020
Net unrealized holding gains (losses) on securities		
Increase (decrease) during the year	¥ (362)	¥ (1,578)
Reclassification adjustments	(705)	(1,013)
Subtotal, before tax	(1,067)	(2,591)
Tax (expense) or benefit	327	793
Subtotal, net of tax	(740)	(1,798)
Net unrealized holding gains on derivatives		
Increase (decrease) during the year	20	(6)
Reclassification adjustments	-	-
Subtotal, before tax	20	(6)
Tax (expense) or benefit	(11)	-
Subtotal, net of tax	9	(6)
Foreign currency translation adjustments		
Increase (decrease) during the year	(1,109)	(91)
Reclassification adjustments	-	-
Subtotal, before tax	(1,109)	(91)
Tax (expense) or benefit	-	-
Subtotal, net of tax	(1,109)	(91)
Remeasurements of defined benefit plans		
Increase (decrease) during the year	10	(39)
Reclassification adjustments	37	31
Subtotal, before tax	47	(8)
Tax (expense) or benefit	-	-
Subtotal, net of tax	47	(8)
Total other comprehensive income	¥ (1,793)	¥ (1,903)

7. Cash flow information

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Cash and time deposits (in balance sheets)	¥ 4,353	¥ 5,224
Time deposits maturing after three months	(8)	(9)
Cash and cash equivalents (in statements of cash flows)	¥ 4,345	¥ 5,215

8. Financial instruments: disclosure

(a) Qualitative information on financial instruments

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

Trade notes and accounts receivable - Because of the nature of the business, the credit risk associated with trade notes and accounts receivable is concentrated with a limited number of major customers with high creditworthiness. At March 31, 2021, 99.4% of the operating receivables are due from specific major customers. The Companies decrease the risk by managing the notes and receivables according to internal credit control rules.

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

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

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

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

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

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

(b) Fair values of financial instruments

The book values of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2021 and 2020 are as follows:

	Millions of yen		
	2021		
	Book value	Fair value	Difference
Cash and time deposits	¥ 4,353	¥ 4,353	¥ -
Notes and accounts receivable - trade ＊1	27,720	27,720	-
Investment securities	5,371	5,371	-
Trade accounts payable	(7,976)	(7,976)	-
Short-term loans payable	(15,170)	(15,170)	-
Long-term loans payable	(6,812)	(6,815)	3
Lease obligations	(451)	(451)	(0)
Derivatives			
Not applying hedge accounting	(55)	(55)	-
Applying hedge accounting	15	15	-

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

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

＊2 The figures in parentheses indicate liabilities.

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

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

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

	Millions of yen	
	2021	2020
Unlisted stocks	¥ 40	¥ 40
Stocks of subsidiaries and affiliates (unlisted stocks)	36	36

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

Maturity value after closing date

	Millions of yen	
	2021	
	Within one year	Over one year
Cash and time deposits	¥ 4,353	¥ -
Trade notes and trade accounts	27,755	-

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

9. Securities

At March 31, 2021 and 2020, information on securities is as follows:

(a) Trading securities: None

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

(c) Available-for-sale securities with readily determinable fair value as of March 31, 2021 and 2020 are as follows:

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

	Millions of yen		
	2021		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,261	¥ 5,302	¥ 2,041
Total	¥ 3,261	¥ 5,302	¥ 2,041

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

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

	Millions of yen		
	2021		
	Acquisition cost	Book value	Difference
Equity securities	¥ 98	¥ 69	¥ (29)
Total	¥ 98	¥ 69	¥ (29)

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

9. Securities (cont'd.)

(d) For the years ended March 31, 2021 and 2020, total sales of available-for-sale securities (equity securities) are ¥935 million and ¥1,327 million respectively, and the gain on the sales are ¥705 million and ¥1,013 million respectively.

10. Pledged assets

At March 31, 2021 and 2020, the following assets are pledged as collateral for short-term loans payable of ¥2,000 million:

	Millions of yen	
	2021	2020
Land	¥ 179	¥ 179

At March 31, 2021 and 2020, the following assets are pledged as collateral for deposits on contracts of ¥87 million and ¥167 million, respectively, and deposits from tenants of ¥70 million (included in other noncurrent liabilities):

	Millions of yen	
	2021	2020
Buildings, net book value	¥ 351	¥ 371

11. Allowance for losses on contracts

Inventories for contracts with anticipated losses and allowance for losses on contracts are not offset. For the years ended March 31, 2021 and 2020, the inventories associated with the allowance for losses on contracts are ¥3,452 million and ¥1,078 million, respectively.
These amounts are included in "Work-in-process."

