THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

Years ended March 31, 2010 and 2011

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 (the "Company"). and its consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, statement of income for the year ended March 31, 2010, and statements of changes in net assets and cash flows for each of 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, 2011 and 2010, 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.

Without qualifying our opinion, we draw attention to Note 3 of the Notes to Consolidated Financial Statements, in which the comprehensive income for the year ended March 31, 2010 is disclosed.

KPMG AZSA LLC

Osaka, Japan
June 29, 2011

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2010 and 2011

	Millions of yen 2010	Millions of yen 2011
ASSETS		
Current Assets		
Cash and time deposits (Note 5)	¥ 7,960	¥ 14,416
Receivables		
Trade notes	41	59
Trade accounts	17,856	7,520
Other accounts	51	17
Allowance for doubtful receivables	(33)	(41)
	17,915	7,555
Inventories		
Work-in-process	14,581	8,603
Raw materials and supplies	524	527
	15,105	9,130
Deferred income tax assets (Note 11)	1,524	1,167
Other current assets	686	458
Total current assets	43,190	32,726
Property, Plant and Equipment		
Land	2,695	2,704
Buildings and structures (Note 8)	9,127	9,184
Machinery and equipment	10,194	10,318
Construction in progress	67	4
	22,083	22,210
Accumulated depreciation	(13,217)	(14,138)
	8,866	8,072
Investments and Other Assets		
Unconsolidated subsidiaries and affiliates	61	61
Investment securities (Note 7)	4,245	3,908
Long-term receivables	178	154
Intangible assets	174	145
Deferred income tax assets (Note 11)	484	496
Long-term prepaid expenses	88	36
Allowance for doubtful receivables	(73)	(59)
	5,157	4,741
Total assets	¥ 57,213	¥ 45,539

	Millions of yen 2010	Millions of yen 2011
LIABILITIES AND NET ASSETS		
Current Liabilities		
Bank loans (Note 9)	¥ 4,000	¥ -
Payables		
Trade notes	902	822
Trade accounts	5,121	3,314
Construction	908	200
Advances received	7,601	879
Income and enterprise taxes payable	1,688	578
Accrued expenses	2,438	2,321
Allowance for losses on contracts	340	372
Provision for product warranties	955	837
Other current liabilities	889	1,277
Total current liabilities	24,842	10,600
Noncurrent Liabilities		
Retirement and severance benefits (Note 10)	1,076	1,031
Other noncurrent liabilities (Note 8)	2,233	1,586
	3,309	2,617
Total liabilities	28,151	13,217
Contingent Liabilities (Note 18)		
Net Assets (Note 12)		
Shareholder's equity		
Common stock		
Authorized - 120,000,000 shares		
Issued - 69,083,597 shares	5,253	5,253
Capital surplus	3,125	3,125
Retained earnings	21,414	25,777
Treasury stock, at cost	(91)	(94)
220,319 shares in 2010		
226,913 shares in 2011		
Total shareholder's equity	29,701	34,061
Accumulated other comprehensive income		
Net unrealized holding gains on securities	423	222
Net unrealized holding gains (losses) on derivatives	(25)	-
Foreign currency translation adjustments	(1,037)	(1,961)
Total accumurated other comprehensive imcome	(639)	(1,739)
Total net assets	29,062	32,322
Total liabilities and net assets	¥ 57,213	¥ 45,539

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2010 and 2011

	Millions of yen	
	2010	2011
Net sales (Note 13)	¥ 55,307	¥ 52,588
Cost of sales	42,172	40,307
Gross profit	13,135	12,281
Selling, general and administrative expenses	4,557	4,542
Operating income	8,578	7,739
Other income (expenses)		
Interest and dividend income	85	93
Interest expense	(59)	(25)
Foreign exchange gain	99	75
Provision for product warranties for prior periods	(557)	-
Loss on valuation of investment in subsidiaries and affiliates	(148)	-
Other, net	(83)	65
	(663)	208
Income before income taxes	7,915	7,947
Income taxes (Note 11)		
Current	(3,628)	(2,619)
Deferred	455	(414)
Net income	¥ 4,742	¥ 4,914

