THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

Years ended March 31, 2007 and 2008

KPMG

Independent Auditors' Report

To the Board of Directors of THE KINKI SHARYO CO., LTD.:

We have audited the accompanying consolidated balance sheets of THE KINKI SHARYO CO., LTD. and consolidated subsidiaries as of March 31, 2007 and 2008, the related consolidated statements of income ,changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THE KINKI SHARYO CO., LTD. and consolidated subsidiaries as of March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
As disucussed in Note 15, in the ended March 31, 2008, THE KINKI SHARYO CO., LTD. and consolidated subsidiaries changed its policy of business segment.

Osaka, Japan
June 27, 2008

KPMG AZSA & Co.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2007 and 2008

	Millions of yen	
	2007	2008
ASSETS		
Current Assets:		
Cash and time deposits (Note 3)	¥ 11,250	¥ 3,834
Receivables:		
Trade notes (Note 4)	485	407
Trade accounts	12,657	16,253
Other accounts	321	630
Allowance for doubtful receivables	(21)	(31)
	13,442	17,259
Inventories:		
Finished goods	196	270
Work-in-process	9,300	19,417
Raw materials and supplies	1,033	998
	10,529	20,685
Deferred income tax assets (Note 9)	534	300
Other current assets	707	2,760
Total current assets	36,462	44,838
Investments and Long-term Receivables:		
Investments:		
Unconsolidated subsidiaries and affiliates	357	355
Investment securities (Note 5)	6,912	5,507
	7,269	5,862
Long-term receivables	157	1,076
Allowance for doubtful receivables	(46)	(39)
	7,380	6,899
Property, Plant and Equipment		
Land	2,029	2,724
Buildings and structures (Note 6)	7,530	8,136
Machinery and equipment	12,091	12,850
Construction in progress	310	71
	21,960	23,781
Accumulated depreciation	(13,985)	(14,633)
	7,975	9,148
Other Assets		
Intangible assets	212	185
Deferred income tax assets (Note 9)	-	6
Long-term prepaid expenses	360	161
	¥ 52,389	¥ 61,237

	Millions of yen	
	2007	2008
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Bank loans (Note 7)	¥ -	¥ 7,500
Payables:		
Trade notes (Note 4)	1,184	2,218
Trade accounts	5,443	7,948
Construction	1,316	1,064
Advances received	13,318	9,021
Income and enterprise taxes payable	438	652
Accrued expenses	1,597	1,840
Deferred income tax liabilities (Note 9)	-	529
Allowance for losses on contracts	521	303
Other current liabilities	569	606
Total current liabilities	24,386	31,681
Noncurrent Liabilities:		
Retirement and severance benefits (Note 8)	1,548	1,706
Deferred income tax liabilities (Note 9)	547	358
Other liabilities (Note 6)	2,099	1,875
	4,194	3,939
Contingent Liabilities (Note 15)		
Net Assets (Note 10)		
Common stock:		
Authorized - 120,000,000 shares		
Issued - 69,083,597 shares	5,253	5,253
Capital surplus	3,125	3,125
Retained earnings	13,434	14,436
Treasury stock, at cost	(40)	(46)
143,634 shares in 2008		
Net unrealized holding gains on securities	2,029	1,202
Net unrealized holding gains (losses) on derivatives	(79)	1,730
Foreign currency translation adjustments	87	(83)
Total net assets	23,809	25,617
	¥ 52,389	¥ 61,237

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2007 and 2008

	Millions of yen	
	2007	2008
Net sales (Note 11)	¥ 36,635	¥ 45,184
Cost of sales	33,023	39,818
Gross profit	3,612	5,366
Selling, general and administrative expenses	2,940	3,185
Operating income	672	2,181
Other income (expenses):		
Interest and dividend income	258	391
Interest expense	(6)	(30)
Equity in net gain (loss) of an affiliate	27	(2)
Foreign exchange gain (loss)	7	(244)
Loss on prior year adjustments	(41)	-
Loss on valuation of investment in an affiliate	(16)	-
Other, net	(61)	(47)
	168	68
Income before income taxes	840	2,249
Income taxes (Note 9)		
Current	(479)	(1,018)
Deferred	162	116
Net income	¥ 523	¥ 1,347

