THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years Ended March 31, 2023 and 2022

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
March 31, 2023 and 2022

	Millions of yen	
	2023	2022
ASSETS		
Current Assets		
Cash and time deposits (Notes 6 and 7)	¥ 7,635	¥ 9,941
Receivables		
Notes and accounts - trade, and contract assets (Notes 7, 15 and 20)	14,097	18,330
Other accounts	29	479
Allowance for doubtful receivables (Note 7)	(26)	(22)
	14,100	18,787
Inventories		
Work-in-process (Note 10)	13,582	14,934
Raw materials and supplies	525	525
	14,107	15,459
Other current assets	1,563	800
Total current assets	37,405	44,987
Property, Plant and Equipment		
Land (Notes 9 and 18)	2,582	2,582
Buildings and structures (Notes 9 and 18)	15,239	14,898
Machinery and equipment	14,015	13,499
Leased assets	1,433	85
Right-of-use assets	529	-
Construction in progress	91	19
	33,889	31,083
Accumulated depreciation	(21,631)	(20,191)
	12,258	10,892
Investments and Other Assets		
Stocks of subsidiaries and affiliates（Note 7）	36	36
Investment securities（Notes 7 and 8）	5,368	5,130
Intangible assets	112	158
Other assets	314	303
Allowance for doubtful receivables	(4)	(9)
	5,826	5,618
Total assets	¥ 55,489	¥ 61,497

	Millions of yen	
	2023	2022
LIABILITIES AND NET ASSETS		
Current Liabilities		
Short-term loans payable (Notes 7, 9 and 11)	¥ 4,700	¥ 15,700
Current portion of long-term loans payable (Notes 7 and 11)	-	3
Lease obligations (Notes 7 and 11)	67	12
Payables		
Trade accounts (Note 7)	5,537	9,326
Construction	680	573
Contract liabilities (Note 20)	3,314	1,610
Income and enterprise taxes payable	157	32
Accrued expenses	918	993
Provision for bonuses	378	378
Allowance for losses on contracts (Note 10)	1,163	2,595
Provision for product warranties	638	578
Other current liabilities	1,915	954
Total current liabilities	19,467	32,754
Noncurrent Liabilities		
Long-term loans payable (Notes 7 and 11)	3,000	-
Lease obligations (Notes 7 and 11)	1,331	6
Deferred income tax liabilities (Note 13)	736	675
Net defined benefit liability (Note 12)	2,798	2,881
Other noncurrent liabilities (Note 9)	863	706
	8,728	4,268
Total liabilities	28,195	37,022
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	15,630	14,653
Treasury stock, at cost	(106)	(105)
27,309 shares in March 2023		
27,008 shares in March 2022		
Total shareholders' equity	23,902	22,926
Accumulated other comprehensive income		
Net unrealized holding gains on securities	1,374	1,202
Foreign currency translation adjustments	2,075	429
Remeasurements of defined benefit plans	(57)	(82)
Total accumulated other comprehensive income	3,392	1,549
Total net assets	27,294	24,475
Total liabilities and net assets	¥ 55,489	¥ 61,497

See accompanying Notes to Consolidated Financial Statements.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended March 31, 2023 and 2022

	Millions of yen	
	2023	2022
Net sales (Notes 15, 20 and 21)	¥ 35,874	¥ 39,334
Cost of sales (Note 16)	31,245	34,130
Gross profit	4,629	5,204
Selling, general and administrative expenses	3,400	3,409
Operating profit	1,229	1,795
Other income (expenses)		
Interest and dividend income	129	96
Interest expense	(52)	(104)
Foreign exchange gain	151	459
Commission fees	(35)	-
Gain on forgiveness of debt (Note 23)	-	611
Other, net	(138)	(67)
	55	995
Income before income taxes	1,284	2,790
Income taxes (Note 13)		
Current	(107)	(15)
Deferred	6	(9)
Net income	1,183	2,766
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of the parent	¥ 1,183	¥ 2,766

	Yen	
Amounts per share (Note 22)		
Net income	¥ 171.97	¥ 401.92
Cash dividends applicable to the year	¥ 50.00	¥ 30.00

See accompanying Notes to Consolidated Financial Statements.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended March 31, 2023 and 2022