	Yen	
Amounts per share		
Net income	¥ 68.83	¥ 71.36
Cash dividends applicable to the year	¥ 5.00	¥ 8.00

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2010 and 2011

	Millions of yen	
	2010	2011
Net income	¥ -	¥ 4,914
Other comprehensive income		
Net unrealized holding gains on securities	-	(201)
Net unrealized holding gains (losses) on derivatives	-	25
Foreign currency translation adjustments	-	(924)
Total other comprehensive income	-	(1,100)
Comprehensive income	-	3,814
Comprehensive income attributable to		
Owners of the parent	-	3,814

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2010 and 2011

	Millions of yen								
		Shareholder's equity				Accumulated other comprehensive income			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized holding gains (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

	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, 2010	69,083,597	¥ 5,253	¥ 3,125	¥ 21,414	¥ (91)	¥ 423	¥ (25)	¥ (1,037)	¥ 29,062
Cash dividends paid at ￥8.00 per share	-	-	-	(551)	-	-	-	-	(551)
Net income	-	-	-	4,914	-	-	-	-	4,914
Treasury stock	-	-	-	-	(3)	-	-	-	(3)
Net changes during the year	-	-	-	-	-	(201)	25	(924)	(1,100)
Balance at March 31, 2011	69,083,597	¥ 5,253	¥ 3,125	¥ 25,777	¥ (94)	¥ 222	¥ 0	¥ (1,961)	¥ 32,322

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2010 and 2011

	Millions of yen	
	2010	2011
Cash flows from operating activities		
Net income before income taxes	¥ 7,915	¥ 7,947
Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,214	1,123
Increase (decrease) in retirement benefits	86	(46)
Increase (decrease) in provision for product warranties	387	(118)
Increase in allowance for losses on contracts	340	32
(Decrease) in provision for loss on business liquidation	(100)	-
Interest and dividend income	(85)	(93)
Interest expense	59	25
Decrease (increase) in trade notes and accounts receivable	(2,965)	3,446
Decrease in inventories	3,616	5,651
(Decrease) in trade notes and trade accounts payable	(4,491)	(2,001)
Payment for revision of retirement benefit plan	(428)	(323)
Interest and dividends received	85	93
Interest paid	(62)	(25)
Income taxes paid	(3,554)	(3,727)
Other, net	680	640
Net cash provided by operating activities	2,697	12,624
Cash flows from investing activities		
Payments into time deposits	-	(1,000)
Proceeds from withdrawal of time deposits	-	1,000
Acquisitions of property, plant and equipment and intangible assets	(1,621)	(1,027)
Proceeds from sales of property, plant and equipment and intangible assets	21	3
Purchases of investment securities	(43)	-
Proceeds from sales of investment securities	-	1
Net cash (used in) investing activities	(1,643)	(1,023)
Cash flows from financing activities		
Net decrease in short-term bank loans	(2,700)	(4,000)
Cash dividends paid	(342)	(544)
Payments for treasury stock	(32)	(3)
Net cash (used in) financing activities	(3,074)	(4,547)
Effect of exchange rate changes on cash and cash equivalents	343	(598)
Net increase (decrease) in cash and cash equivalents	(1,677)	6,456
Cash and cash equivalents at beginning of year	9,637	7,960
Cash and cash equivalents at end of year (Note 5)	¥ 7,960	¥ 14,416

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

2. Significant accounting policies

(a) Consolidation - The consolidated financial statements include the accounts of the Company and 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.

(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.

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

2. Significant accounting policies (cont'd.)

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

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

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

(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.

2. Significant accounting policies (cont'd.)

(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.

(h) Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is calculated principally 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 by 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.

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 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.

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

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

(k) Capitalized leases - Property, plant and equipment capitalized under finance leases are depreciated over the term of the 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 ¥681 million and ¥536 million for the years ended March 31, 2010 and 2011, respectively.