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

Short-term loans payable substantially represent short-term loans from banks at a weighted average annual rate of 0.8% and 1.3% at March 31, 2021 and 2020, respectively.

Long-term loans payable as of March 31, 2021 are as follows:

		Millions of yen
		2021
Loans from banks, due through 2023 at an weighted average rate of 0.6% in 2021	¥	6,812
Less current portion		6,234
	¥	578

The aggregate annual maturities of long-term loans payable outstanding at March 31, 2021 are as follows:

		Millions of yen
Years ending March 31,		2021
2023	¥	578
2024 and after		-
	¥	578

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2021 are as follows:

		Millions of yen
Years ending March 31,		2021
2022	¥	435
2023		10
2024		5
2025		1
2026 and after		-
	¥	451

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

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

12. 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, 2020 are as follows:

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

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

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

13. Retirement and severance benefits

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

Defined benefit plans

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

	Millions of yen	
	2021	2020
Balance at April 1, 2020 and 2019	¥ 2,845	¥ 2,678
Service cost	280	229
Interest cost	22	21
Actuarial loss (gain)	(10)	40
Benefits paid	(258)	(123)
Balance at March 31, 2021 and 2020	¥ 2,879	¥ 2,845

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

	Millions of yen	
	2021	2020
Unfunded retirement benefit obligations	¥ 2,879	¥ 2,845
Total net liability for retirement benefits at March 31, 2021 and 2020	¥ 2,879	¥ 2,845
Net defined benefit liability	2,879	2,845
Total net liability for retirement benefits at March 31, 2021 and 2020	¥ 2,879	¥ 2,845

(c) Retirement benefit costs

	Millions of yen	
	2021	2020
Service cost	¥ 280	¥ 229
Interest cost	22	21
Net actuarial loss amortization	37	31
	¥ 339	¥ 281

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

(d) Remeasurements of defined benefit plans

	Millions of yen			
	2021		2020	
Actuarial gain(loss)	¥	47	¥	(9)
	¥	47	¥	(9)

(e) Accumulated remeasurements of defined benefit plans

	Millions of yen			
	2021		2020	
Unrecognized actuarial loss	¥	(87)	¥	(134)
	¥	(87)	¥	(134)

(f) Actuarial assumptions

The principal actuarial assumptions at March 31, 2021 and 2020 (expressed as weighted averages) are as follows:

	2021	2020
Discount rate	0.8%	0.8%
Expected salary increase rate	1.7%	1.8%

Defined contribution plans

Contributions to the defined contribution plans in 2021 and 2020 are ¥280 million and ¥335 million, respectively.

14. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2021 and 2020 are as follows:

	Millions of yen			
		2021		2020
Deferred income tax assets:				
Net operating loss carryforwards ＊2	¥	2,748	¥	3,368
Allowance for losses on contracts		1,246		1,050
Net defined benefit liability		882		870
Valuation loss on inventories		588		199
Research and development expenses		263		117
Provision for product warranties		174		199
Provision for bonuses		112		101
Excess depreciation		68		116
Loss on disaster		-		49
Other		500		464
		6,581		6,533
Valuation reserve for net operating loss carryforwards ＊2		(2,748)		(3,368)
Valuation reserve for deductible temporary differences		(3,833)		(3,165)
Valuation reserve - total ＊1		(6,581)		(6,533)
Total deferred income tax assets		-		-
Deferred income tax liabilities:				
Net unrealized holding gains on securities		(616)		(943)
Net unrealized holding gains on derivatives		(18)		-
Other		(96)		(99)
Total deferred income tax liabilities		(730)		(1,042)
Net deferred income tax liabilities	¥	(730)	¥	(1,042)

Notes ＊1 The valuation reserve increased by ¥48 million. The main reason for this increase is a ¥389 million increase in the valuation reserve for valuation loss on inventories.

