

THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

Years ended March 31, 2009 and 2010



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 (the "Company"), and its consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity 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 financial position of THE KINKI SHARYO Co., Ltd. and its consolidated subsidiaries as of March 31, 2010 and 2009, and the 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 Note 2 of the Notes to Consolidated Financial Statement, which describes how THE KINKI SHARYO Co., Ltd. and its consolidated subsidiaries changed methods for estimating the provision for product warranties.

Osaka, Japan
June 29, 2010

KPMG AZSA & Co.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2009 and 2010

	Millions of yen			Millions of yen	
	2009	2010		2009	2010
ASSETS			LIABILITIES AND NET ASSETS		
Current Assets:			Current Liabilities:		
Cash and time deposits (Note 4)	¥ 9,637	¥ 7,960	Bank loans (Note 8)	¥ 6,700	¥ 4,000
Receivables:			Payables:		
Trade notes	169	41	Trade notes	2,050	902
Trade accounts	18,808	17,856	Trade accounts	8,601	5,121
Other accounts	26	51	Construction	946	908
Allowance for doubtful receivables	(49)	(33)	Advances received	11,615	7,601
	<u>18,954</u>	<u>17,915</u>	Income and enterprise taxes payable	1,648	1,688
Inventories:			Accrued expenses	1,774	2,438
Work-in-process	18,088	14,581	Allowance for losses on contracts	-	340
Raw materials and supplies	664	524	Provision for product warranties	568	955
	<u>18,752</u>	<u>15,105</u>	Provision for loss on business liquidation	100	-
Deferred income tax assets (Note 10)	742	1,524	Other current liabilities	1,548	889
Other current assets	1,666	686	Total current liabilities	<u>35,550</u>	<u>24,842</u>
Total current assets	<u>49,751</u>	<u>43,190</u>	Noncurrent Liabilities:		
Investments and Long-term Receivables:			Retirement and severance benefits (Note 9)	990	1,076
Investments:			Deferred income tax liabilities (Note 10)	0	0
Unconsolidated subsidiaries and affiliates	209	61	Other liabilities (Note 7)	2,767	2,233
Investment securities (Note 6)	3,572	4,245		<u>3,757</u>	<u>3,309</u>
	<u>3,781</u>	<u>4,306</u>	Contingent Liabilities (Note 17)		
Long-term receivables	153	178			
Allowance for doubtful receivables	(50)	(73)	Net Assets (Note 11)		
	<u>3,884</u>	<u>4,411</u>	Common stock:		
Property, Plant and Equipment			Authorized - 120,000,000 shares		
Land	2,704	2,695	Issued - 69,083,597 shares	5,253	5,253
Buildings and structures (Note 7)	8,320	9,127	Capital surplus	3,125	3,125
Machinery and equipment	10,843	10,194	Retained earnings	17,017	21,414
Construction in progress	306	67	Treasury stock, at cost	(59)	(91)
	<u>22,173</u>	<u>22,083</u>	172,955 shares in 2009		
Accumulated depreciation	(13,515)	(13,217)	220,319 shares in 2010		
	<u>8,658</u>	<u>8,866</u>	Net unrealized holding gains on securities	44	423
Other Assets			Net unrealized holding gains (losses) on derivatives	290	(25)
Intangible assets	179	174	Foreign currency translation adjustments	(1,370)	(1,037)
Deferred income tax assets (Note 10)	855	484	Total net assets	<u>24,300</u>	<u>29,062</u>
Long-term prepaid expenses	280	88		<u>¥ 63,607</u>	<u>¥ 57,213</u>
	<u>¥ 63,607</u>	<u>¥ 57,213</u>			