	Millions of yen	
	2023	2022
Net income	¥ 1,183	¥ 2,766
Other comprehensive income		
Net unrealized holding gains (losses) on securities	172	(194)
Net unrealized holding gains (losses) on derivatives	-	(4)
Foreign currency translation adjustments	1,646	848
Remeasurements of defined benefit plans	25	5
Total other comprehensive income (Note 5)	1,843	655
Comprehensive income	¥ 3,026	¥ 3,421
Comprehensive income attributable to owners of the parent	3,026	3,421
Comprehensive income attributable to non-controlling interests	-	-

See accompanying Notes to Consolidated Financial Statements.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended March 31, 2023 and 2022

		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, 2022	6,908,359	¥ 5,253	¥ 3,125	¥ 14,653	¥ (105)	¥ 1,202	¥ -	¥ 429	¥ (82)	¥ 24,475
Cash dividends paid at ￥30.00 per share（Note 14）	-	-	-	(206)	-	-	-	-	-	(206)
Net income	-	-	-	1,183	-	-	-	-	-	1,183
Purchase of treasury stock	-	-	-	-	(1)	-	-	-	-	(1)
Net changes during the year	-	-	-	-	-	172	-	1,646	25	1,843
Balance at March 31, 2023	6,908,359	¥ 5,253	¥ 3,125	¥ 15,630	¥ (106)	¥ 1,374	¥ -	¥ 2,075	¥ (57)	¥ 27,294

	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, 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

See accompanying Notes to Consolidated Financial Statements.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2023 and 2022

	Millions of yen	
	2023	2022
Cash flows from operating activities		
Income before income taxes	¥ 1,284	¥ 2,790
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,230	1,193
Increase (decrease) in net defined benefit liability	(57)	30
Increase (decrease) in provision for product warranties	60	11
Increase (decrease) in allowance for losses on contracts	(1,444)	(1,508)
Interest and dividend income	(129)	(96)
Interest expense	52	104
Gain on forgiveness of debts	-	(611)
Decrease (increase) in trade notes and accounts receivable	7,757	11,721
Decrease (increase) in inventories	1,453	757
Increase (decrease) in trade accounts payable	(5,752)	257
Increase (decrease) in accounts payable and accrued expenses	263	(27)
Other, net	934	(951)
Subtotal	5,651	13,670
Interest and dividends received	129	96
Interest paid	(50)	(156)
Income taxes paid	(14)	(662)
Income taxes refunded	203	-
Net cash provided by (used in) operating activities	5,919	12,948
Cash flows from investing activities		
Payments into time deposits	(46)	(9)
Proceeds from withdrawal of time deposits	46	9
Acquisitions of property, plant and equipment and intangible assets	(704)	(852)
Proceeds from sales of property, plant and equipment and intangible assets	6	16
Purchases of investment securities	-	(280)
Decrease (increase) in deposits pledged as collateral	45	(2,917)
Net cash provided by (used in) investing activities	(653)	(4,033)
Cash flows from financing activities		
Net increase in short-term loans payable	(11,000)	402
Proceeds from long-term loans payable	3,000	-
Repayments of long-term loans payable	(3)	(6,242)
Repayments of lease obligations	(47)	(436)
Cash dividends paid	(206)	(206)
Purchases of treasury stock	(0)	(0)
Net cash provided by (used in) financing activities	(8,256)	(6,482)
Effect of exchange rate changes on cash and cash equivalents	300	134
Net increase (decrease) in cash and cash equivalents	(2,690)	2,567
Cash and cash equivalents at beginning of year	6,848	4,345
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)	¥ 4,158	¥ 6,848

See accompanying Notes to Consolidated Financial Statements.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARY
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 subsidiary 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 the subsidiary's 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.

(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 subsidiary (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 finance 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 finance 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) Finance leases - Property, plant and equipment capitalized under finance leases that transfer ownership of the lease assets are depreciated the same as the Companies' non-lease assets. Property, plant and equipment capitalized under finance leases that do not transfer ownership of the lease assets 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 ¥225 million and ¥244 million for the years ended March 31, 2023 and 2022, 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 -A provision for bonuses is provided at the balance sheet date 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, 2023 and 2022 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 obligations 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 2023 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 subsidiary as of March 31, 2023 and 2022, allowances for losses on contracts of ¥1,163 million and ¥2,595 million, respectively, were recognized. Included in the amounts were ¥1,132 million and ¥2,508 million of allowance for losses on contracts recognized by the Company as of March 31, 2023 and 2022, respectively.

② Information on the nature of significant accounting estimates for identified items

As described in Note 2 (p), "Significant accounting policies - 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, needed to be reasonably estimated. The total costs were estimated for each contract. Because raw material prices might change and work hours for a contract could increase due to unexpected design or process amendments, estimating the total costs involved a high degree of uncertainty, and management's judgment on raw material prices and work hours required for a contract had a significant effect on the estimate of total costs.

