THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years Ended March 31, 2022 and 2021

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2022 and 2021

	Millions of yen	
	2022	2021
ASSETS		
Current Assets		
Cash and time deposits (Notes 6 and 7)	¥ 9,941	¥ 4,353
Receivables		
Notes and accounts - trade (Notes 7, 15 and 20)	-	27,755
Notes and accounts - trade, and contract assets (Notes 7, 15 and 20)	18,330	-
Other accounts	479	19
Allowance for doubtful receivables (Note 7)	(22)	(35)
	18,787	27,739
Inventories		
Work-in-process (Note 10)	14,934	15,623
Raw materials and supplies	525	523
	15,459	16,146
Other current assets	800	653
Total current assets	44,987	48,891
Property, Plant and Equipment		
Land (Notes 9 and 18)	2,582	2,582
Buildings and structures (Notes 9 and 18)	14,898	14,599
Machinery and equipment	13,499	12,676
Leased assets	85	908
Construction in progress	19	8
	31,083	30,773
Accumulated depreciation	(20,191)	(19,532)
	10,892	11,241
Investments and Other Assets		
Stocks of subsidiaries and affiliates (Note 7)	36	36
Investment securities (Notes 7 and 8)	5,130	5,411
Intangible assets	158	215
Other assets	303	239
Allowance for doubtful receivables	(9)	(10)
	5,618	5,889
Total assets	¥ 61,497	¥ 66,021

	Millions of yen	
	2022	2021
LIABILITIES AND NET ASSETS		
Current Liabilities		
Short-term loans payable (Notes 7, 9 and 11)	¥ 15,700	¥ 15,170
Current portion of long-term loans payable (Notes 7 and 11)	3	6,234
Lease obligations (Notes 7 and 11)	12	435
Payables		
Trade accounts (Note 7)	9,326	7,976
Construction	573	723
Advances received	-	938
Contract liabilities (Note 20)	1,610	-
Income and enterprise taxes payable	32	535
Accrued expenses	993	1,016
Provision for bonuses	378	368
Allowance for losses on contracts (Note 10)	2,595	4,087
Provision for product warranties	578	567
Other current liabilities	954	1,790
Total current liabilities	32,754	39,839
Noncurrent Liabilities		
Long-term loans payable (Notes 7 and 11)	-	578
Lease obligations (Notes 7 and 11)	6	16
Deferred income tax liabilities (Note 13)	675	730
Net defined benefit liability (Note 12)	2,881	2,879
Other noncurrent liabilities (Note 9)	706	660
	4,268	4,863
Total liabilities	37,022	44,702
Net Assets (Note 14)		
Shareholders' equity		
Common stock	5,253	5,253
Authorized - 12,000,000 shares		
Issued - 6,908,359 shares		
Capital surplus	3,125	3,125
Retained earnings	14,653	12,152
Treasury stock, at cost	(105)	(105)
27,008 shares in March 2022		
26,761 shares in March 2021		
Total shareholders' equity	22,926	20,425
Accumulated other comprehensive income		
Net unrealized holding gains on securities	1,202	1,396
Net unrealized holding gains on derivatives	-	4
Foreign currency translation adjustments	429	(419)
Remeasurements of defined benefit plans	(82)	(87)
Total accumulated other comprehensive income	1,549	894
Total net assets	24,475	21,319
Total liabilities and net assets	¥ 61,497	¥ 66,021

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended March 31, 2022 and 2021

	Millions of yen	
	2022	2021
Net sales (Notes 15,20 and 21)	¥ 39,334	¥ 49,419
Cost of sales (Note 16)	34,130	46,015
Gross profit	5,204	3,404
Selling, general and administrative expenses	3,409	3,084
Operating profit	1,795	320
Other income (expenses)		
Interest and dividend income	96	113
Interest expense	(104)	(196)
Foreign exchange gain	459	86
Gain on sale of investment securities (Note 8)	-	705
Gain on forgiveness of debt (Note 23)	611	-
Other, net	(67)	(2)
	995	706
Income before income taxes	2,790	1,026
Income taxes (Note 13)		
Current	(15)	(475)
Refund	-	106
Deferred	(9)	4
Net income	2,766	661
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of the parent	¥ 2,766	¥ 661