	Yen	
Amounts per share:		
Net income	¥ 7.59	¥ 19.53
Cash dividends applicable to the year	¥ 5.00	¥ 5.00

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2007 and 2008

	Number of shares of common stock	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized holding losses on derivatives	Foreign currency translation adjustments	Total
Balance at March 31, 2006	69,083,597	¥ 5,253	¥ 3,125	¥ 13,305	¥ (32)	¥ 1,640	¥ 0	¥ 61	¥ 23,352
Cash dividends paid at ¥5.00 per share	-	-	-	(344)	-	-	-	-	(344)
Bonuses to directors and corporate auditors	-	-	-	(50)	-	-	-	-	(50)
Net income	-	-	-	523	-	-	-	-	523
Treasury stock	-	-	-	-	(8)	-	-	-	(8)
Net changes during the year	-	-	-	-	-	389	(79)	26	336
Balance at March 31, 2007	69,083,597	¥ 5,253	¥ 3,125	¥ 13,434	¥ (40)	¥ 2,029	¥ (79)	¥ 87	¥ 23,809

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized holding gains (losses) on derivatives	Foreign currency translation adjustments	Total
Balance at March 31, 2007	69,083,597	¥ 5,253	¥ 3,125	¥ 13,434	¥ (40)	¥ 2,029	¥ (79)	¥ 87	¥ 23,809
Cash dividends paid at ¥5.00 per share	-	-	-	(345)	-	-	-	-	(345)
Net income	-	-	-	1,347	-	-	-	-	1,347
Treasury stock	-	-	-	-	(6)	-	-	-	(6)
Net changes during the year	-	-	-	-	-	(827)	1,809	(170)	812
Balance at March 31, 2008	69,083,597	¥ 5,253	¥ 3,125	¥ 14,436	¥ (46)	¥ 1,202	¥ 1,730	¥ (83)	¥ 25,617

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2007 and 2008

	Millions of yen	
	2007	2008
Cash flows from operating activities:		
Net income before income taxes	¥ 840	¥ 2,249
Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	819	1,041
Increase in retirement benefits	104	157
Increase (decrease) in allowance for losses on contracts	509	(205)
Interest and dividend income	(258)	(391)
Interest expense	6	30
Equity in net loss (gain) of an affiliate	(27)	2
Decrease (increase) in trade notes and accounts receivable	8,794	(7,807)
Increase in inventories	(981)	(10,322)
Increase in trade notes and trade accounts payable	2,024	3,758
Interest and dividends received	258	391
Interest paid	(6)	(30)
Income taxes paid	(201)	(760)
Other, net	50	(216)
Net cash provided by (used in) operating activities	11,931	(12,103)
Cash flows from investing activities:		
Decrease in time deposits	5	-
Acquisitions of property, plant and equipment, and intangible assets	(828)	(2,494)
Proceeds from sales of property, plant and equipment, and intangible assets	8	1
Acquisitions of investment securities	(174)	-
Other, net	-	10
Net cash used in investing activities	(989)	(2,483)
Cash flows from financing activities:		
Net increase (decrease) in short-term bank loans	(3,000)	7,500
Repayment of long-term debt	(200)	-
Cash dividends paid	(344)	(345)
Payments for treasury stock	(9)	(6)
Net cash provided by (used in) financing activities	(3,553)	7,149
Effect of exchange rate changes on cash and cash equivalents	195	21
Net increase (decrease) in cash and cash equivalents	7,584	(7,416)
Cash and cash equivalents at beginning of year	3,666	11,250
Cash and cash equivalents at end of year (Note 3)	¥ 11,250	¥ 3,834

See accompanying notes.