4. Change in accounting policies

(a) Application of the Lease Accounting Standard (ASC 842)

The Company's overseas subsidiary applies "Accounting Standard for Leases" (ASC 842) from the beginning of the current consolidated fiscal year. The Company's overseas subsidiary has adopted a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As a result, Leased assets, Right-of-use assets, Lease obligations (current), Other current liabilities, Lease obligations (noncurrent) and Other noncurrent liabilities increased ¥18 million, ¥529 million, ¥9 million, ¥213 million, ¥9 million and ¥308 million, respectively. The effects on the consolidated statement of income for the current consolidated fiscal year were inconsequential.

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			
	2023		2022	
Net unrealized holding gains (losses) on securities				
Increase (decrease) during the year	¥	249	¥	(280)
Reclassification adjustments		-		-
Subtotal, before tax		249		(280)
Tax (expense) or benefit		(77)		86
Subtotal, net of tax		172		(194)
Net unrealized holding gains on derivatives				
Increase (decrease) during the year		-		(15)
Reclassification adjustments		-		-
Subtotal, before tax		-		(15)
Tax (expense) or benefit		-		11
Subtotal, net of tax		-		(4)
Foreign currency translation adjustments				
Increase (decrease) during the year		1,646		848
Reclassification adjustments		-		-
Subtotal, before tax		1,646		848
Tax (expense) or benefit		-		-
Subtotal, net of tax		1,646		848
Remeasurements of defined benefit plans				
Increase (decrease) during the year		(10)		(28)
Reclassification adjustments		35		33
Subtotal, before tax		25		5
Tax (expense) or benefit		-		-
Subtotal, net of tax		25		5
Total other comprehensive income	¥	1,843	¥	655

6. Cash flow information

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2023 and 2022 are as follows:

	Millions of yen			
	2023		2022	
Cash and time deposits (in balance sheets)	¥	7,635	¥	9,941
Time deposits maturing after three months		-		(40)
Pledged deposits		(3,477)		(3,053)
Cash and cash equivalents (in statements of cash flows)	¥	4,158	¥	6,848

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. On March 31, 2023, 98.0% 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 receivable and payable, not for speculative purposes, and enters into such contracts according to the Company’s internal rules.

Investment securities - Investment securities comprise mostly stocks and are evaluated for market 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, 2023 and 2022 are as follows:

	Millions of yen		
	2023		
	Book value	Fair value	Difference
Investment securities	¥ 5,340	¥ 5,340	-
Long-term loans payable	(3,000)	(3,000)	-
Lease obligations	(1,398)	(1,371)	(27)
Derivatives			
Not applying hedge accounting	(818)	(818)	-
Applying hedge accounting	-	-	-

	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	-	-	-

Notes

1) Cash and time deposits, Notes and accounts – trade, Trade accounts payable and Short-term loans payable for the years ended March 31, 2023 and 2022 have been omitted as Cash and time deposits is cash and the others are settled in a short period of time and have the fair values approximating the 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 cases 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.

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

	Millions of yen	
	2023	2022
Unlisted stocks	¥ 28	¥ 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	
	2023	
	Within one year	Over one year
Cash and time deposits	¥ 7,635	¥ -
Trade notes and trade accounts	8,904	-

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

(c) Fair values of financial instruments

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

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

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

Level 3: fair value measured using unobservable inputs.

When multiple inputs from different categories are used in measuring the fair value, the Company and its subsidiary classify the fair value by the 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			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities	5,340	-	-	5,340
Derivatives				
Not applying hedge accounting	-	818	-	818

	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			
	2023			
	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term loans payable	-	3,000	-	3,000
Lease obligations	-	1,371	-	1,371

	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 rate and are classified as Level 2.

Long-term loans payable and Lease obligations

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 and lease transactions and are classified as Level 2.

8. Securities

At March 31, 2023 and 2022, 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, 2023 and 2022 are as follows:

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

	Millions of yen					
	2023					
	Acquisition cost		Book value		Difference	
Equity securities	¥	3,261	¥	5,242	¥	1,981
Total	¥	3,261	¥	5,242	¥	1,981

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

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

	Millions of yen					
	2023					
	Acquisition cost		Book value		Difference	
Equity securities	¥	98	¥	98	¥	(0)
Total	¥	98	¥	98	¥	(0)

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

8. Securities (cont'd.)

(d) For the years ended March 31, 2023 and 2022 , there are no sales of available-for-sale securities (equity securities) and, therefore, no gain on such sales.