	Yen	
Amounts per share (Note 22)		
Net income	¥ 401.92	¥ 96.22
Cash dividends applicable to the year	¥ 30.00	¥ 30.00

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended March 31, 2022 and 2021

	Millions of yen	
	2022	2021
Net income	¥ 2,766	¥ 661
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(194)	(740)
Net unrealized holding gains (losses) on derivatives	(4)	10
Foreign currency translation adjustments	848	(1,110)
Remeasurements of defined benefit plans	5	47
Total other comprehensive income (Note 5)	655	(1,793)
Comprehensive income	¥ 3,421	¥ (1,132)
Comprehensive income attributable to owners of the parent	3,421	(1,132)
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, 2022 and 2021

Millions of yen

	Number of shares of common stock	Shareholders' equity: Common stock	Shareholders' equity: Capital surplus	Shareholders' equity: Retained earnings	Shareholders' equity: Treasury stock	Accumulated other comprehensive income: Net unrealized holding gains on securities	Accumulated other comprehensive income: Net unrealized holding gains on derivatives	Accumulated other comprehensive income: Foreign currency translation adjustments	Accumulated other comprehensive income: Remeasure-ments of defined benefit plans	Total
Balance at April 1, 2021	6,908,359	¥ 5,253	¥ 3,125	¥ 12,152	¥ (105)	¥ 1,396	¥ 4	¥ (419)	¥ (87)	¥ 21,319
Cash dividends paid at ￥30.00 per share（Note 14）	-	-	-	(206)	-	-	-	-	-	(206)
Net income	-	-	-	2,766	-	-	-	-	-	2,766
Purchase of treasury stock	-	-	-	-	(0)	-	-	-	-	(0)
Change in scope of consolidation	-	-	-	(59)	-	-	-	-	-	(59)
Net changes during the year	-	-	-	-	-	(194)	(4)	848	5	655
Balance at March 31, 2022	6,908,359	¥ 5,253	¥ 3,125	¥ 14,653	¥ (105)	¥ 1,202	¥ -	¥ 429	¥ (82)	¥ 24,475

	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

See accompanying Notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2022 and 2021

	Millions of yen	
	2022	2021
Cash flows from operating activities		
Income before income taxes	¥ 2,790	¥ 1,026
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,193	1,182
Increase (decrease) in net defined benefit liability	30	81
Increase (decrease) in provision for product warranties	11	(83)
Increase (decrease) in allowance for losses on contracts	(1,508)	640
Interest and dividend income	(96)	(113)
Interest expense	104	197
Gain on forgiveness of debts	(611)	-
Decrease (increase) in trade notes and accounts receivable	11,721	(12,574)
Decrease (increase) in inventories	757	5,045
Increase (decrease) in trade accounts payable	257	3,386
Increase (decrease) in accounts payable and accrued expenses	(27)	(51)
Other, net	(951)	1,472
Subtotal	13,670	208
Payments for loss on disaster	-	(31)
Interest and dividends received	96	113
Interest paid	(156)	(254)
Income taxes paid	(662)	(12)
Net cash provided by (used in) operating activities	12,948	24
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	(852)	(433)
Proceeds from sales of property, plant and equipment and intangible assets	16	1
Purchases of investment securities	(280)	(631)
Decrease (increase) in deposits pledged as collateral	(2,917)	-
Proceeds from sales of investment securities	-	935
Net cash provided by (used in) investing activities	(4,033)	(128)
Cash flows from financing activities		
Net increase in short-term loans payable	402	(128)
Proceeds from long-term loans payable	-	575
Repayments of long-term loans payable	(6,242)	(1,023)
Repayments of lease obligations	(436)	(120)
Cash dividends paid	(206)	-
Purchases of treasury stock	(0)	(0)
Net cash provided by (used in) financing activities	(6,482)	(696)
Effect of exchange rate changes on cash and cash equivalents	134	(70)
Net increase (decrease) in cash and cash equivalents	2,567	(870)
Cash and cash equivalents at beginning of year	4,345	5,215
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(64)	-
Cash and cash equivalents at end of year (Note 6)	¥ 6,848	¥ 4,345

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 one significant company 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. From the fiscal year ended March 31, 2022, KS TECHNOS CO., LTD. has been excluded from the scope of consolidation because of its lack of materiality.