14. Income taxes (cont'd.)

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

Current Fiscal year ended March 31, 2021

	Millions of yen						
Year ending March 31,	2022	2023	2024	2025	2026	2027 and after	Total
Net operating loss carryforwards ＊3	¥ 9	¥ 437	¥ 949	―	¥ 233	¥ 1,120	¥ 2,748
Valuation reserve	(9)	(437)	(949)	―	(233)	(1,120)	(2,748)
Net deferred income tax assets	―	―	―	―	―	―	―

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

Previous Fiscal year ended March 31, 2020

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

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

(b) The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2021 and 2020 after tax effect accounting is applied.

	2021	2020
Statutory tax rate	30.6 %	- %
Permanently nondeductible expenses	0.8	-
Permanently nontaxable expenses	(0.4)	-
Taxation on per capita basis	0.8	-
Change in valuation reserve	4.4	-
Other	(0.7)	-
Effective tax rate	35.5 %	- %

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

15. Net assets

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

Under the Japanese Corporate Law (the "Law"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

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

	2021			
	Number of shares			
	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	6,908,359	-	-	6,908,359
Treasury stock	26,310	451	-	26,761

The increase in treasury stock of 451 shares is due to the acquisition of fractional shares.

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

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

15. Net assets (cont'd)

(b) Dividends

For the year ended March 31, 2021 and 2020, there are no dividends paid.

Dividends whose recorded date is during the year ended March 31, 2021, but whose effective date is the following fiscal year are as follows.

Resolution adopted	Type of shares	Millions of yen Aggregate amount	Appropriation from	Yen Amount per share	Record date	Effective date
Board of Directors' Meeting on May 13, 2021	Common stock	¥ 206	Retained earnings	¥ 30.00	March 31, 2021	June 11, 2021

16. Related party transactions

At March 31, 2021 and 2020, Kintetsu Railway Co., Ltd. ("Kintetsu") directly own 30.4% of the Company's outstanding common stock. The Company's sales to Kintetsu for the year ended March 31, 2021 and 2020, amounted to ¥6,998 million and ¥2,790 million, respectively. Receivables from Kintetsu at March 31, 2021 and 2020 were ¥20 million and ¥16 million, respectively.

17. Cost of Sales

For the year ended March 31, 2021, provisions for the allowance for losses on contracts added to the cost of sales is ¥623 million.

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

18. Derivative transactions

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

Information on derivatives for which hedge accounting had not been applied at March 31, 2021 is as follows:

	Millions of yen			
	2021			
	Contract amount		Fair value	Realized gain (loss)
	Total	Due after one year		
Foreign currency forward exchange contracts:				
Selling				
US dollar	¥ 4,905	¥ -	¥ (55)	¥ (55)
Total	¥ 4,905	¥ -	¥ (55)	¥ (55)

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

Information on derivatives for which hedge accounting is applied at March 31, 2021 is as follows:

	Millions of yen		
	2021		
	Contract amount		Fair value
	Total	Due after one year	
Foreign currency forward exchange contracts:			
Selling			
US dollar（forecasted transactions）	¥ 1,635	¥ -	¥ (20)
US dollar（receivables - trade）＊1	3,650	-	-
Total	¥ 5,285	¥ -	¥ (20)
Buying			
US dollar（forecasted transactions）	¥ 961	-	¥ 35
Total	¥ 961	¥ -	¥ 35

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

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

18. Derivative transactions (cont'd)

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

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

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

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

19. Fair value of investment and rental property

The Company owns real estate for lease in Osaka and other prefectures. The income from the real estate for lease is ¥622 million and ¥692 million for the years ended March 31, 2021 and 2020, respectively. The book value (balance), net changes during the year and fair value of the real estate for lease are as follows:

	Millions of yen	
	2021	
Balance at April 1, 2020	¥	1,568
Net changes during the year		7
Balance at March 31, 2021	¥	1,575
Fair value at March 31, 2021		10,080

	Millions of yen	
	2020	
Balance at April 1, 2019	¥	1,591
Net changes during the year		(23)
Balance at March 31, 2020	¥	1,568
Fair value at March 31, 2020		10,012

20. Leases

(a) Finance leases

(As lessee)

Non-ownership-transfer Finance lease transactions

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

(b) Operating leases

(As lessee)

Obligations under non-cancellable operating leases at March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
Payments due within one year	¥	113	¥	118
Payments due after one year		361		502
Total payments remaining	¥	474	¥	620