9. Pledged assets

At March 31, 2023 and 2022, the following assets are pledged as collateral for short-term loans payable of ¥2,000 million:

	Millions of yen	
	2023	2022
Land	¥ 179	¥ 179

At March 31, 2023 and 2022, the following assets are pledged as collateral for deposits on contracts of ¥- million and ¥7 million, respectively, and deposits from tenants of ¥70 million for each of the two years(included in other noncurrent liabilities):

	Millions of yen	
	2023	2022
Buildings, net book value	¥ 310	¥ 330

At March 31, 2023 and 2022, the following assets are pledged as collateral to issue a letter of credit, and there is no corresponding liability:

	Millions of yen	
	2023	2022
Cash and deposits	¥ 3,477	¥ 3,053

10. Allowance for losses on contracts

Inventories for contracts with anticipated losses and the allowance for losses on contracts are not offset. For the years ended March 31, 2023 and 2022, the inventories associated with the allowance for losses on contracts are ¥805 million and ¥2,190 million, respectively, and included in "Work-in-process."

11. Short-term loans payable, long-term loans payable and lease obligations
Short-term loans payable represent mainly short-term loans from banks at a weighted average annual rate of 0.5% and 0.4% at March 31, 2023 and 2022, respectively.

Long-term loans payable as of March 31, 2023 are as follows:

	Millions of yen	
	2023	
Loans from banks, due through 2024 at an weighted average rate of 0.3% in 2023	¥	3,000
Less current portion		-
	¥	3,000

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2023 are as follows:

	Millions of yen	
Years ending March 31,	2023	
2024	¥	60
2025		1,270
2026		1
2027		-
2028 and after		-
	¥	1,331

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
	¥	-

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

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

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.

1. Defined benefit plans

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

	Millions of yen			
	2023		2022	
Balance at April 1, 2022 and 2021	¥	2,881	¥	2,879
Service cost		158		189
Interest cost		23		23
Actuarial loss (gain)		9		28
Benefits paid		(273)		(215)
Adjustment associated with change in scope of consolidation		-		(23)
Balance at March 31, 2023 and 2022	¥	2,798	¥	2,881

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

	Millions of yen			
	2023		2022	
Unfunded retirement benefit obligations	¥	2,798	¥	2,881
Total net liability for retirement benefits at March 31, 2023 and 2022	¥	2,798	¥	2,881
Net defined benefit liability		2,798		2,881
Total net liability for retirement benefits at March 31, 2023 and 2022	¥	2,798	¥	2,881

(c) Retirement benefit costs

	Millions of yen			
	2023		2022	
Service cost	¥	158	¥	189
Interest cost		23		23
Net actuarial loss amortization		35		33
	¥	216	¥	245

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

(d) Remeasurements of defined benefit plans

	Millions of yen			
	2023		2022	
Actuarial gain (loss)	¥	25	¥	5
	¥	25	¥	5

(e) Accumulated remeasurements of defined benefit plans

	Millions of yen			
	2023		2022	
Unrecognized actuarial loss	¥	(57)	¥	(82)
	¥	(57)	¥	(82)

(f) Actuarial assumptions

The principal actuarial assumptions at March 31, 2023 and 2022 (expressed as weighted averages) are as follows:

	2023	2022
Discount rate	0.8%	0.8%
Expected rate of salary increase	1.8%	1.6%

2. Defined contribution plans

Contributions to the defined contribution plans in 2023 and 2022 are ¥272 million and ¥250 million, respectively.

13. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2023 and 2022 are as follows:

	Millions of yen			
	2023		2022	
Deferred income tax assets:				
Net operating loss carryforwards ＊2	¥	2,663	¥	3,004
Net defined benefit liability		857		882
Allowance for losses on contracts		355		791
Valuation loss on inventories		55		167
Research and development expenses		363		315
Provision for product warranties		195		177
Provision for bonuses		116		116
Excess depreciation		126		87
Other		717		481
		5,447		6,020
Valuation reserve for net operating loss carryforwards ＊2		(2,663)		(3,004)
Valuation reserve for deductible temporary differences		(2,784)		(3,016)
Valuation reserve - total ＊1		(5,447)		(6,020)
Total deferred income tax assets		-		-
Deferred income tax liabilities:				
Net unrealized holding gains on securities		(607)		(530)
Net unrealized holding gains on derivatives		(30)		(40)
Other		(99)		(105)
Total deferred income tax liabilities		(736)		(675)
Net deferred income tax liabilities	¥	(736)	¥	(675)