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2009 and 2010

	Millions of yen	
	2009	2010
Net sales (Note 12)	¥ 65,727	¥ 55,307
Cost of sales	53,285	42,172
Gross profit	12,442	13,135
Selling, general and administrative expenses	3,963	4,557
Operating income	8,479	8,578
Other income (expenses):		
Interest and dividend income	160	85
Interest expense	(88)	(59)
Equity in net loss of an affiliate	(122)	-
Foreign exchange gain	80	99
Loss on revision of retirement benefit plan	(2,376)	-
Loss on liquidation of business	(314)	-
Loss on compensation for health damage	(296)	-
Loss on valuation of investment in inventories	(158)	-
Provision for product warranties for prior periods	-	(557)
Loss on valuation of investment in subsidiaries and affiliates	-	(148)
Other, net	(33)	(83)
	(3,147)	(663)
Income before income taxes	5,332	7,915
Income taxes (Note 10)		
Current	(2,863)	(3,628)
Deferred	457	455
Net income	¥ 2,926	¥ 4,742

	Yen	
Amounts per share:		
Net income	¥ 42.45	¥ 68.83
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, 2009 and 2010

	Millions of yen								
	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	Total
Balance at March 31, 2008	69,083,597	¥ 5,253	¥ 3,125	¥ 14,436	¥ (46)	¥ 1,202	¥ 1,730	¥ (83)	¥ 25,617
Cash dividends paid at ¥5.00 per share	-	-	-	(345)	-	-	-	-	(345)
Net income	-	-	-	2,926	-	-	-	-	2,926
Treasury stock	-	-	-	-	(13)	-	-	-	(13)
Net changes during the year	-	-	-	-	-	(1,158)	(1,440)	(1,287)	(3,885)
Balance at March 31, 2009	69,083,597	¥ 5,253	¥ 3,125	¥ 17,017	¥ (59)	¥ 44	¥ 290	¥ (1,370)	¥ 24,300
	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, 2009	69,083,597	¥ 5,253	¥ 3,125	¥ 17,017	¥ (59)	¥ 44	¥ 290	¥ (1,370)	¥ 24,300
Cash dividends paid at ¥5.00 per share	-	-	-	(345)	-	-	-	-	(345)
Net income	-	-	-	4,742	-	-	-	-	4,742
Treasury stock	-	-	-	-	(32)	-	-	-	(32)
Net changes during the year	-	-	-	-	-	379	(315)	333	397
Balance at March 31, 2010	69,083,597	¥ 5,253	¥ 3,125	¥ 21,414	¥ (91)	¥ 423	¥ (25)	¥ (1,037)	¥ 29,062

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2009 and 2010

	Millions of yen	
	2009	2010
Cash flows from operating activities:		
Net income before income taxes	¥ 5,332	¥ 7,915
Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,197	1,214
Increase in retirement benefits	52	86
Increase in provision for product warranties	568	387
Increase (Decrease) in allowance for losses on contracts	(282)	340
Increase (Decrease) in provision for loss on business liquidation	100	(100)
Interest and dividend income	(160)	(85)
Interest expense	88	59
Equity in net loss of an affiliate	122	-
Loss on revision of retirement benefit plan	2,376	-
Loss on compensation for health damage	296	-
Loss on liquidation of business	214	-
Decrease (Increase) in trade notes and accounts receivable	489	(2,965)
Decrease in inventories	1,348	3,616
Increase (Decrease) in trade notes and trade accounts payable	1,243	(4,491)
Payment for revision of retirement benefit plan	(2,170)	(428)
Payment for compensation for health damage	(291)	-
Interest and dividends received	160	85
Interest paid	(85)	(62)
Income taxes paid	(1,879)	(3,554)
Other, net	1,023	680
Net cash provided by operating activities	9,741	2,697
Cash flows from investing activities:		
Acquisitions of property, plant and equipment, and intangible assets	(1,238)	(1,621)
Proceeds from sales of property, plant and equipment, and intangible assets	168	21
Purchases of investment securities	(35)	(43)
Proceeds from sales of investment securities	30	-
Proceeds from sales of stock of subsidiaries and affiliates	40	-
Net cash (used in) investing activities	(1,035)	(1,643)
Cash flows from financing activities:		
Net decrease in short-term bank loans	(800)	(2,700)
Cash dividends paid	(341)	(342)
Payments for treasury stock	(13)	(32)
Net cash (used in) financing activities	(1,154)	(3,074)
Effect of exchange rate changes on cash and cash equivalents	(1,749)	343
Net increase (decrease) in cash and cash equivalents	5,803	(1,677)
Cash and cash equivalents at beginning of year	3,834	9,637
Cash and cash equivalents at end of year (Note 4)	¥ 9,637	¥ 7,960