21. Segment information

(a) General information about reportable segments

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

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

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

21. Segment information (cont'd)

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

Current Fiscal year ended March 31, 2021 :

	Millions of yen			
	Reportable segments			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 48,618	¥ 801	¥ (0)	¥ 49,419
Segment Profit	760	622	(1,062)	320
Segment assets	59,861	1,592	4,568	66,021
Segment liabilities	16,920	714	27,068	44,702
Depreciation and amortization	1,097	25	60	1,182
Increase in tangible and intangible assets	688	32	47	767

1. Adjustments are as follows:

(a) Adjustment of segment profit of ¥(1,062) million is corporate expenses of ¥(1,062) million that are not attributable to reportable segments and represents administrative expenses of the Company.

(b) Adjustment of segment assets of ¥4,568 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) Adjustment of segment liabilities of ¥27,068 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥60 million is depreciation and amortization that are not allocable to any reportable segments.

(e) Increase in tangible and intangible assets of ¥47 million is equipment investment that is not allocable to any reportable segments.

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

21. Segment information (cont'd)
Previous Fiscal year ended March 31, 2020 :

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

1. Adjustments are as follows:
(a) Adjustment of segment loss of ¥(943) million is corporate expenses of ¥(943) million that are not attributable to reportable segments and represents administrative expenses of the Company.
(b) Adjustment of segment assets of ¥4,788 million is for surplus funds and assets that are not allocable to any reportable segments.
(c) Adjustment of segment liabilities of ¥22,663 million is for liabilities that are not allocable to any reportable segments.
(d) Depreciation and amortization of ¥52 million is depreciation and amortization that are not allocable to any reportable segments.
(e) Increase in tangible and intangible assets of ¥92 million is equipment investment that is not allocable to any reportable segments.
2. Segment profit (loss) is adjusted to operating loss in the consolidated statements of income.

21. Segment information (cont'd)

Related information

Information for each country and area for the year ended March 31, 2021 is as follows:

(a) Net sales

Millions of yen				
Japan	United States of America	State of Qatar	Other	Consolidated
¥ 20,040	¥ 10,724	¥ 16,934	¥ 1,721	¥ 49,419

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

Other	China (Hong Kong), United Arab Emirates, Arab Republic of Egypt

(b) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 9,995	¥ 1,246	¥ 11,241

Information for major customers for the year ended March 31, 2021 is as follows:

Customer	Net sales (millions of yen)	Segment
Mitsubishi Corporation	¥ 18,231	Rolling stock
Kintetsu Railway Co., Ltd.	6,998	Rolling stock
West Japan Railway Company	6,819	Rolling stock

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

(a) Net sales

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

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

Other	China (Hong Kong), United Arab Emirates, Arab Republic of Egypt

21. Segment information (cont'd)

(b) Property, plant and equipment

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

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

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

22. Per share information

Per share information for the years ended March 31, 2021 and 2020 is as follows:

	Yen	
	2021	2020
Net assets per share	¥ 3,097.96	¥ 3,262.20
Net income per share	96.22	102.41

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

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

	2021	2020
Net income (millions of yen)	661	705
Amounts not attributable to ordinary shares (millions of yen)	-	-
Net income attributable to ordinary shares (millions of yen)	661	705
Average number of shares outstanding during each year (shares)	6,882,851	6,882,190

23. Insurance income

For the fiscal year ended March 31, 2020, Insurance income is the insurance claim of ¥1,012 million received for damage caused by Typhoon No. 21 on September 4, 2018 and damage caused by heavy snowfall at the consolidated US subsidiary on March 9, 2018.