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

1. Basis of presenting consolidated financial statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. 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.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 3(a), is presented with the consolidated balance sheet as of March 31, 2006, prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2(u), the consolidated statement of changes in net assets for the year ended March 31, 2007 was prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although not required to be filed with the Local Finance Bureau.

2. Significant accounting policies

(a) Consolidation - The consolidated financial statements include the accounts of the Company and its three significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company. Intercompany transactions and accounts have been eliminated.

The Company applies the equity method of accounting for investments in one significant affiliate over which the Company has the ability to exercise significant influence over operating and financial policies.

(b) Consolidated subsidiaries' fiscal year-ends - The consolidated overseas subsidiaries have fiscal years ending on December 31. Significant transactions between December 31 and March 31 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.

(d) Allowance for doubtful receivables - The Company and its consolidated subsidiaries (the "Companies") provide for doubtful accounts principally at an amount computed based on management's estimate of the bad debt ratio plus an estimated uncollectible amount based on an analysis 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 changes in the fair value as gains or losses unless the derivative financial instruments are applied for hedge accounting.

2. Significant accounting policies (cont’d.)

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts and interest rate swap contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts, interest rate swap contracts, and 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,

(a) 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

(b) 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 gains or losses on the forward foreign exchange contract are recognized.

3. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(g) Inventories - Finished goods are stated on the identified cost method. Work-in-process is principally stated at identified cost. Other inventories are stated at cost determined by the moving average method.

2. Significant accounting policies (cont'd.)

(h) Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is principally calculated by the declining balance method over the estimated useful life of the asset. In accordance with revisions of the Japanese Corporate Tax Law, effective April 1, 1998, newly acquired buildings are depreciated on the straight-line method.

Effective from the fiscal year beginning April 1, 2007, the Company and its domestic subsidiary changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007, in accordance with the revised the Japanese Corporate Tax Law. As a result, gross profit, operating income and income before income taxes were ¥20 million less than they would have been under the previous method.

As for property, plant and equipment acquired before April 1, 2007, the Company and its domestic subsidiary applied the pre-revised depreciation method during the fiscal year beginning April 1, 2007. Among these, property, plant and equipment for which allowable limit on the depreciation amount had been reached are to be depreciated evenly over five years beginning from the following fiscal year. As a result, gross profit was ¥43 million less and operating income and income before income taxes were ¥44 million less than they would have been without the application.

(i) Intangible assets - Intangible assets are amortized on 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) Research and development expenses - The Companies charge research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥128 million and ¥95 million for the years ended March 31, 2007 and 2008, respectively.

(l) Retirement and severance benefits for employees - Under the terms of the Company's and its consolidated domestic subsidiary's unfunded lump-sum retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, base salary at the time of retirement and cause of retirement. The Company also has a funded noncontributory pension plan which covers a portion of total retirement benefits.

2. Significant accounting policies (cont'd.)

In order to provide for the employees' retirement benefits, the Company and consolidated domestic subsidiary accrue the liability as of the end of the fiscal year in an amount calculated based on the estimated projected benefit obligation and value of plan assets. Actuarial gains and losses are recognized in expenses using the straight-line method over 10 years, which is within the average of the estimated remaining service years, commencing with the following period. The unamortized net transition obligation is being amortized over fifteen years by the straight-line method from the year ended March 31, 2001.

(m) Bonuses - The Company and certain consolidated subsidiaries accrue employees' bonuses in amounts based on estimated amounts to be paid to employees in the subsequent period. The Company also accrues directors' and corporate auditors' bonuses in the amounts based on estimated amounts to be paid to directors and corporate auditors in the subsequent period.

As discussed in Note 3(b), for the year ended March 31, 2007, the Company also accrues directors' and corporate auditors' bonuses in the amounts based on estimated amounts to be paid to directors and corporate auditors in the subsequent period.

(n) Allowance for losses on contracts - An allowance for losses on contracts is provided at the balance sheet date for the future losses on contracts for which eventual losses are reasonably estimated.

(o) Income taxes - Income taxes comprise corporate tax, prefectural and municipal inhabitants taxes and enterprise tax. The asset and 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.