(b) Consolidated subsidiary's fiscal year-end- The consolidated overseas subsidiary has a fiscal year 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.

(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.

2. Significant accounting policies (cont'd.)

(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 ¥244 million and ¥205 million for the years ended March 31, 2022 and 2021, respectively.

(m) Retirement and severance benefits for employees - Under the terms of the Company'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 accrues 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.

(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.

2. Significant accounting policies (cont'd.)

(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, 2022 and 2021 is 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.

(t) Revenue and related cost recognition – The revenue attributed to the Rolling Stock segment is mainly from the sale of trains manufactured by the Company and the Company has the performance obligations to transfer the products based on the contract with customers.

The Company's performance obligations in its contracts with customers are satisfied over time. The Company estimates the completion status of the performance obligations and recognizes revenue based on the status. In determining the status, the Company estimates the satisfaction of the performance obligations reasonably based on the number of trains transferred since the Company can directly identify the goods or services transferred to the customers by the delivery of the trains.

The Company's overseas subsidiary also considers its performance obligations satisfied over time. The subsidiary estimates the completion status of the performance obligation reasonably and recognizes revenue based on the cost incurred, since the cost incurred reflects the progress of manufacturing the trains and the transfer of control of goods or service to customers with that progress appropriately.

(u) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2022 presentation.

3. Significant accounting estimates

(a) Allowance for losses on contracts

① Carrying amounts in the current year's financial statements

In the consolidated balance sheets of the Company and its consolidated subsidiaries as of March 31, 2022 and 2021, allowances for losses on contracts of ¥2,594 million and ¥4,087 million, respectively, were recognized. Included in the amounts were ¥2,508 million and ¥3,909 million of allowance for losses on contracts recognized by the Company as of March 31, 2022 and 2021, respectively.

② 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.

4. Change in accounting policies

(a) Application of the Accounting Standard for Revenue Recognition

The Company applies "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020, hereinafter referred to as "the Accounting Standard for Revenue Recognition") from the beginning of the current consolidated fiscal year and recognizes revenue at amounts expected to be received in exchange for the promised goods or services as the control of such goods or services is transferred to the customer. Previously, the percentage-of-completion method was applied to construction contracts for which the outcome of the construction activity could be estimated reliably, and the completed contract method was applied to other construction contracts. However, by the new application, if control over the goods or services is transferred to the customer over a period of time, the Company recognizes revenue over the period of time as the performance obligation to transfer the goods or services to the customer is satisfied.

The application of these changes in accounting policies follows the transitional treatment prescribed in Paragraph 84 of the Accounting Standard for Revenue Recognition such that the new accounting policy was applied from the beginning balance of retained earnings of the current consolidated fiscal year, but the cumulative effect of applying retrospectively the new accounting policy was none, and the beginning balance of retained earnings of the current consolidated fiscal year was neither added nor deducted.

4. Change in accounting policies (cont'd.)

The adoption of the Accounting Standard for Revenue Recognition has not had a material impact on profit or loss for the current consolidated fiscal year. In the consolidated balance sheet for the previous financial year, "Notes and accounts -trade", which was presented in "Current Assets", is included in "Notes and accounts -trade, and contract assets" from the current financial year, while "Advances received", which was presented in "Current Liabilities", is included in "Contract liabilities" from the current financial year. However, in accordance with the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification was made for the previous financial year according to the new presentation. In accordance with the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, no notes have been provided for "Revenue recognition" for the previous financial year.