2. Significant accounting policies (cont'd.)

(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.

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.

Effective from the fiscal year ended March 31, 2010, the Company has adopted ASBJ Statement No. 19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)," (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.

2. Significant accounting policies (cont'd.)

(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. 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 deceased by ¥207 million, and income before income taxes decreased by ¥764 million.

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

(r) Translation of foreign currencies - Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Financial statements of the consolidated overseas 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."

(s) 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.

(t) Revenue and related cost recognition – The Company generally records the revenues and related costs on construction contracts by the percentage-of-completion method if the progress of the construction activity is deemed certain during the course of the activity, 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 consolidated overseas subsidiaries also apply the percentage-of-completion method, and the progress, or percent of the contract completed, as of the end of the reporting period is measured by the physical proportion of the contract work completed.

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 commenced 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 a delivery basis, the Company applied the inspection basis instead of the delivery basis for the revenues which were recognized by the completed contract method. As a result of this change, 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.

(u) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2011 presentation.

3. Change in accounting policy

Accounting Standard for Asset Retirement Obligations - Effective April 1, 2010, the Company and its consolidated domestic subsidiaries adopted "Accounting Standards for Asset Retirement Obligations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 18 issued on March 31, 2008) and "Guidance on Accounting Standards for Assets Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008). The change had no material impact on the consolidated financial statements.

4. Comprehensive income information

Effective March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standard Board of Japan ("ASBJ") Statement No. 25, issued on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010).As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

Comprehensive income for the year ended March 31, 2010 was as follow:

	Millions of yen
	2010
Comprehensive income attribute to owners of the parent	5,139

Other comprehensive income for the year ended March 31, 2010 was as follow:

	Millions of yen
	2010
Net unrealized holding gains on securities	379
Net unrealized holding gains (losses) on derivatives	(315)
Foreign currency translation adjustments	333
Total other comprehensive income	397

5. 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, 2010 and 2011 were as follows:

	Millions of yen	
	2010	2011
Cash and time deposits	¥ 7,960	¥ 14,416
Cash and cash equivalents	¥ 7,960	¥ 14,416

6. 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 comprise mostly stocks and are 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 and 2011 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			
Hedge accounting not applied	135	135	-
Hedge accounting applied	¥ (42)	¥ (42)	¥ -

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

	Millions of yen		
	2011		
	Book value	Fair value	Difference
Cash and time deposits	¥ 14,416	¥ 14,416	¥ -
Trade notes and trade accounts receivable	7,538	7,538	-
Investment securities	3,770	3,770	-
Trade notes and trade accounts payable	¥ 4,136	¥ 4,136	¥ -

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

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

	Millions of yen	
	2010	2011
Unlisted stocks	¥ 199	¥ 199

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

Maturity value after closing date

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

	Millions of yen	
	2011	
	Within a year	Over a year
Cash and time deposits	¥ 14,416	¥ -
Trade notes and trade accounts	7,579	-
Investment securities	¥ -	¥ -

7. Securities

At March 31, 2010 and 2011, 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, 2010 and 2011 were as follows:

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

	Millions of yen		
	2010		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,541	¥ 2,632	¥ 1,091
Other	9	13	4
Total	¥ 1,500	¥ 2,645	¥ 1,095

	Millions of yen		
	2011		
	Acquisition cost	Book value	Difference
Equity securities	¥ 876	¥ 1,672	¥ 796
Other	9	12	3
Total	¥ 885	¥ 1,684	¥ 799

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

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

	Millions of yen		
	2011		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,514	¥ 2,086	¥ (428)
Other	-	-	-
Total	¥ 2,514	¥ 2,086	¥ (428)

7 Securities (cont'd.)

d. There was no sale of available-for-sale securities in the year ended March 31, 2010, and the total sales of available-for-sale securities were immaterial in the year ended March 31, 2011.