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

(q) Accounting for leases - Finance leases which do not transfer ownership may be accounted for in the same manner as operating leases under Japanese GAAP.

2. Significant accounting policies (cont'd.)

(r) Net income and cash dividends per share - Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each financial period.

(s) Revenue recognition - Revenue and related costs are generally recorded on the delivery basis. However, consolidated overseas subsidiaries apply the percentage-of-completion method.

(t) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2008 presentation.

(u) Accounting Standard for Statement of Changes in Net Assets - Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").
The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, was not adapted to the new presentation rules of 2007.

3. Change in accounting policy

(a) Accounting standards for presentation of net assets in the balance sheet - Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007, prepared in accordance with the New Accounting Standards, comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006, prepared pursuant to the previous presentation rules, comprises the assets, liabilities and shareholders' equity sections.

3. Change in accounting policy (cont'd.)

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized holding losses on derivatives. Under the previous presentation rules, unrealized holding losses on derivatives were included in the assets or liabilities section without considering the related income tax effects. Share subscription rights and minority interests were included in the net assets section at March 31, 2007.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ￥23,888 million would have been presented.

(b) Accounting Standard for Bonuses to Directors - Bonuses to directors and corporate auditors were formerly accounted for by a decrease in retained earnings. Effective from the fiscal year ended March 31, 2007, the Company adopted new accounting standards, "Accounting Standards for Bonuses to Directors"(Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005), and bonuses to directors are accounted for as an expense in the period during which the bonuses had occurred. The effect of this adoption of this new accounting standard on income before income tax was ¥80 million.

4. 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, 2007 and 2008 were as follows:

	Millions of yen	
	2007	2008
Cash and time deposits	¥ 11,250	¥ 3,834
Cash and cash equivalents	¥ 11,250	¥ 3,834

5. Effect of bank holiday

As financial institutions in Japan were closed on March 31, 2007, amounts that would normally have been settled on March 31, 2007, were collected on the following business day in April. The effect was as follows:

	Millions of yen
	2007
Trade notes receivable increased by	¥ 77
Trade notes payable increased by	41

6. Securities

At March 31, 2007 and 2008, information on securities was as follows:

a. Trading securities: None

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

c. Available-for-sale securities of March 31, 2007 and 2008 with readily determinable fair values were as follows:

Securities with book values (fair values) that exceeded acquisition costs

	Millions of yen		
	2007		
	Acquisition costs	Book value	Difference
Equity securities	¥ 3,319	¥ 6,728	¥ 3,409
Other	9	22	13
Total	¥ 3,328	¥ 6,750	¥ 3,422

6. Securities (cont'd)

	Millions of yen		
	2008		
	Acquisition costs	Book value	Difference
Equity securities	¥ 3,209	¥ 5,243	¥ 2,034
Other	9	17	8
Total	¥ 3,218	¥ 5,260	¥ 2,042

Securities with book values (fair values) that did not exceed acquisition costs

	Millions of yen		
	2007		
	Acquisition costs	Book value	Difference
Equity securities	¥ -	¥ -	¥ -
Other	10	9	(1)
Total	¥ 10	¥ 9	¥ (1)

	Millions of yen		
	2008		
	Acquisition costs	Book value	Difference
Equity securities	¥ 110	¥ 94	¥ (16)
Other	-	-	-
Total	¥ 110	¥ 94	¥ (16)

d. There were no sales of available-for-sale securities in the year ended March 31, 2007 and the total sales of such securities were immaterial in the year ended March 31, 2008

e. At March 31, 2007 and 2008, securities with fair values that were not readily determinable were as follows:

	Millions of yen	
	2007	2008
Non-quoted equity securities	¥ 153	¥ 153

7. Pledged assets

At March 31, 2007 and 2008, the following assets were pledged as collateral for deposits on contracts of ¥1,205 million and ¥1,131 million, respectively, and deposits from tenants of ￥70 million (included in other liabilities in noncurrent liabilities):

	Millions of yen	
	2007	2008
Buildings , net book value	¥ 742	¥ 710

8. Bank loans and long-term debt

Bank loans are represented by short-term notes, principally with maturities of one year and bearing interest at an average annual rate of 0.4% and 1.0% at March 31, 2007 and 2008, respectively. The Company has had no difficulty in renewing such notes upon maturity.