Notes ＊1) The valuation reserve decreased by ¥573 million. The main reason for this decrease is a ¥436 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, 2023

	Millions of yen						
Year ending March 31,	2024	2025	2026	2027	2028	2029 and after	Total
Net operating loss carryforwards ＊3	¥ 949	—	¥ 233	¥680	—	¥ 801	¥ 2,663
Valuation reserve	(949)	—	(233)	(680)	—	(801)	(2,663)
Net deferred income tax assets	—	—	—	—	—	—	—

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

Previous 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	¥680	¥ 705	¥ 3,004
Valuation reserve	(437)	(949)	—	(233)	(680)	(705)	(3,004)
Net deferred income tax assets	—	—	—	—	—	—	—

＊3) Net operating loss carryforwards shown in the above table are amounts 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, 2023 and 2022 after tax effect accounting is applied.

	2023	2022
Statutory tax rate	30.6 %	30.6 %
Permanently nondeductible expenses	1.1	0.2
Permanently nontaxable expenses	(0.5)	(6.1)
Taxation on per capita basis	0.7	0.3
Change in valuation reserve	(59.7)	(23.0)
Loss carryforwards expiration	26.1	-
Other	9.5	(1.1)
Effective tax rate	7.8 %	0.9 %

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

	2023			
	Number of shares			
	April 1, 2022	Increase	Decrease	March 31, 2023
Common stock	6,908,359	-	-	6,908,359
Treasury stock	27,008	301	-	27,309

The increase in treasury stock of 301 shares is due to the acquisition of fractional shares.

	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.

14. Net assets (cont'd)

(b) Dividends

Dividends whose recorded date is during the year ended March 31, 2023, but whose effective date is the following fiscal year are as follows.

Resolution adopted	Type of shares	Millions of yen	Appropriation from	Yen	Record date	Effective date
		Aggregate amount		Amount per share		
Board of Directors' Meeting on May 22, 2023	Common stock	¥ 344	Retained earnings	¥ 50.00	March 31, 2023	June 13, 2023

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	Appropriation from	Yen	Record date	Effective date
		Aggregate amount		Amount per share		
Board of Directors' Meeting on May 12, 2022	Common stock	¥ 206	Retained earnings	¥ 30.00	March 31, 2022	June 13, 2022

15. Related party transactions

At March 31, 2023 and 2022, Kintetsu Railway Co., Ltd. ("Kintetsu") directly own 30.4% of the Company's outstanding common stock. For the year ended March 31, 2023 and 2022, there are no significant related party transactions.

16. Cost of sales

For the year ended March 31, 2023 and 2022, reversals of the allowance for losses on contracts deducted from the cost of sales is ¥1,431 million and ¥1,493 million, respectively.

17. Derivative transactions

Derivatives for which hedge accounting had not been applied at March 31, 2023 is as follows:

	Millions of yen			
	2023			
	Contract amount		Fair value	Realized gain (loss)
	Total	Due after one year		
Foreign currency forward exchange contracts:				
Selling				
US dollar	¥ 4,016	¥ -	¥ (818)	¥ (818)
Total	¥ 4,016	¥ -	¥ (818)	¥ (818)

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)

At March 31, 2023 and 2022, there are no derivatives for which hedge accounting had been applied.

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 ¥710 million and ¥699 million for the years ended March 31, 2023 and 2022, 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
		2023
Balance at April 1, 2022	¥	1,542
Net changes during the year		(26)
Balance at March 31, 2023	¥	1,516
Fair value at March 31, 2023		10,307

		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

19. Leases

(a) Finance leases

(As lessee)

Finance leases that transfer ownership of the leased assets

Leased assets consist of buildings and land.

Finance leases that do not transfer ownership of the leased assets

Leased assets consist of machinery and equipment.

(b) Operating leases

(As lessee)

Obligations under non-cancellable operating leases at March 31, 2023 and 2022 are as follows:

	Millions of yen			
	2023		2022	
Payments due within one year	¥	35	¥	130
Payments due after one year		259		271
Total payments remaining	¥	294	¥	401

20. Revenue Recognition

1. Disaggregated revenue arising from contracts with customers

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

2. Understanding revenue from contracts with customers

Basic information for understanding revenue from contracts with customers is included in Note 2 (t), "Significant Accounting Policies - Revenue and related cost recognition."