8. Pledged assets

At March 31, 2010 and 2011, the following assets were pledged as collateral for deposits on contracts of ¥971 million and ¥890 million, respectively, and deposits from tenants of ¥70 million (included in other liabilities in noncurrent liabilities):

	Millions of yen	
	2010	2011
Buildings, net book value	¥ 610	¥ 582

9. 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 0.4% at March 31, 2010. The Company had no bank loans at March 31, 2011.

The Company had no long-term debt at March 31, 2010 and 2011.

10. 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 following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2010 and 2011.

	Millions of yen	
	2010	2011
Benefit obligation	¥ 2,255	¥ 2,021
Funded status:		
Benefit obligation in excess of plan assets	2,255	2,021
Unrecognized net transition obligation	(630)	(504)
Unrecognized actuarial differences	(423)	(375)
Unrecognized prior service cost	(126)	(111)
Total	1,076	1,031
Retirement and severance benefits in the consolidated balance sheets	¥ 1,076	¥ 1,031

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

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

	Millions of yen			
	2010		2011	
Service cost	¥	134	¥	115
Interest cost		47		43
Amortization of net transition obligation		126		126
Amortization of actuarial differences		86		83
Amortization of prior service cost		14		14
Other		180		178
Net periodic benefit cost		587		559

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, 2010 and 2011 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.

11. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2011 were as follows:

		Millions of yen
		2010
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
		2,793
Valuation allowance		(365)
Total deferred income tax assets		2,428
Deferred income tax liabilities:		
Net unrealized holding gains on securities		(284)
Other		(136)
Total deferred income tax liabilities		(420)
Net deferred income tax liabilities	¥	2,008

11. Income taxes (cont'd)

		Millions of yen
		2011
Deferred income tax assets:		
Retirement and severance benefits	¥	420
Provision for product warranties		341
Excess bonuses accrued		248
Net operating loss carryforwards		243
Excess of depreciation		199
Allowance for losses on contracts		151
Other		703
		2,305
Valuation allowance		(338)
Total deferred income tax assets		1,967
Deferred income tax liabilities:		
Net unrealized holding gains on securities		(148)
Other		(157)
Total deferred income tax liabilities		(305)
Net deferred income tax liabilities	¥	1,662

(b) 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. The following table summarizes the significant difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2011 after tax effect accounting was applied.

	2011
Statutory tax rate	40.7 %
Permanently nondeductible expenses	0.2
Permanently noninclusive revenue	(1.9)
Valuation allowance for deferred income tax assets	(0.3)
Foreign tax credit	(0.1)
Dividend from consolidated subsidiary	0.9
Other	(1.3)
Effective tax rate	38.2 %

12. 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.

13. 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, 2010 and 2011. Sales to KC for the years ended March 31, 2010 and 2011 were ¥2,530 million and ¥509 million, respectively. Receivables from KC at March 31, 2010 and 2011 were ¥2,393 million and ¥2 million, respectively.

14. Derivative transactions

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

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

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

There were no derivatives for which hedge accounting had been applied or not applied at March 31, 2011.

15. Leases

Information on non-capitalized finance leases at March 31, 2010 and 2011 was as follows:

Acquisition cost, accumulated depreciation and net value of leases

	Millions of yen	
	2010	2011
Acquisition cost for furniture and fixtures (including finance charges)	¥ 35	¥ 35
Accumulated depreciation	21	28
Net value	14	7

Obligations under non-capitalized finance leases

	Millions of yen	
	2010	2011
Payments due within one year	¥ 7	¥ 5
Payments due after one year	7	2
Total payments remaining	¥ 14	¥ 7

Lease payments under such leases for both the years ended March 31, 2010 and 2011 were ¥7 million.