(b)Application of Accounting Standard for Calculation of Fair Value Measurement

The Company applies "Accounting Standard for Calculation of Fair Measurement" (ASBJ Statement No.30, July 4, 2019, hereinafter referred to as "the Accounting Standard for Calculation of Fair Value Measurement") from the beginning of the current fiscal year, and in accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (Corporate Accounting Standard No.10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc., is applied for the future. This change had no impact on the consolidated financial statements. In addition, information for the fair value of financial instruments by level is disclosed in the notes of "Financial Instruments". However, in accordance with the transitional treatment in Paragraph 7-4 of "Implementation Guidance on Disclosures about Faire Value of Financial Instruments" (ASBJ Guidance No.19, July 4, 2019), relevant information for the previous consolidated fiscal year is not provided.

5. Comprehensive income information

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

	Millions of yen			
	2022		2021	
Net unrealized holding gains (losses) on securities				
Increase (decrease) during the year	¥	(280)	¥	(362)
Reclassification adjustments		-		(705)
Subtotal, before tax		(280)		(1,067)
Tax (expense) or benefit		86		327
Subtotal, net of tax		(194)		(740)
Net unrealized holding gains on derivatives				
Increase (decrease) during the year		(15)		20
Reclassification adjustments		-		-
Subtotal, before tax		(15)		20
Tax (expense) or benefit		11		(11)
Subtotal, net of tax		(4)		9
Foreign currency translation adjustments				
Increase (decrease) during the year		848		(1,109)
Reclassification adjustments		-		-
Subtotal, before tax		848		(1,109)
Tax (expense) or benefit		-		-
Subtotal, net of tax		848		(1,109)
Remeasurements of defined benefit plans				
Increase (decrease) during the year		(28)		10
Reclassification adjustments		33		37
Subtotal, before tax		5		47
Tax (expense) or benefit		-		-
Subtotal, net of tax		5		47
Total other comprehensive income	¥	655	¥	(1,793)

6. Cash flow information

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2022 and 2021 are as follows:

	Millions of yen			
	2022		2021	
Cash and time deposits (in balance sheets)	¥	9,941	¥	4,353
Time deposits maturing after three months		(40)		(8)
Pledged deposits		(3,053)		-
Cash and cash equivalents (in statements of cash flows)	¥	6,848	¥	4,345

7. Financial instruments: disclosure

(a) Qualitative information on financial instruments

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

Trade notes and accounts receivable - Because of the nature of the business, the credit risk associated with trade notes and accounts receivable is concentrated with a limited number of major customers with high creditworthiness. At March 31, 2022, 98.4% 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 the market prices or fair value provided by the financial condition of the corporations on a quarterly basis.

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

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

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

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

(b) Fair values of financial instruments

The book values of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2022 and 2021 are as follows:

	Millions of yen				
	2022				
	Book value		Fair value		Difference
Investment securities	¥	5,090	¥	5,090	-
Long-term loans payable		(3)		(3)	(0)
Derivatives					
Not applying hedge accounting		(669)		(669)	-
Applying hedge accounting		-		-	-

	Millions of yen				
	2021				
	Book value		Fair value		Difference
Investment securities	¥	5,371	¥	5,371	-
Long-term loans payable		(6,812)		(6,815)	3
Derivatives					
Not applying hedge accounting		(55)		(55)	-
Applying hedge accounting		15		15	-

Notes ＊1 Cash and time deposits, Notes and accounts – trade, Trade accounts payable and Short-term loans payable for the years ended March 31, 2022 and 2021 have been omitted as Cash and time deposits is cash and the others which are settled in a short period of time and their fair value approximates book value.

＊2 The figures in parentheses indicate liabilities.

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

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

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

	Millions of yen	
	2022	2021
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	
	2022	
	Within one year	Over one year
Cash and time deposits	¥ 9,941	¥ -
Trade notes and trade accounts	9,370	-

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

(c) Fair values of financial instruments

Based on the observability and the significance of the inputs used to determine the fair values, the fair value information of financial instruments is presented by categorizing the measurements into the following three levels:

Level 1 fair value: the fair value measured by quoted prices of identical assets or liabilities in active markets.

