THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

Years ended March 31, 2011 and 2012

KPMG

Independent Auditor's Report

To the Board of Directors of THE KINKI SHARYO Co., Ltd.:

We have audited the accompanying consolidated financial statements of THE KINKI SHARYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of THE KINKI SHARYO Co., Ltd. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

August 30, 2012
Osaka, Japan

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2011 and 2012

	Millions of yen	
	2011	2012
ASSETS		
Current Assets		
Cash and time deposits (Note 5)	¥ 14,416	¥ 17,246
Receivables (Note 12)		
Trade notes	59	51
Trade accounts	7,520	4,666
Other accounts	17	15
Allowance for doubtful receivables	(41)	(11)
	7,555	4,721
Inventories		
Work-in-process	8,603	8,284
Raw materials and supplies	527	482
	9,130	8,766
Deferred income tax assets (Note 10)	1,167	1,219
Other current assets	458	439
Total current assets	32,726	32,391
Property, Plant and Equipment		
Land	2,704	2,704
Buildings and structures (Note 8)	9,184	9,120
Machinery and equipment	10,318	10,211
Construction in progress	4	32
	22,210	22,067
Accumulated depreciation	(14,138)	(14,528)
	8,072	7,539
Investments and Other Assets		
Unconsolidated subsidiaries and affiliates (Note 7)	61	61
Investment securities (Note 7)	3,908	4,196
Long-term receivables	154	152
Intangible assets	145	104
Deferred income tax assets (Note 10)	496	376
Long-term prepaid expenses	36	19
Allowance for doubtful receivables	(59)	(59)
	4,741	4,849
Total assets	¥ 45,539	¥ 44,779

	Millions of yen	
	2011	2012
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payables		
Trade notes	¥ 822	¥ -
Trade accounts	3,314	4,117
Construction	200	232
Advances received	879	65
Income and enterprise taxes payable	578	640
Accrued expenses	2,321	1,436
Allowance for losses on contracts	372	882
Provision for product warranties	837	629
Other current liabilities	1,277	477
Total current liabilities	10,600	8,478
Noncurrent Liabilities		
Retirement and severance benefits (Note 9)	1,031	1,240
Other noncurrent liabilities (Note 8)	1,586	1,504
	2,617	2,744
Total liabilities	13,217	11,222
Net Assets (Note 11)		
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	25,777	27,263
Treasury stock, at cost	(94)	(95)
226,913 shares in 2011		
229,823 shares in 2012		
Total shareholder's equity	34,061	35,546
Accumulated other comprehensive income		
Net unrealized holding gains on securities	222	320
Net unrealized holding gains on derivatives	-	14
Foreign currency translation adjustments	(1,961)	(2,323)
Total accumurated other comprehensive imcome	(1,739)	(1,989)
Total net assets	32,322	33,557
Total liabilities and net assets	¥ 45,539	¥ 44,779

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2011 and 2012

	Millions of yen	
	2011	2012
Net sales (Note 12)	¥ 52,588	¥ 30,033
Cost of sales	40,307	23,288
Gross profit	12,281	6,745
Selling, general and administrative expenses	4,542	3,786
Operating income	7,739	2,959
Other income (expenses)		
Interest and dividend income	93	107
Interest expense	(25)	(12)
Foreign exchange gain (loss)	75	(45)
Gain on sale of investment securities	-	131
Other, net	65	40
	208	221
Income before income taxes	7,947	3,180
Income taxes (Note 10)		
Current	(2,619)	(1,330)
Deferred	(414)	(19)
Net income	¥ 4,914	¥ 1,831

	Yen	
Amounts per share		
Net income	¥ 71.36	¥ 26.59
Cash dividends applicable to the year	¥ 8.00	¥ 5.00

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2011 and 2012

	Millions of yen	
	2011	2012
Net income	¥ 4,914	¥ 1,831
Other comprehensive income		
Net unrealized holding gains (losses) on securities	(201)	97
Net unrealized holding gains on derivatives	25	15
Foreign currency translation adjustments	(924)	(363)
Total other comprehensive income	(1,100)	(251)
Comprehensive income	3,814	1,580
Comprehensive income attributable to		
Owners of the parent	3,814	1,580

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2011 and 2012

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 April 1, 2010	69,083,597	¥ 5,253	¥ 3,125	¥ 21,414	¥ (91)	¥ 423	¥ (25)	¥ (1,037)	¥ 29,062
Cash dividends paid at ￥5.00 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	¥ -	¥ (1,961)	¥ 32,322