Obligations under operating leases at March 31, 2010 and 2011 were as follows:

	Millions of yen	
	2010	2011
Payments due within one year	¥ 58	¥ 70
Payments due after one year	77	47
Total payments remaining	¥ 135	¥ 117

16. 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 real estate for lease in Osaka and other prefectures. The income from the real estate for lease was ￥565 million and ￥604 as of and for the years ended March 31, 2010 and 2011, respectively. 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

Current related		Millions of yen
		2011
Balance at March 31, 2010	￥	2,019
Net change during the year		(45)
Balance at March 31, 2011		1,974
Fair value at March 31, 2011		8,904

17. Segment information

Information by business segment of the Companies was as follows:

Year ended March 31, 2010:

	Millions of yen				
	Rolling stock	Lease of real estate	Other	Elimination and corporate	Consolidated
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

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

Rolling stock	Trains for the JR group, private railways and subways and related parts and maintenance
Lease of real estate	Lease of real estate
Other	Aluminum materials

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

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

Information by geographic segment was as follows:

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.

17. Segment information (cont'd)

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

Corporate assets of ¥5,389 million at March 31, 2010 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, 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

Year ended March 31, 2011:

(a) General information about reportable segments

The reportable segment information of the Company is the obtainable finance information which is checked up to determine the allocation of management resources and to evaluate business performance in the Officers Committee and Board of Directors.

The Company has a Rail Transit Division that focuses on manufacturing rolling stocks. It works out strategy and deals with business about trains for the JR group, private railways and subways and the related parts and maintenance. In addition we deal with the lease of real estate. Therefore, the reportable segment information of the Company is that of "rolling stock" and "lease of real estate."

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

The accounting policies for reportable segment information is basically the same as in Note 1, "Basis of presenting consolidated financial statements."

17. Segment information (cont'd)

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

	Millions of yen			
	Reportable segment			
	Rolling stock	Lease of real estate	Adjustment	Consolidated
Net sales	¥ 51,845	¥ 744	¥ (1)	¥ 52,588
Segment income (loss)	¥ 8,617	¥ 604	¥ (1,482)	¥ 7,739
Segment assets	¥ 30,681	¥ 2,005	¥ 12,853	¥ 45,539
Segment liabilities	7,463	1,648	4,105	13,216
Depreciation and amortization	963	42	118	1,123
Increase of tangible and intangible asset	328	1	62	391

1. Adjustment is as follows:

(a) Adjustment of segment income (loss) of (¥1,482 million) is corporate costs of (¥1,482 million) which isn't allocated to either segment and comprises the control department's cost.

(b) Adjustment of segment assets of ¥12,853 million is our resources used and assets in control department.

(c) Adjustment of segment liabilities of ¥4,106 million is for liabilities in the control department.

(d) Increase in tangible and intangible asset of ¥62 million is equipment investment for the control department.

2. Segment income (loss) is adjusted to operating income in the consolidated statements of income.

Effective April 1, 2010, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan ("ASBJ") Statement No. 17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

17. Segment information (cont'd)

Related information

Information in each country and area for the year ended March 31, 2011 was as follows:

(1) Net sales

Millions of yen				
Japan	North America	Africa	Asia	Consolidated
¥ 23,418	¥ 23,326	¥ 3,594	¥ 2,250	¥ 52,588

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), United Arab Emirates

(2) Property, planet and equipment

Information about property, planet and equipment by geographic area is omitted because the amount of fixed assets held in Japan exceeds 90% of the amount of property, planet and equipment on the consolidated balance sheet.

Information about major customers for the year ended March 31, 2011 was as follows:

Customer	Net sales (Millions of yen)	Segment
Dallas Area Rapid Transit	16,068	Rolling stock
West Japan Railway Company	14,474	Rolling stock
Mitsubishi Corporation	5,740	Rolling stock

Information about impairment loss on fixed assets for each segment for the year ended March 31, 2011: None

Information about amortization of goodwill and the unamortized balance for each segment for the year ended March 31, 2011: None

Information about profit from negative goodwill for each segment for the year ended March 31, 2011: None

18. Subsequent events

Cash dividends

At the Company's Board of Directors meeting held on May 11, 2011, an appropriation of nonconsolidated retained earnings for the year ended March 31, 2011 was duly approved as follows:

	Millions of yen
Cash dividends - ¥5.00 per share	¥ 344