The Company had no long-term debt at March 31, 2007 and 2008.

9. Retirement and severance benefits

The Company and its consolidated domestic subsidiary provide for employees' retirement and severance benefits under two plans, a funded noncontributory pension plan established pursuant to the Corporate Tax Law and an unfunded lump-sum benefits plan.

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2007 and 2008.

	Millions of yen	
	2007	2008
Benefit obligation	¥ 5,942	¥ 5,846
Fair value of plan assets	(741)	(769)
Funded status:		
Benefit obligation in excess of plan assets	5,201	5,077
Unrecognized net transition obligation	(2,848)	(2,492)
Unrecognized actuarial differences	(805)	(879)
Total	1,548	1,706
Retirement and severance benefits in the consolidated balance sheets	¥ 1,548	¥ 1,706

Note: The consolidated domestic subsidiary has adopted the allowed alternative treatment under the accounting standards for retirement benefits allowed for small business entities.

9. Retirement and severance benefits (cont'd)

Severance and pension costs of the Companies included the following components for the years ended March 31, 2007 and 2008, respectively.

	Millions of yen			
	2007		2008	
Service cost	¥	248	¥	246
Interest cost		119		117
Expected return on plan assets		(9)		(15)
Amortization of net transition obligation		356		356
Amortization of actuarial differences		120		125
Other		28		44
Net periodic benefit cost	¥	862	¥	873

Note: (a) Service cost included severance and pension costs of the consolidated domestic subsidiary, which had adopted the allowed alternative treatment under the accounting standards for retirement benefits allowed for small business entities.

(b) Other was the payment for the defined contribution pension plans of the consolidated overseas subsidiaries.

The discount rate used by the Companies at March 31, 2007 and 2008 was 2.0%. The expected rate of return on plan assets used by the Companies at March 31, 2007 and 2008 was 1.5% and 2.0% respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total years.

10. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

		Millions of yen
		2007
Deferred income tax assets:		
Retirement and severance benefits	¥	629
Net operating loss carryforwards		160
Allowance for losses on contracts		195
Excess bonuses accrued		157
Long-term deposits received		113
Net unrealized holding losses on derivatives		55
Foreign tax		43
Enterprise tax		42
Other		322
		1,716
Valuation allowance		(312)
Total deferred income tax assets		1,404
Deferred income tax liabilities:		
Net unrealized holding gains on securities		(1,392)
Reserve for deferred gains on sales of fixed assets		(13)
Other		(12)
Total deferred income tax liabilities		(1,417)
Net deferred income tax liabilities	¥	(13)

10. Income taxes (cont'd)

		Millions of yen
		2008
Deferred income tax assets:		
Retirement and severance benefits	¥	694
Excess bonuses accrued		199
Net operating loss carryforwards		155
Allowance for losses on contracts		114
Long-term deposits received		107
Enterprise tax		47
Other		431
		1,747
Valuation allowance		(261)
Total deferred income tax assets		1,486
Deferred income tax liabilities:		
Net unrealized holding gains on derivatives		(1,189)
Net unrealized holding gains on securities		(825)
Other		(53)
Total deferred income tax liabilities		(2,067)
Net deferred income tax liabilities	¥	(581)

(b) The following table summarizes the significant difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2007 after tax effect accounting was applied. The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2008 after tax effect accounting was applied was not material.

	2007
Statutory tax rate	40.7 %
Valuation allowance for deferred income tax assets	(11.1)
Tax effect of permanent differences	4.0
Other	4.1
Effective tax rate	37.7 %

11. Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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 Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve was included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by 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.