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.

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. Intercompany transactions and accounts have been eliminated.

The Company applied the equity method of accounting for investments in one significant affiliate over which the Company had the ability to exercise significant influence over operating and financial policies, but the Company excluded this affiliate from the range of application of the equity method as of the reporting term since the Company transferred all the stock of this affiliate that the Company owned.

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

2. Significant accounting policies (cont'd.)

(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 based on management's estimate of the bad debt ratio plus the estimated uncollectible amount of certain individual receivables.

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

(f) Derivatives and hedge accounting - The Companies state derivative financial instruments at fair value and recognize a change in the fair value as gain or loss unless the derivative financial instrument was accounted for with hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related gain or loss on the hedged item is recognized.

However, in cases in which forward foreign exchange contracts and interest rate swap 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,
 - (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

2. Significant accounting policies (cont'd.)

- (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 gain or loss on the forward foreign exchange contract is 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 - Work-in-process is stated principally at identified cost. Raw materials and supplies are stated at cost determined by the moving average method.

On July 5, 2006, the Accounting Standards Board of Japan issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." As permitted under the superseded accounting standard, the Company and its consolidated domestic subsidiary previously stated inventories at cost. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. Replacement cost may be used in lieu of the net realizable value, if appropriate. As a result of the adoption of ASBJ Statement No. 9, gross profit and operating income were ¥44 million less, and income before income taxes was ¥202 million less for the year ended March 31, 2009 than the amounts that would have been recorded with the previous method.

(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 Japanese Corporate Tax Law.

2. Significant accounting policies (cont'd.)

For property, plant and equipment acquired before April 1, 2007, the Company and its consolidated domestic subsidiary applied the pre-revised depreciation method during the fiscal year beginning April 1, 2007. For the, property, plant and equipment acquired before April 2007, for which the allowable limit of depreciation has been reached the residual amount is to be depreciated evenly over five years beginning from the following fiscal year.

Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiary changed the useful life of machinery based a reassessment of the useful life following a change in the Corporation Tax Code of Japan. As a result, operating income and income before income taxes were ¥81 million less in the year ended March 31, 2009 than they would have been without the change.

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

(l) 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 ¥168 million and ¥681 million for the years ended March 31, 2009 and 2010, respectively.

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

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

2. Significant accounting policies (cont'd.)

Prior service cost is also recognized in expenses using the straight-line method over 10 years, commencing from the following period. The unamortized net transition obligation is being amortized over 15 years by the straight-line method from the year ended March 31, 2001.

The Company changed the employees' retirement and severance benefit system from an approved retirement annuity system to a defined contribution system at January 1, 2009. As a result, income before income taxes was ¥2,376 million less than it would have been without the application.

Effective from the fiscal year ended March 31, 2010, the Company adopted ASBJ Statement No.19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)", (issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the year ended March 31, 2010.

(n) Bonuses - The Company and certain consolidated subsidiaries accrue employees' bonuses based on estimated amounts to be paid to employees in the subsequent period.

Prior to the year ended March 31, 2010, the Company also accrued directors' and corporate auditors' bonuses based on estimated amounts to be paid to directors and corporate auditors in the subsequent period.