Level 2 fair value: the fair value measured using observable inputs other than Level 1.

Level 3 fair value: the fair value measured using unobservable inputs.

When multiple inputs of different categories are used in measuring fair value, the Company and its subsidiary classified fair values into a category to which the lowest priority is assigned.

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

(1) Financial instruments measured at fair values in the consolidated balance sheet

	Millions of yen			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities	5,090	-	-	5,090
Derivatives				
Not applying hedge accounting	-	669	-	669

(2) Financial instruments other than those measured at fair values in the consolidated balance sheet

	Millions of yen			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term loans payable	-	3	-	3

(Note) Valuation techniques and inputs used in measuring fair values

Investment securities

Investment securities are classified as level 1, because they are exchanged in active markets.

Derivatives

Derivatives are measured based on forward exchange rates, and they are classified as level 2.

Long-term loans payable

Long-term loans payable is calculated by discounting the principal and interest payments by the assumed discount rates for similar new loans, and it is classified as level 2.

8. Securities

At March 31, 2022 and 2021, 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, 2022 and 2021 are as follows:

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

	Millions of yen		
	2022		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,261	¥ 5,011	¥ 1,750
Total	¥ 3,261	¥ 5,011	¥ 1,750

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

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

	Millions of yen		
	2022		
	Acquisition cost	Book value	Difference
Equity securities	¥ 98	¥ 80	¥ (18)
Total	¥ 98	¥ 80	¥ (18)

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

8. Securities (cont'd.)

(d) For the years ended March 31, 2022 , there are no sales of available-for-sale securities (equity securities) and the gain on the sales. For the years ended March 31, 2021, total sales of available-for-sale securities (equity securities) is ¥935 million and the gain on the sales is ¥705 million.

9. Pledged assets

At March 31, 2022 and 2021, the following assets are pledged as collateral for short-term loans payable of ¥2,000 million:

	Millions of yen	
	2022	2021
Land	¥ 179	¥ 179

At March 31, 2022 and 2021, the following assets are pledged as collateral for deposits on contracts of ¥7 million and ¥87 million, respectively, and deposits from tenants of ¥70 million (included in other noncurrent liabilities):

	Millions of yen	
	2022	2021
Buildings, net book value	¥ 330	¥ 351

At March 31, 2022 and 2021, the following assets are pledged as collateral to issue the letter of credit and there is no corresponding liability:

	Millions of yen	
	2022	2021
Cash and deposits	¥ 3,053	¥ -

10. Allowance for losses on contracts

Inventories for contracts with anticipated losses and allowance for losses on contracts are not offset. For the years ended March 31, 2022 and 2021, the inventories associated with the allowance for losses on contracts are ¥2,190 million and ¥3,452 million, respectively.
These amounts are included in "Work-in-process."

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

Short-term loans payable substantially represent short-term loans from banks at a weighted average annual rate of 0.4% and 0.8% at March 31, 2022 and 2021, respectively.

Long-term loans payable as of March 31, 2022 are as follows:

	Millions of yen	
	2022	
Loans from banks, due through 2023 at an weighted average rate of 0.9% in 2022	¥	3
Less current portion		3
	¥	-

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2022 are as follows:

	Millions of yen	
Years ending March 31,	2022	
2023	¥	12
2024		6
2025		0
2026		-
2027 and after		-
	¥	18

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

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

The aggregate annual maturities of long-term loans payable outstanding at March 31, 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

12. Retirement and severance benefits

The Company provides for employee' retirement and severance benefits under two plans, a defined contribution pension plan and unfunded lump-sum benefits plan. The Company's consolidated 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			
	2022		2021	
Balance at April 1, 2021 and 2020	¥	2,879	¥	2,845
Service cost		189		280
Interest cost		23		22
Actuarial loss (gain)		28		(10)
Benefits paid		(215)		(258)
Adjustment associated with change in scope of consolidation		(23)		-
Balance at March 31, 2022 and 2021	¥	2,881	¥	2,879