12. Related party transactions

Kintetsu Corporation ("KC") directly owned 14% of the Company's outstanding common stock and owned 35% indirectly through The Master Trust Bank of Japan, Ltd. at March 31, 2007 and 2008.

Sales to KC for the year ended March 31, 2007 and 2008 were ¥1,052 million and ¥94 million, respectively. Receivables from KC at March 31, 2007 and 2008 were ¥21 million and ¥53 million, respectively.

The Company directly owns 40% of COSMO KINKI Co., Ltd. ("CK").

Sales to CK for the years ended March 31, 2007 and 2008 were ¥3,718 million and ¥3,566 million, respectively. Receivables from CK at March 31, 2007 and 2008 were ¥2,173 million and ¥2,110 million, respectively.

13. Derivative transactions

(a) The nature and purpose of derivative transactions

The Company enters into foreign currency forward contracts and interest rate swap transactions to manage risk and reduce exposure to market fluctuations in relation to foreign currency denominated monetary assets and liabilities and interest rates. It does not use derivatives for leveraging or speculative purposes.

The Companies had derivatives outstanding at March 31, 2007, all of which were applied for hedge accounting.

Information for derivatives for which hedge accounting has not been applied at March 31, 2008 was as follows:

Current related	Millions of yen		
	Contract or notional amount	Fair value	Net recognized gains
Foreign exchange forward contracts:			
Selling			
U.S. dollars	¥ 2,095	¥ 1,809	¥ 286
Total	¥ 2,095	¥ 1,809	¥ 286

(b) Risks of transactions

Foreign currency forward contracts and interest rate swap contracts have market risk that is due to market fluctuations. The Company has low credit risk because the Company only uses highly rated domestic banks as counterparties to these contracts.

13. Derivative transactions (cont'd)

(c) The Company's control system

The Company sets policies concerning derivative transactions at executive directors' meetings. Control of derivative transactions is carried out by the accounting department. The Company has policies that limit the authority over and the amounts of derivative transactions, and the results of derivative transactions are reported at the executive directors' meetings.

14. Leases

Information for non-capitalized finance leases at March 31, 2007 and 2008 was as follows:

	Millions of yen	
	2007	2008
Original lease obligations for furniture and fixtures (including finance charges)	¥ 35	¥ 35
Payments due within one year	¥ 5	¥ 7
Payments due after one year	13	21
Total payments remaining	¥ 18	¥ 28

Lease payments for such leases for the years ended March 31, 2007 and 2008 were ¥10 million and ¥6 million, respectively.

Obligations under operating leases at March 31, 2007 and 2008 were as follows:

	Millions of yen	
	2007	2008
Payments due within one year	¥ 92	¥ 58
Payments due after one year	84	22
Total payments remaining	¥ 176	¥ 80

15. Segment information

Information by business segment of the Companies was as follows:

Year ended March 31, 2007:

	Millions of yen					
	Rolling stock	Sash and door	Lease of real estate	Other	Elimination and corporate	Consolidated
Net sales	¥ 30,680	¥ 3,736	¥ 780	¥ 1,570	¥ (131)	¥ 36,635
Costs and expenses	29,415	3,691	147	1,632	1,078	35,963
Operating income (loss)	¥ 1,265	¥ 45	¥ 633	¥ (62)	¥ (1,209)	¥ 672
Identifiable assets	¥ 42,266	¥ 3,434	¥ 2,151	¥ 1,127	¥ 3,411	¥ 52,389
Depreciation and amortization	519	119	63	34	84	819
Capital expenditure	1,241	50	-	24	96	1,411

Year ended March 31, 2008:

	Millions of yen					
	Rolling stock	Sash and door	Lease of real estate	Other	Elimination and corporate	Consolidated
Net sales	¥ 39,341	¥ 3,591	¥ 784	¥ 1,582	¥ (114)	¥ 45,184
Costs and expenses	36,448	3,581	138	1,635	1,201	43,003
Operating income (loss)	¥ 2,893	¥ 10	¥ 646	¥ (53)	¥ (1,315)	¥ 2,181
Identifiable assets	¥ 51,776	¥ 3,460	¥ 2,116	¥ 913	¥ 2,972	¥ 61,237
Depreciation and amortization	776	107	54	37	67	1,041
Capital expenditure	2,137	20	15	15	57	2,244