3. Information on the relationship between fulfilment of performance obligations based on 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

Current Fiscal year ended March 31, 2023

(a) The balance of contract assets and contract liabilities

	Millions of yen
	2023
Receivables arising from contracts with customers (opening balance)	
Notes	-
Accounts	9,370
	9,370
Receivables arising from contracts with customers (ending balance)	
Notes	-
Accounts	8,904
	8,904
Contract assets (opening balance)	8,959
Contract assets (ending balance)	5,192
Contract liabilities (opening balance)	1,610
Contract liabilities (ending balance)	3,314

Contract assets represent unbilled consideration for revenue recognized based on progress in the fulfillment of 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 ¥1,596 million. The decrease of ¥3,767 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 ¥1,704 million in contract liabilities in the current consolidated fiscal year resulted mainly from advances received in connection with the conclusion of new contracts at the Company.

(b) Transaction price allocated to residual performance obligations

The total transaction price allocated to the residual performance obligation is ¥106,622 million, and the Company and the overseas consolidated subsidiary expect to recognize revenue for these residual performance obligations between 2023 and 2030 as the performance obligations are fulfilled.

Previous fiscal year ended March 31, 2022

(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 progress in the fulfillment of 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.

20. Revenue Recognition (cont'd)

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.

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 previous 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 previous consolidated fiscal year resulted mainly from advances received in connection with the conclusion of new contracts at the 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 their 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) Measurement of 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) Reportable segment profit or loss, segment assets, segment liabilities and other material items and disaggregated revenue

Current fiscal year ended March 31, 2023:

	Millions of yen							
	Reportable segments							
	Rolling Stock		Lease of Real Estate		Adjustment		Consolidated	
Revenue from contracts with customers	¥	35,060	¥	-	¥	-	¥	35,060
Other revenue	¥	-	¥	814	¥	-	¥	814
Net sales	¥	35,060	¥	814	¥	-	¥	35,874
Segment profit		1,626		710		(1,107)		1,229
Segment assets		51,183		1,534		2,772		55,489
Segment liabilities		13,737		597		13,860		28,194
Depreciation and amortization		1,141		26		63		1,230
Increase in tangible and intangible assets		1,801		-		56		1,857

1. Adjustments are as follows:

(a) The adjustment of segment profit of ¥(1,107) million is corporate expenses of ¥(1,107) million that are not attributable to reportable segments and represents administrative expenses of the Company.

(b) The adjustment of segment assets of ¥2,772 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) The adjustment of segment liabilities of ¥13,860 million is for liabilities that are not allocable to any reportable segments.

(d) Depreciation and amortization of ¥63 million is depreciation and amortization that are not allocable to any reportable segments.

(e) The increase in tangible and intangible assets of ¥56 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, 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) The 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) The adjustment of segment assets of ¥7,010 million is for surplus funds and assets that are not allocable to any reportable segments.

(c) The 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) The 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)

Related information

Information for each country and area for the year ended March 31, 2023 is as follows:

(a) Net sales

Millions of yen			
Japan	United States of America	Others	Consolidated
¥ 24,742	¥ 8,102	¥ 3,030	¥ 35,874

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

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

(b) Property, plant and equipment

Millions of yen		
Japan	United States of America	Consolidated
¥ 9,388	¥ 2,870	¥ 12,258

Information for major customers for the year ended March 31, 2023 is as follows:

Customer	Net sales (millions of yen)	Segment
West Japan Railway Company	¥ 5,404	Rolling stock
Osaka Metro Co., Ltd.	5,002	Rolling stock
Tokyo Metro Co., Ltd.	4,848	Rolling stock
Bureau of Transportation Tokyo Metropolitan Government	4,206	Rolling stock

21. Segment information (cont'd)

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

(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

22. Per share information

Per share information for the years ended March 31, 2023 and 2022 is as follows:

	Yen	
	2023	2022
Net assets per share	¥ 3,966.58	¥ 3,556.63
Net income per share	171.97	401.92

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.

	2023	2022
Net income (millions of yen)	1,183	2,766
Amounts not attributable to ordinary shares (millions of yen)	-	-
Net income attributable to ordinary shares (millions of yen)	1,183	2,766
Average number of shares outstanding during each year (shares)	6,881,182	6,881,447

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 COVID-19. 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023, as described in Note3, "Significant accounting estimates", an allowance for losses on contracts of ¥1,163 million was recognized. Included therein was ¥1,132 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, 2023

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.