	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 April 1, 2011	69,083,597	¥ 5,253	¥ 3,125	¥ 25,777	¥ (94)	¥ 222	¥ -	¥ (1,961)	¥ 32,322
Cash dividends paid at ￥5.00 per share	-	-	-	(345)	-	-	-	-	(345)
Net income	-	-	-	1,831	-	-	-	-	1,831
Treasury stock	-	-	-	-	(1)	-	-	-	(1)
Net changes during the year	-	-	-	-	-	98	14	(362)	(250)
Balance at March 31, 2012	69,083,597	¥ 5,253	¥ 3,125	¥ 27,263	¥ (95)	¥ 320	¥ 14	¥ (2,323)	¥ 33,557

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2011 and 2012

	Millions of yen	
	2011	2012
Cash flows from operating activities		
Net income before income taxes	¥ 7,947	¥ 3,180
Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities		
Depreciation and amortization	1,123	911
Increase (decrease) in retirement benefits	(46)	210
(Decrease) in provision for product warranties	(118)	(208)
Increase in allowance for losses on contracts	32	510
Interest and dividend income	(93)	(107)
Interest expense	25	12
Decrease in trade notes and accounts receivable	3,446	1,949
Decrease in inventories	5,651	333
(Decrease) in trade notes and trade accounts payable	(2,001)	(38)
Payment for revision of retirement benefit plan	(323)	(228)
Interest and dividends received	93	107
Interest paid	(25)	(12)
Income taxes paid	(3,727)	(1,256)
Gain on sale of investment securities	-	(131)
Increase (decrease) in accounts payable and accrued expenses	938	(1,353)
Other, net	(298)	(35)
Net cash provided by operating activities	12,624	3,844
Cash flows from investing activities		
Payments into time deposits	(1,000)	(4,201)
Proceeds from withdrawal of time deposits	1,000	3,401
Acquisitions of property, plant and equipment and intangible assets	(1,027)	(323)
Proceeds from sales of property, plant and equipment and intangible assets	3	1
Purchases of investment securities	-	(168)
Purchase of short term investment securities	-	(307)
Proceeds from sales of investment securities	1	134
Proceeds from sales of short term investment securities	-	331
Net cash (used in) investing activities	(1,023)	(1,132)
Cash flows from financing activities		
Net decrease in short-term bank loans	(4,000)	-
Cash dividends paid	(544)	(346)
Payments for treasury stock	(3)	(1)
Net cash (used in) financing activities	(4,547)	(347)
Effect of exchange rate changes on cash and cash equivalents	(598)	(335)
Net increase (decrease) in cash and cash equivalents	6,456	2,030
Cash and cash equivalents at beginning of year	7,960	14,416
Cash and cash equivalents at end of year (Note 5)	¥ 14,416	¥ 16,446

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 loss or gain on the hedged item is recognized. However, in cases in which forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the contracts and the hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(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. For balance sheet valuation, in the event that an impairment in the value of inventory is determined the inventory written down to the lower of cost of market is using net realizable value.

(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 have 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 apply the pre-revised depreciation method. For such property, plant and equipment acquired for which the allowable limit of depreciation has been reached, the residual amount is depreciated evenly over five years beginning the year following fiscal year the initial limit was reached.

(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 ¥536 million and ¥556 million for the years ended March 31, 2011 and 2012, 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 of employees, 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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."

2. Significant accounting policies (cont'd.)

(r) Net income and cash dividends per share - Basic net income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share for the years ended March 31, 2011 and 2012 was not applicable because the Company had no dilutive common shares. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

(s) 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 can be reliably measured, 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 proportion of the physical contract work completed.

(t) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2012 presentation.

3. Additional information

(Accounting Standards for Accounting Changes and Error Corrections)

The Company and its consolidated domestic subsidiaries have adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors made from the fiscal year beginning on April 1, 2011.

4. Comprehensive income information

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

	Millions of yen
	2012
Net unrealized holding gains on securities	
Increase (decrease) during the year	123
Reclassification adjustments	-
Subtotal, before tax	123
Tax (expense) or benefit	(26)
Subtotal, net of tax	97
Net unrealized holding gains on derivatives	
Increase (decrease) during the year	24
Reclassification adjustments	-
Subtotal, before tax	24
Tax (expense) or benefit	(9)
Subtotal, net of tax	15
Foreign currency translation adjustments	
Increase (decrease) during the year	(363)
Reclassification adjustments	-
Subtotal, before tax	(363)
Tax (expense) or benefit	-
Subtotal, net of tax	(363)
Total other comprehensive income	(251)

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, 2011 and 2012 were as follows:

	Millions of yen	
	2011	2012
Cash and time deposits (in balance sheets)	¥ 14,416	¥ 17,246
Time deposits maturing after three mouths	-	(800)
Cash and cash equivalents (in statements of cash flows)	¥ 14,416	¥ 16,446

6. Financial instruments: disclosure

(a) Qualitative information on financial instruments

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

Trade notes and accounts receivable － Because of the nature of the business, the credit risk associated with trade notes and accounts receivable is concentrated with a limited number of 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 evaluated by the fair value quarterly.