Directors' and corporate auditors' bonuses were not accrued in the year ended March 31, 2010 because the Company abolished the directors' and corporate auditors' bonuses system.

(0) 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. The Company recognized such an allowance in the fiscal year ended March 31, 2009 because it was possible to reasonably estimate. As a result, gross profit, operating income and income before tax decreased by ¥568 million.

Effective from the fiscal year beginning April 1, 2009, a provision for product warranties is also provided at the balance sheet date at an estimated amount based on the rate of actual product warranties. As a result, gross profit and operating income decreased by ¥207 million, and income before income taxes decreased by ¥764 million.

2. Significant accounting policies (cont'd.)

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

(q) Provision for loss on business liquidation - A provision for loss on business liquidation is provided at the balance sheet date when losses on business liquidation can be reasonably estimated at the end of fiscal year. A consolidated subsidiary recognized this allowance in the fiscal year ended March 31, 2009 because the expense associated with its decision to abandon the aluminum material business could be reasonably estimated. As a result, income before income taxes decreased by ¥99 million.

(r) 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.

(s) 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."

(t) 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.

(u) Revenue and related cost recognition - The Company generally records the revenues and related costs on construction contracts by the percentage-of-completion method if the progress of the construction activity is deemed certain during the course of the activity, otherwise, the completed-contract method is applied. The consolidated overseas subsidiaries also apply the percentage-of-completion method.

2. Significant accounting policies (cont'd.)

Effective from the year ended March 31, 2010, the Company adopted ASBJ Statement No.15, "Accounting Standard for Construction Contracts", issued on December 27, 2007, and ASBJ Guidance No.18, "Guidance on Accounting Standard for Construction Contracts", issued on December 27, 2007. Accordingly, when the progress of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method to work commencing during the year ended March 31, 2010, otherwise the completed-contract method is applied. The progress, or percent of the contract completed, as of the end of the reporting period is measured by the proportion of the cost incurred as of the end of the period to the estimated total cost. The adoption of the new standard had no impact on the consolidated financial statements. In addition, prior to the year ended March 31, 2010, the Company generally recognized revenues and related costs on the delivery basis, the Company applied the inspection basis instead of the delivery basis for the revenues which are recognized by the completed-contract method. As a result of this change, the revenue was ¥425 million less for the year ended March 31, 2009 than the amounts that would have been recorded with the previous method, however there was no impact on the consolidated statements of income because the related inventory was impaired.

(v) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2010 presentation.

3. Change in accounting policy

(a) Accounting for overseas subsidiaries in consolidated financial statements - On May 17, 2006, the Accounting Standards Board of Japan issued Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances be, in principle, unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using its foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. With such use, adjustments for the following six items are required in the consolidation process so that the impact on net income is accounted for in accordance with Japanese GAAP unless the impact is immaterial.

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

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets
- (e) Retrospective treatment of a change in accounting policies
- (f) Accounting for net income attributable to minority interests

The adoption of PITF No. 18 had no material effects on the consolidated financial statements for the year ended March 31, 2009.

(b) Accounting Standard for leases - Prior to the year ended March 31, 2009, the Company and its consolidated domestic subsidiary accounted for finance leases which did not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements. On March 31, 2007, the Accounting Standards Board of Japan issued Statement No. 13, "Accounting Standard for Lease Transactions," and Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions." The new accounting standards require that all finance lease transactions be treated as capital leases.

Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiary have adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalize assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information. The adoption of the new accounting standards had no material effects on the consolidated financial statements.

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, 2009 and 2010 were as follows:

	Millions of yen	
	2009	2010
Cash and time deposits	¥ 9,637	¥ 7,960
Cash and cash equivalents	¥ 9,637	¥ 7,960

5. Financial instruments:disclosure

Effective from the year ended March 31, 2010, the Company adopted ASBJ Statement No.10, "Accounting Standard for financial Instruments", revised on March 10, 2008, and ASBJ Guidance No.19, "Guidance on Disclosures about Fair Value of Financial Instruments", revised on March 10, 2008. Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is set forth below.