The Companies' operations are divided into four business segments as follows:

Rolling stock	Trains for the JR group, private railways and subways and related parts and maintenance.
Sash and door	Products for the building construction industry and repairs.
Lease of real estate	Lease of real estate
Other	Aluminum materials

15. Segment information (cont'd)

One consolidated domestic subsidiary had previously manufactured mainly train parts, but now manufactures mainly aluminum materials after a reorganization of its business. Effective April 1, 2007, a four–segment classification was presented due to this change, while a three-segment classification was presented for the year ended March 31, 2007.

Information by business segment of the Companies for the year ended March 31, 2007 was reclassified to conform to the four-segment classification for comparative purposes. Aluminum materials was included in the Other segment.

Corporate operating expenses of ¥1,211 million and ¥1,314 million for the years ended March 31, 2007 and 2008, respectively, mainly comprised expenses of administration departments.

Corporate assets of ¥3,415 million and ¥2,972 million at March 31, 2007 and 2008, respectively, mainly comprised cash and cash equivalents and assets of administration departments.

Information by geographic area was as follows:

Year ended March 31, 2007:

	Millions of yen			
	Japan	North America	Elimination and corporate	Consolidated
Net sales	¥ 31,859	¥ 9,327	¥ (4,551)	¥ 36,635
Cost and expenses	29,577	9,603	(3,217)	35,963
Operating income (loss)	¥ 2,282	¥ (276)	¥ (1,334)	¥ 672
Identifiable assets	¥ 36,539	¥ 16,223	¥ (373)	¥ 52,389

Year ended March 31, 2008:

	Millions of yen			
	Japan	North America	Elimination and corporate	Consolidated
Net sales	¥ 31,264	¥ 19,517	¥ (5,597)	¥ 45,184
Cost and expenses	28,608	18,762	(4,367)	43,003
Operating income	¥ 2,656	¥ 755	¥ (1,230)	¥ 2,181
Identifiable assets	¥ 47,484	¥ 12,898	¥ 855	¥ 61,237

The principal geographic area in North America is the United States of America.

15. Segment information (cont'd)

Corporate operating expenses of ¥1,211 million and ¥1,314 million for the years ended March 31, 2007 and 2008, respectively, mainly comprised expenses of administration departments.

Corporate assets of ¥3,415 million and ¥2,972 million at March 31, 2007 and 2008, respectively, mainly comprised cash and cash equivalents and assets of administration departments.

Information for overseas net sales which included exports and offshore sales by the Companies but excluded sales by overseas subsidiaries to Japan, was as follows:

Year ended March 31, 2007:

	Millions of yen			
	North America	Africa	Asia	Total
Overseas sales	¥ 9,327	¥ 7	¥ 4,532	¥ 13,866
Consolidated net sales				36,635
Ratio of overseas sales to Consolidated net sales	25.4 %	0.0%	12.4 %	37.8%

Year ended March 31, 2008:

	Millions of yen			
	North America	Africa	Asia	Total
Overseas sales	¥ 19,519	¥ 60	¥ 7,609	¥ 27,188
Consolidated net sales				45,184
Ratio of overseas sales to consolidated net sales	43.2 %	0.1 %	16.9%	60.2 %

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

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

16. Contingent liabilities

Contingent liabilities at March 31, 2007 and 2008 were as follows:

	Millions of yen	
	2007	2008
Guarantees of loans from banks to an affiliate ···············	¥ 200	¥ 200

17. Subsequent events

Cash dividends

At the meeting of the Board of Directors of the Company held on May 14, 2008, an appropriation of nonconsolidated retained earnings for the year ended March 31, 2008 was duly approved as follows:

	Millions of yen
Cash dividends - ¥5.00 per share ···············	¥ 345