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

	Millions of yen			
	2022		2021	
Unfunded retirement benefit obligations	¥	2,881	¥	2,879
Total net liability for retirement benefits at March 31, 2022 and 2021	¥	2,881	¥	2,879
Net defined benefit liability		2,881		2,879
Total net liability for retirement benefits at March 31, 2022 and 2021	¥	2,881	¥	2,879

(c) Retirement benefit costs

	Millions of yen			
	2022		2021	
Service cost	¥	189	¥	280
Interest cost		23		22
Net actuarial loss amortization		33		37
	¥	245	¥	339

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

(d) Remeasurements of defined benefit plans

	Millions of yen			
	2022		2021	
Actuarial gain(loss)	¥	5	¥	47
	¥	5	¥	47

(e) Accumulated remeasurements of defined benefit plans

	Millions of yen			
	2022		2021	
Unrecognized actuarial loss	¥	(82)	¥	(87)
	¥	(82)	¥	(87)

(f) Actuarial assumptions

The principal actuarial assumptions at March 31, 2022 and 2021 (expressed as weighted averages) are as follows:

	2022	2021
Discount rate	0.8%	0.8%
Expected salary increase rate	1.6%	1.7%

Defined contribution plans

Contributions to the defined contribution plans in 2022 and 2021 are ¥250 million and ¥280 million, respectively.

13. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2022 and 2021 are as follows:

	Millions of yen			
	2022		2021	
Deferred income tax assets:				
Net operating loss carryforwards ＊2	¥	3,004	¥	2,748
Net defined benefit liability		882		882
Allowance for losses on contracts		791		1,246
Valuation loss on inventories		167		588
Research and development expenses		315		263
Provision for product warranties		177		174
Provision for bonuses		116		112
Excess depreciation		87		68
Other		481		500
		6,020		6,581
Valuation reserve for net operating loss carryforwards ＊2		(3,004)		(2,748)
Valuation reserve for deductible temporary differences		(3,016)		(3,833)
Valuation reserve - total ＊1		(6,020)		(6,581)
Total deferred income tax assets		-		-
Deferred income tax liabilities:				
Net unrealized holding gains on securities		(530)		(616)
Net unrealized holding gains on derivatives		(40)		(18)
Other		(105)		(96)
Total deferred income tax liabilities		(675)		(730)
Net deferred income tax liabilities	¥	(675)	¥	(730)

Notes ＊1 The valuation reserve decreased by ¥561 million. The main reason for this decrease is a ¥455 million decrease in the valuation reserve for allowance for losses on contracts.

13. Income taxes (cont'd.)

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

Current Fiscal year ended March 31, 2022

	Millions of yen						
Year ending March 31,	2023	2024	2025	2026	2027	2028 and after	Total
Net operating loss carryforwards ＊3	¥ 437	¥ 949	—	¥ 233	—	¥ 1,385	¥ 3,004
Valuation reserve	(437)	(949)	—	(233)	—	(1,385)	(3,004)
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, 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.

(b) The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2022 and 2021 after tax effect accounting is applied.

	2022	2021
Statutory tax rate	30.6 %	30.6%
Permanently nondeductible expenses	0.2	0.8
Permanently nontaxable expenses	(6.1)	(0.4)
Taxation on per capita basis	0.3	0.8
Change in valuation reserve	(23.0)	4.4
Other	(1.1)	(0.7)
Effective tax rate	0.9 %	35.5 %

14. Net assets

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

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

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

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

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

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

	2022			
	Number of shares			
	April 1, 2021	Increase	Decrease	March 31, 2022
Common stock	6,908,359	-	-	6,908,359
Treasury stock	26,761	247	-	27,008

The increase in treasury stock of 247 shares is due to the acquisition of fractional shares.

	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.

14. Net assets (cont'd)

(b) Dividends

Dividends whose recorded date is during the year ended March 31, 2022, 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 12, 2022	Common stock	¥206	Retained earnings	¥30.00	March 31, 2022	June 13, 2022

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

15. Related party transactions

At March 31, 2022 and 2021, Kintetsu Railway Co., Ltd. ("Kintetsu") directly own 30.4% of the Company's outstanding common stock. For the year ended March 31, 2022, there are no significant related party transactions. The Company's sales to Kintetsu for the year ended March 31, 2021 amounted to ¥6,998 million. Receivables from Kintetsu for the year ended March 31, 2021 amounted to ¥20 million.