(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 customers. The Companies decrease the risk by managing the notes and receivables according to internal credit control rules.

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

Investments securities - Investments securities are mostly comprised from stocks and recognized by the fair value quarterly.

Bank borrowings - Borrowings from banks are used to raise working capital.

(b) Fair values of financial instruments

The book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2010 were as follows:

	Millions of yen		
	2010		
	Book value	Fair value	Difference
Cash and time deposits	¥ 7,960	¥ 7,960	¥ -
Trade notes and trade accounts receivable	17,864	17,524	340
Investment securities	4,107	4,107	-
Trade notes and trade accounts payable	6,023	6,023	-
Bank loans	4,000	4,000	-
Derivatives			
Not apply hedge accounting	135	135	-
Apply hedge accounting	¥ (42)	¥ (42)	¥ -

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

The fair value of the financial instruments above, except for some of trade accounts, approximates the book value because the maturity is short. Some trade accounts are valued with the rate of the foreign currency exchange contract, and some such as trade accounts which maturity over a year are discounted to their present value.

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

	<u>Millions of yen</u>	
	<u>2010</u>	
Unlisted stocks	¥	<u>199</u>

Unlisted stocks above were not included in investment securities because they had no market value.

Maturity value after closing date

	<u>Millions of yen</u>	
	<u>2010</u>	
	<u>Within a year</u>	<u>Over a year</u>
Cash and time deposits	¥ 7,960	¥ -
Trade notes and trade accounts	17,806	92
Investment securities	¥ -	¥ -

6. Securities

At March 31, 2009 and 2010, information on securities was as follows:

- a. Trading securities: None
- b. Bonds intended to be held to maturity with readily determinable fair values: None
- c. Available-for-sale securities with readily determinable fair values as of March 31, 2009 and 2010 were as follows:

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

	Millions of yen		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,492	¥ 2,015	¥ 523
Other	9	11	2
Total	¥ 1,501	¥ 2,026	¥ 525

	Millions of yen		
	2010		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,541	¥ 2,632	¥ 1,091
Other	9	13	4
Total	¥ 1,550	¥ 2,645	¥ 1,095

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

	Millions of yen		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,862	¥ 1,408	¥ (454)
Other	-	-	-
Total	¥ 1,862	¥ 1,408	¥ (454)

	Millions of yen		
	2010		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,850	¥ 1,462	¥ (388)
Other	-	-	-
Total	¥ 1,850	¥ 1,462	¥ (388)

6. Securities (cont'd.)

- d. The total sales of available-for-sale securities were immaterial in the year ended March 31, 2009 and there was no sale of available-for-sale securities in the year ended March 31, 2010.
- e. At March 31, 2009, securities with fair values that were not readily determinable were as follows:

	Millions of yen	
	2009	
Non-quoted equity securities	¥	138

7. Pledged assets

At March 31, 2009 and 2010, the following assets were pledged as collateral for deposits on contracts of ¥1,051 million and ¥971 million, respectively, and deposits from tenants of ¥70 million (included in other liabilities in noncurrent liabilities):

	Millions of yen	
	2009	2010
Buildings, net book value	¥ 682	¥ 610

8. Bank loans and long-term debt

Bank loans represents short-term notes, principally with maturities of one year and bearing interest at an average annual rate of 0.8% and 0.4% at March 31, 2009 and 2010, respectively.

The Company had no long-term debt at March 31, 2009 and 2010.

9. Retirement and severance benefits

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

The Company transferred a funded noncontributory pension plan established pursuant to the Corporate Tax Law and a portion of an unfunded lump-sum benefits plan to a defined contribution pension plan at January 1, 2009. As a result, income before income taxes was ¥2,376 million less than it would have been without the application.

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2009 and 2010.