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

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

(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, 2011 and 2012 were as follows:

	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	¥ -

	Millions of yen		
	2012		
	Book value	Fair value	Difference
Cash and time deposits	¥ 17,246	¥ 17,246	¥ -
Trade notes and trade accounts receivable	4,706	4,706	-
Investment securities	3,893	3,893	-
Trade notes and trade accounts payable	4,117	4,117	-
Derivatives			
Not applying hedge accounting	-	-	-
Applying hedge accounting	¥ 24	¥ 24	¥ -

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	
	2011	2012
Unlisted stocks	¥ 199	¥ 364

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

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

Maturity value after closing date

	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	¥ -	¥ -

	Millions of yen	
	2012	
	Within a year	Over a year
Cash and time deposits	¥ 17,246	¥ -
Trade notes and trade accounts	4,717	-
Investment securities	¥ -	¥ -

7. Securities

At March 31, 2011 and 2012, 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, 2011 and 2012 were as follows:

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

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

	Millions of yen		
	2012		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,457	¥ 2,292	¥ 835
Other	9	11	2
Total	¥ 1,466	¥ 2,303	¥ 837

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

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

	Millions of yen		
	2012		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,933	¥ 1,590	¥ (343)
Other	-	-	-
Total	¥ 1,933	¥ 1,590	¥ (343)

7 Securities (cont'd.)

d. Total sales of available-for-sale securities were immaterial for the year ended March 31, 2011. For the year ended March 31, 2012, total sales of available-for-sale securities were ¥134 million and profits on the sales were ¥131 million.

8. Pledged assets

At March 31, 2011 and 2012, the following assets were pledged as collateral for deposits on contracts of ¥890 million and ¥810 million, respectively, and deposits from tenants of ￥70 million (included in other liabilities in noncurrent liabilities):

	Millions of yen	
	2011	2012
Buildings, net book value	¥ 582	¥ 555

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 following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2011 and 2012.

	Millions of yen	
	2011	2012
Benefit obligation	¥ (2,021)	¥ (2,030)
Funded status:		
Benefit obligation in excess of plan assets	(2,021)	(2,030)
Unrecognized net transition obligation	504	378
Unrecognized actuarial differences	375	315
Unrecognized prior service cost	111	97
Total	(1,031)	(1,240)
Retirement and severance benefits in the consolidated balance sheets	¥ (1,031)	¥ (1,240)

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

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

	Millions of yen	
	2011	2012
Service cost	¥ 115	¥ 114
Interest cost	43	38
Amortization of net transition obligation	126	126
Amortization of actuarial differences	83	70
Amortization of prior service cost	14	14
Other	178	163
Net periodic benefit cost	559	525

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, 2011 and 2012 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 total number of service years.

10. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2011 and 2012 were as follows:

	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

10. Income taxes (cont'd)

		Millions of yen
		2012
Deferred income tax assets:		
Retirement and severance benefits	¥	451
Allowance for losses on contracts		335
Provision for product warranties		239
Net operating loss carryforwards		236
Excess bonuses accrued		225
Research and development		221
Excess depreciation		95
Other		449
		2,251
Valuation allowance		(460)
Total deferred income tax assets		1,791
Deferred income tax liabilities:		
Net unrealized holding gains on securities		(174)
Net unrealized holding gains on derivatives		(9)
Other		(13)
Total deferred income tax liabilities		(196)
Net deferred income tax liabilities	¥	1,595

(b) 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 %

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2012 after tax effect accounting was applied was not material.

10. Income taxes (cont’d)

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates:

On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.01% for years beginning on or after April 1, 2012 and 35.64% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates used for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 38.01% and 35.64%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by 106 million as of March 31, 2012, and deferred income tax expense recognized for the year ended March 31, 2012 increased by 131 million. Net unrealized holding gains on securities increased by 24 million as of March 31, 2012, and Net unrealized holding gains on derivatives increased by 1 million as of March 31, 2012

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

At March 31, 2011 and 2012, Kintetsu Corporation ("KC") directly owned 14% of the Company's outstanding common stock and indirectly owned another 35% through The Master Trust Bank of Japan, Ltd. The Company's sales to KC for the years ended March 31, 2011 and 2012 were ¥509 million and ¥224 million, respectively. Receivables from KC at March 31, 2011 and 2012 were ¥2 million and ¥192 million, respectively. The Company's purchases of investment securities from KC for the years ended March 31, 2012 were ¥165 million.

13. Derivative transactions

At March 31, 2011, there were no derivatives for which hedge accounting had either been applied or not applied.

Information on derivatives for which hedge accounting had been applied at March 31, 2012 was as follows:

	Millions of yen	
	2012	
	Contract or notional amount	Fair value
Foreign exchange forward contracts:		
buying		
Euro	¥ 264	¥ 288
Total	¥ 264	¥ 288

The methods for calculating actual values are based on the futures exchange rates.