16. Cost of Sales

For the year ended March 31, 2022, reversals of the allowance for losses on contracts deducted from the cost of sales is ¥1,493 million.

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

17. Derivative transactions

Information on derivatives for which hedge accounting had not been applied at March 31, 2022 is as follows:

	Millions of yen			
	2022			
	Contract amount		Fair value	Realized gain (loss)
	Total	Due after one year		
Foreign currency forward exchange contracts:				
Selling				
US dollar	¥ 7,014	¥ -	¥ (670)	¥ (670)
Total	¥ 7,014	¥ -	¥ (670)	¥ (670)

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)

17. Derivative transactions (cont'd)

At March 31, 2022, there are no derivatives for which hedge accounting have been applied.

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

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. 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 ¥699 million and ¥622 million for the years ended March 31, 2022 and 2021, 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	
	2022	
Balance at April 1, 2021	¥	1,575
Net changes during the year		(33)
Balance at March 31, 2022	¥	1,542
Fair value at March 31, 2022		10,040

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

		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

19. 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, 2022 and 2021 are as follows:

	Millions of yen			
	2022		2021	
Payments due within one year	¥	130	¥	113
Payments due after one year		271		361
Total payments remaining	¥	401	¥	474

20. Revenue Recognition

1. Information on disaggregated revenue arising from contracts with customers

Information on disaggregated revenue arising from contracts with customers is included in Note 21, "Segment information".

2. Basic information for understanding revenue

Basic information for understanding revenue is included in Note 2, "Significant Accounting Policies (t) Revenue and related cost recognition"

20. Revenue Recognition (cont'd)

3. Information on the relationship between fulfilment of the performance obligations based on the contracts with customers and cash flow generated from the contracts, and the amount and timing of revenue expected to be recognized in current or subsequent fiscal years from a contract with customers that exists as of the end of the current consolidated fiscal year

(a) The balance of contract assets and contract liabilities

	Millions of yen
	2022
Receivables arising from contracts with customers (opening balance)	
Notes	-
Accounts	14,275
	14,275
Receivables arising from contracts with customers (ending balance)	
Notes	-
Accounts	9,370
	9,370
Contract assets (opening balance)	13,480
Contract assets (ending balance)	8,959
Contract liabilities (opening balance)	868
Contract liabilities (ending balance)	1,610

Contract assets represent unbilled consideration for revenue recognized based on the progress of fulfillment of the performance obligations under construction contracts of the overseas consolidated subsidiary. The contract assets are transferred to receivables arising from contracts with customers when the right of the overseas subsidiary to the consideration becomes unconditional and are invoiced after customer inspection and received at the contractual collection time in accordance with the contract with the customer.

Contract liabilities relate to advances from customers under construction contracts for which the Company and its overseas consolidated subsidiary recognize revenue over a period of time. The contract liabilities are reversed upon revenue recognition.

20. Revenue Recognition (cont'd)

The amount of revenue recognized in the current consolidated fiscal year that was included in the contract liabilities balance at the beginning of the period amounted to ¥395 million. The decrease of ¥4,520 million in contract assets in the current consolidated fiscal year was a result of the progress in customer inspection and billing at the overseas consolidated subsidiary. In addition, the increase of ¥741 million in contract liabilities in the current consolidated fiscal year resulted mainly from advances received in connection with the conclusion of new contracts at overseas consolidated subsidiary.

(b) Transaction price allocated to residual performance obligations

The total transaction price allocated to the residual performance obligation is ¥116,898 million and the Company and the overseas consolidated subsidiary expect to recognize revenue for these residual performance obligations between 2022 and 2029 as the performance obligations are fulfilled.