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

	Millions of yen	
	2009	2010
Benefit obligation	¥ 2,431	¥ 2,255
Funded status:		
Benefit obligation in excess of plan assets	2,431	2,255
Unrecognized net transition obligation	(756)	(630)
Unrecognized actuarial differences	(545)	(423)
Unrecognized prior service cost	(140)	(126)
Total	990	1,076
Retirement and severance benefits in the consolidated balance sheets	¥ 990	¥ 1,076

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

(b) The effect of the Company's change of pension plan to the defined contribution pension plan was as follows:

	Millions of yen	
	2009	
Decrease in retirement benefits	¥	3,741
Decrease in plan assets		(2,531)
Unrecognized net transition obligation		(1,436)
Unrecognized actuarial differences		(720)
Unrecognized prior service cost		(100)
Total	¥	(1,046)

The amount of assets to be transferred to the defined contribution pension plan over a period of four years was ¥3,695 million. The amount that had not been transferred by the end of the fiscal year amounted to ¥551 million and was included in other liabilities in noncurrent liabilities.

	Millions of yen	
	2009	2010
Service cost	¥ 211	¥ 134
Interest cost	97	47
Expected return on plan assets	(11)	-
Amortization of net transition obligation	298	126
Amortization of actuarial differences	131	86
Amortization of prior service cost	4	14
Other	90	180
Net periodic benefit cost	820	587
Loss on revision of retirement benefit plan	2,376	-
Total	¥ 3,196	¥ 587

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

Note: (a) Service cost included severance and pension costs of the consolidated domestic subsidiary, which had adopted the 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, 2009 and 2010 was 2.0%. The expected rate of return on plan assets used by the Companies at March 31, 2009 was 2.0%. 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, 2009 and 2010 were as follows:

	<u>Millions of yen</u>	
	<u>2009</u>	
Deferred income tax assets:		
Transfer for defined contribution plan	¥	406
Retirement and severance benefits		403
Excess bonuses accrued		278
Provision for product warranties		231
Net operating loss carryforwards		197
Enterprise tax		133
Long-term deposits received		100
Other		669
		<u>2,417</u>
Valuation allowance		<u>(314)</u>
Total deferred income tax assets		<u>2,103</u>
Deferred income tax liabilities:		
Net unrealized holding gains on derivatives		(377)
Net unrealized holding gains on securities		(26)
Other		(103)
Total deferred income tax liabilities		<u>(506)</u>
Net deferred income tax liabilities	¥	<u>1,597</u>

10. Income taxes (cont'd)

	<u>Millions of yen</u>	
	<u>2010</u>	
Deferred income tax assets:		
Retirement and severance benefits	¥	438
Provision for product warranties		389
Excess bonuses accrued		292
Net operating loss carryforwards		267
Transfer for defined contribution plan		224
Research and development expense		185
Allowance for losses on contracts		138
Enterprise tax		103
Other		757
		<u>2,793</u>
Valuation allowance		<u>(365)</u>
Total deferred income tax assets		<u>2,428</u>
Deferred income tax liabilities:		
Net unrealized holding gains on securities		(284)
Other		(136)
Total deferred income tax liabilities		<u>(420)</u>
Net deferred income tax liabilities	¥	<u>2,008</u>

(b) The following table summarizes the significant difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2009 after tax effect accounting was applied. The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2010 after tax effect accounting was applied was not material.

	<u>2009</u>
Statutory tax rate	40.7 %
Valuation allowance for deferred income tax assets	2.1
Tax effect of permanent differences	0.7
Other	1.6
Effective tax rate	<u>45.1 %</u>

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 indirectly owned 35% through The Master Trust Bank of Japan, Ltd. at March 31, 2009 and 2010.

Sales to KC for the years ended March 31, 2009 and 2010 were ¥1,583 million and ¥2,530 million, respectively. Receivables from KC at March 31, 2009 and 2010 were ¥1,007 million and ¥2,393 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.