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of THE KINKI SHARYO Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the Company’s estimate of total costs related to the recognition of an allowance for losses on contracts	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated balance sheet of THE KINKI SHARYO CO., LTD. (the “Company”) and its consolidated subsidiaries as of March 31, 2021, as described in Note3, “Significant accounting estimates”, an allowance for losses on contracts of ¥4,087 million was recognized. Included therein was ¥3,909 million of an allowance for losses on contracts recognized by the Company. As described in Note2, “Significant accounting policies, (p) Allowance for losses on contracts”, an allowance for losses on contracts was provided for estimated future losses on particular contracts. In recognizing the allowance, total costs including direct selling expenses corresponding to total revenue need to be reasonably estimated. The total costs were estimated for each contract. Raw material prices might change and work hours for a contract could increase due to unexpected design or process amendments. Accordingly, estimating the total costs involved a high degree of uncertainty, and management’s judgment on raw material prices and work hours for a contract had a significant effect on the estimate of total costs. We, therefore, determined that the reasonableness of the estimate of total costs related to the recognition of an allowance for losses on contracts of the Company was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess whether the estimate of the total costs related to the recognition of an allowance for losses on contracts of the Company was reasonable, included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the recognition process for an allowance for losses on contracts, with a particular focus on the approval process of the results of the calculation of the allowance. **(2) Assessment of the reasonableness of the estimate of the total costs** In order to assess the reasonableness of the estimate of the total costs for each contract, we performed the following procedures among others: ● agreed the estimated costs for each contract with the supporting worksheet that calculated the accumulated costs and compared them with actual costs of similar contracts in the past; ● evaluated the accuracy of the estimated costs by comparing the actual costs with their estimated costs and examining variances between the two, and assessed whether those variances were reflected in the updated estimated costs at the end of the current fiscal year, as necessary; and ● inquired of management and the head of Business Planning Center regarding their judgments on any changes in circumstances that occurred after the start of a project and updates of the estimated costs, as well as assessed the consistency of their responses with the estimated costs at the end of the current fiscal year.

Appropriateness of the Company's judgment as to whether an impairment loss should be recognized on long-lived assets held by the Palmdale factory of KILLC	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated balance sheet of THE KINKI SHARYO CO., LTD. (the "Company") and its consolidated subsidiaries as of March 31, 2021, as described in Note3, "Significant accounting estimates", property, plant and equipment of ¥700 million related to the Palmdale factory of KINKISHARYO International, LLC. (KILLC) were recognized. KILLC prepares its financial statements in accordance with generally accepted accounting principles in the United States of America (US GAAP). When the carrying amount of an asset group is deemed not recoverable and less than its fair value, the difference between them is recognized as an impairment loss. A recoverability test is required whenever there is an impairment indicator for an asset group. When the carrying amount of the asset group exceeds the total amount of the undiscounted cash flows expected from the use or final disposal of the asset group, the carrying amount is deemed not recoverable. The Palmdale factory of KILLC manufactures trains for the Los Angeles County Metropolitan Transportation Authority (LACMTA). The timing of construction completion was extended, which caused a decline in profitability, indicating impairment. Accordingly, the Company performed a recoverability test for the asset group during the current fiscal year; however, it determined that the recognition of an impairment loss was not necessary as the estimated undiscounted cash flows exceeded the carrying amount of the asset group. In the recoverability test, future cash flows were estimated based on the three-year business plan of the Palmdale factory of KILLC prepared by management, which reflected orders expected to be received for new projects and a certain level of profits to be recognized attributable to LACMTA. Accordingly, estimating the potential effects of such orders and acquired profits involved a high degree of uncertainty, and management's judgment thereon had a significant effect on the estimated future cash	In order to assess the appropriateness of the judgment as to whether an impairment loss should be recognized on the long-lived assets held by the Palmdale factory of KILLC, we requested the component auditors of KILLC to perform an audit. Then we evaluated the results of the following audit procedures reported from the component auditors to assess and conclude whether sufficient and appropriate audit evidence was obtained. **(1) Internal control testing** Test of the design and operating effectiveness of certain of the KILLC's internal controls relevant to determining whether impairment losses to be recognized on the long-lived assets, with a particular focus on the approval process for future cash flows. **(2) Assessment of the reasonableness of the estimate of future cash flows** Assessment of the reasonableness of key assumptions used to estimate future cash flows mainly by performing the following procedures: ● assessment of the probability of obtaining orders and the amount of the orders for each new project from LACMTA which were included in future cash flows on the basis of the bidding status and the actual orders received for the past projects; and ● comparison of an expected profit margin for each new project from LACMTA included in the future cash flows with the actual profit margin of the similar contracts in the past.

flows. We, therefore, determined that the appropriateness of the judgment as to whether an impairment loss should be recognized on the long-lived assets held by the Palmdale factory of KILLC was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting

and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Yasuhiro Wada

Designated Engagement Partner

Certified Public Accountant

Seiko Ohashi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

September 3, 2021

Notes to the Reader of Independent Auditor's Report:

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