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

As stated in "Changes in Accounting Policies", the Company has applied the Accounting Standard for Revenue Recognition from the beginning of the current consolidated fiscal year, and has changed the accounting method for revenue recognition, and has therefore similarly changed the method for calculating profit or loss in the business segment. As the result, this change has no material impact on the consolidated financial statements.

21. Segment information (cont'd)

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

Current fiscal year ended March 31, 2022:

	Millions of yen							
	Reportable segments							
	Rolling Stock		Lease of Real Estate		Adjustment		Consolidated	
Revenue from contracts with customers	¥	38,530	¥	-	¥	-	¥	38,530
Other revenue	¥	-	¥	804	¥	-	¥	804
Net sales	¥	38,530	¥	804	¥	-	¥	39,334
Segment profit		2,175		699		(1,079)		1,795
Segment assets		52,928		1,559		7,010		61,497
Segment liabilities		15,252		618		21,152		37,022
Depreciation and amortization		1,108		26		59		1,193
Increase in tangible and intangible assets		640		0		62		702

1. Adjustments are as follows:

(a) Adjustment of segment profit of ¥(1,079) million is corporate expenses of ¥(1,079) million that are not attributable to reportable segments and represents administrative expenses of the Company.

(b) Adjustment of segment assets of ¥7,010 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) Adjustment of segment liabilities of ¥21,152 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥59 million is depreciation and amortization that are not allocable to any reportable segments.

(e) Increase in tangible and intangible assets of ¥62 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, 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)

Related information

Information for each country and area for the year ended March 31, 2022 is as follows:

(a) Net sales

Millions of yen			
Japan	United States of America	Others	Consolidated
¥ 29,088	¥ 7,920	¥ 2,326	¥ 39,334

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

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

Note "State of Qatar", which had been presented separately in the previous consolidated fiscal year, is included in "Others" in this consolidated fiscal year due to its decreased quantitative materiality. To reflect this change in presentation, "Related information (a) Net sales" in the previous consolidated fiscal year has been reclassified.

(b) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 9,788	¥ 1,104	¥ 10,892

Information for major customers for the year ended March 31, 2022 is as follows:

Customer	Net sales (millions of yen)	Segment
Bureau of Transportation Tokyo Metropolitan Government	¥ 9,852	Rolling stock
Tokyo Metro Co., Ltd.	7,062	Rolling stock
West Japan Railway Company	5,939	Rolling stock

21. Segment information (cont'd)

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	Others	Consolidated
¥ 20,040	¥ 10,724	¥ 18,655	¥ 49,419

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

Others	China (Hong Kong), State of Qatar, 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

22. Per share information

Per share information for the years ended March 31, 2022 and 2021 is as follows:

	Yen	
	2022	2021
Net assets per share	¥ 3,556.63	¥ 3,097.96
Net income per share	401.92	96.22

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.

	2022	2021
Net income (millions of yen)	2,766	661
Amounts not attributable to ordinary shares (millions of yen)	-	-
Net income attributable to ordinary shares (millions of yen)	2,766	661
Average number of shares outstanding during each year (shares)	6,881,447	6,882,851

23. Gain on forgiveness of debt

The Company's overseas subsidiary received loans using the Paycheck Protection Program (PPP), which is an employment protection policy in the United States related to the new coronavirus infection. The loan was exempted from repayment because it was used for the payment of salaries, etc. and satisfied the debt forgiveness conditions for the loan.

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, 2022 and 2021, 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 and 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, 2022 and 2021, and its consolidated financial performance and its consolidated 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 subsidiary as of March 31, 2022, as described in Note3, "Significant accounting estimates", an allowance for losses on contracts of ¥2,594 million was recognized. Included therein was ¥2,508 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 of most significance 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 the reasonableness of the Company's estimate of the total costs related to the recognition of an allowance for losses on contracts, 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. In this assessment, we focused our testing on controls relevant to 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 key assumptions applied to estimate the total costs for each contract, we performed the following procedures among others: ● agreed the estimated costs for each contract with the supporting worksheets 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 of the Company 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.

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

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

August 31, 2022

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.