Information on derivatives for which hedge accounting had not been applied at March 31, 2009 and 2010 was as follows:

	Millions of yen		
	2009		
	Contract or notional amount	Fair value	Net recognized gains
Foreign exchange forward contracts:			
Selling			
U.S. dollars	¥ 1,045	¥ 1,052	¥ (7)
Total	¥ 1,045	¥ 1,052	¥ (7)

	Millions of yen		
	2010		
	Contract or notional amount	Fair value	Net recognized losses
Foreign exchange forward contracts:			
Selling			
U.S. dollars	¥ 3,450	¥ 3,315	¥ 135
Total	¥ 3,450	¥ 3,315	¥ 135

13. Derivative transactions (cont'd)

Information on derivatives for which hedge accounting had been applied at March 31, 2010 was as follows:

	Millions of yen			
	2010			
	Contract or notional amount		Fair value	
Foreign exchange forward contracts:				
Selling				
U.S. dollars	¥	6,700	¥	6,401
Euro		10		7
Total	¥	6,710	¥	6,408

(b) Policies for transactions

Derivatives are only used within foreign exchange contracts as hedges and are not used for the purpose of speculation.

(c) Risks of transactions

The Company is exposed to market risk from market fluctuations related to foreign currency forward contracts and interest rate swap contracts. The Company has low credit risk because the Company only uses highly rated domestic banks as counterparties to these contracts.

(d) 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 on non-capitalized finance leases at March 31, 2009 and 2010 was as follows:

Acquisition cost accumulated depreciation and net value of leases

	Millions of yen	
	2009	2010
Acquisition cost for furniture and fixtures (including finance charges)	¥ 35	¥ 35
Accumulated depreciation	14	21
Net value	21	14

Obligations under non-capitalized finance leases

	Millions of yen	
	2009	2010
Payments due within one year	¥ 7	¥ 7
Payments due after one year	14	7
Total payments remaining	¥ 21	¥ 14

Lease payments under such leases for both the years ended March 31, 2009 and 2010 were ¥7 million.

Obligations under operating leases at March 31, 2009 and 2010 were as follows:

	Millions of yen	
	2009	2010
Payments due within one year	¥ 48	¥ 58
Payments due after one year	60	77
Total payments remaining	¥ 108	¥ 135

15. Fair value of investment and rental property

The Companies are required to apply ASBJ Statement No.20, "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property", issued on November 28, 2008, and ASBJ Guidance No.23, "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property", issued on November 28, 2008, for the year ending on or after March 31, 2010. Pursuant to the new requirements, information about fair value of investment and rental property is disclosed as follows:

The Company owns the real estate for lease in Osaka and other prefectures. The income from to the real estate for lease was ¥565 million on March 31, 2010. The book value, net change during the year and fair value of the real estate for lease were as follows:

Current related	Millions of yen	
	2010	
Balance at March 31, 2009	¥	2,100
Net change during the year		(81)
Balance at March 31, 2010		2,019
Fair value at March 31, 2010		8,986

16. Segment information

Information by business segment of the Companies was as follows:

Year ended March 31, 2009:

	Millions of yen							Consolidated
	Rolling stock	Sash and door	Lease of real estate	Other	Elimination and corporate			
Net sales	¥ 62,419	¥ 1,615	¥ 792	¥ 984	¥ (83)	¥ 65,727		
Costs and expenses	52,825	1,832	143	1,115	1,333	57,248		
Operating income (loss)	¥ 9,594	¥ (217)	¥ 649	¥ (131)	¥ (1,416)	¥ 8,479		
Identifiable assets	¥ 56,703	¥ 447	¥ 2,113	¥ 498	¥ 3,846	¥ 63,607		
Depreciation and amortization	968	58	52	50	69	1,197		
Capital expenditure	1,470	-	-	18	107	1,595		

Year ended March 31, 2010:

	Millions of yen					Consolidated
	Rolling stock	Lease of real estate	Other	Elimination and corporate		
Net sales	¥ 54,527	¥ 737	¥ 60	¥ (18)	¥ 55,307	
Costs and expenses	45,067	172	98	1,392	46,729	
Operating income (loss)	¥ 9,460	¥ 565	¥ (38)	¥ (1,410)	¥ 8,578	
Identifiable assets	¥ 49,738	¥ 2,037	¥ 49	¥ 5,389	¥ 57,213	
Depreciation and amortization	1,025	83	4	102	1,214	
Capital expenditure	1,117	8	-	459	1,584	

16. Segment information (cont'd)

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

Note: Business in the sash and door segment was abandoned in March, 2009, and a decision was made to abandon the aluminum materials business in the other segment in the fiscal year beginning April 1, 2009.

Corporate operating expenses of ¥1,418 million and ¥1,410 million for the years ended March 31, 2009 and 2010, respectively, comprised mainly expenses of administrative departments.

Corporate assets of ¥3,849 million and ¥5,389 million at March 31, 2009 and 2010, respectively, comprised mainly cash and cash equivalents and assets of administrative departments.

Information by geographic segment was as follows:

Year ended March 31, 2009:

	Millions of yen			
	Japan	North America	Elimination and corporate	Consolidated
Net sales	¥ 50,243	¥ 18,731	¥ (3,247)	¥ 65,727
Cost and expenses	42,485	16,390	(1,627)	57,248
Operating income (loss)	¥ 7,758	¥ 2,341	¥ (1,620)	¥ 8,479
Identifiable assets	¥ 45,114	¥ 18,477	¥ 16	¥ 63,607

Year ended March 31, 2010:

	Millions of yen			
	Japan	North America	Elimination and corporate	Consolidated
Net sales	¥ 42,113	¥ 17,590	¥ (4,396)	¥ 55,307
Cost and expenses	35,130	14,640	(3,041)	46,729
Operating income (loss)	¥ 6,983	¥ 2,950	¥ (1,355)	¥ 8,578
Identifiable assets	¥ 37,062	¥ 18,100	¥ 2,051	¥ 57,213

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

16. Segment information (cont'd)

Corporate operating expenses of ¥1,418 million and ¥1,410 million for the years ended March 31, 2009 and 2010, respectively, comprised mainly expenses of administrative departments.

Corporate assets of ¥3,849 million and ¥5,389 million at March 31, 2009 and 2010, respectively, comprised mainly cash and cash equivalents and assets of administrative departments.

Information on 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, 2009:

	Millions of yen			
	North America	Africa	Asia	Total
Overseas sales	¥ 18,829	¥ 1,912	¥ 31,123	¥ 51,864
Consolidated net sales				65,727
Ratio of overseas sales to consolidated net sales	28.6 %	2.9 %	47.4%	78.9 %

Year ended March 31, 2010:

	Millions of yen			
	North America	Africa	Asia	Total
Overseas sales	¥ 17,596	¥ 50	¥ 20,463	¥ 38,109
Consolidated net sales				55,307
Ratio of overseas sales to consolidated net sales	31.8 %	0.1 %	37.0%	68.9%

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

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

17. Contingent liabilities

Contingent liabilities at March 31, 2009 were as follows:

	Millions of yen	
	2009	2010
Guarantees of loans from banks to an affiliate	¥ 200	¥ -

Note: As described in Note 2(a), all the stock of this affiliate that the Company owned was transferred as of March 31, 2009. Therefore there were no contingent liabilities at March 31, 2010.

18. Subsequent events

Cash dividends

At the Company's Board of Directors meeting held on May 11, 2010, an appropriation of nonconsolidated retained earnings for the year ended March 31, 2010 was duly approved as follows:

	<u>Millions of yen</u>
Cash dividends - ¥5.00 per share	<u>¥ 344</u>