14. Leases

Non-capitalized finance leases at March 31, 2011 and 2012 were as follows:

Acquisition cost, accumulated depreciation and net value of leases

	Millions of yen	
	2011	2012
Acquisition cost for furniture and fixtures (including finance charges)	¥ 35	¥ 16
Accumulated depreciation	28	14
Net value	7	2

Obligations under non-capitalized finance leases

	Millions of yen	
	2011	2012
Payments due within one year	¥ 5	¥ 2
Payments due after one year	2	-
Total payments remaining	¥ 7	¥ 2

Lease payments under non-capitalized finance leases for the years ended March 31, 2011 and 2012 were ¥7 million and ¥5 million, respectively.

Obligations under operating leases at March 31, 2011 and 2012 were as follows:

	Millions of yen	
	2011	2012
Payments due within one year	¥ 70	¥ 34
Payments due after one year	47	37
Total payments remaining	¥ 117	¥ 71

15. Fair value of investment and rental property

The Company owns real estate for lease in Osaka and other prefectures. The income from the real estate for lease was ￥604 million and ￥588 as of and for the years ended March 31, 2011 and 2012, respectively. The book value (balance), net changes during the year and fair value of the real estate for lease were as follows:

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

Current related		Millions of yen
		2012
Balance at April 1, 2011	¥	1,974
Net changes during the year		(39)
Balance at March 31, 2012		1,935
Fair value at March 31, 2012		8,766

16. Segment information

Information by business segment of the Companies was as follows:

(a) General information about reportable segments

Reportable segment information of the Company is the obtainable financial information which is made available to and used by the Officers Committee and Board of Directors to determine the allocation of management resources and to evaluate business performance. The Company has a Rail Transit Division that focuses on manufacturing rolling stock. It formulates strategy and deals with business about trains and the related parts and maintenance for the JR group, private railways and subways. In addition, the Company deals with the lease of real estate. Therefore, the reportable segments of the Company are that of "Rolling Stock" and "Lease of Real Estate."

(b) Basis of measurement about reportable 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 2, "Significant accounting policies."

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

Year ended March 31, 2011:

	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 in tangible and intangible assets	328	1	62	391

1. Adjustments are as follows:

(a) Adjustment of segment income (loss) of (¥1,482 million) is corporate costs of (¥1,482 million) not allocated to either segment and represents the Control Department's cost.

(b) Adjustment of segment assets of ¥12,853 million is resources used and assets in the Control Department.

16. Segment information (cont'd)

(c) Adjustment of segment liabilities of ¥4,106 million is for liabilities of 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.

Year ended March 31, 2012:

	Millions of yen			
	Reportable segment			
	Rolling Stock	Lease of Real Estate	Adjustment	Consolidated
Net sales	¥ 29,317	¥ 718	¥ (2)	¥ 30,033
Segment income (loss)	3,561	588	(1,190)	2,959
Segment assets	30,194	1,962	12,623	44,779
Segment liabilities	6,346	1,567	3,309	11,222
Depreciation and amortization	770	39	102	911
Increase in tangible and intangible assets	295	-	32	327

1. Adjustments are as follows:

(a) Adjustment of segment income (loss) of (¥1,190 million) is corporate costs of (¥1,190 million) not allocated to either segment and reflects the Control Department's cost.

(b) Adjustment of segment assets of ¥12,623 million is resources used and assets in the Control Department.

(c) Adjustment of segment liabilities of ¥3,309 million is for liabilities of the Control Department.

(d) Increase in tangible and intangible asset of ¥32 million is equipment investment for the Control Department.

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

16. Segment information (cont'd)

Related information

Information for 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 for 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 for each country and area for the year ended March 31, 2012 was as follows:

(1) Net sales

Millions of yen				
Japan	North America	Africa	Asia	Consolidated
¥ 16,880	¥ 7,877	¥ 4,302	¥ 974	¥ 30,033

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

16. Segment information (cont'd)

(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 for major customers for the year ended March 31, 2012 was as follows:

Customer	Net sales (Millions of yen)	Segment
West Japan Railway Company	7,407	Rolling stock
Mitsubishi Corporation	5,160	Rolling stock
East Japan Railway Company	3,233	Rolling stock

Information about impairment loss on fixed assets for each segment for the year ended March 31, 2011 and 2012, respectively: None

Information about amortization of goodwill and the unamortized balance for each segment for the year ended March 31, 2011 and 2012, respectively: None

Information about profit from negative goodwill for each segment for the year ended March 31, 2011 and 2012, respectively: None

17. Subsequent events

Cash dividends

At the Company's Board of Directors meeting held on May 10, 2012, an appropriation of nonconsolidated retained earnings for the year ended March 31, 2012 was duly approved as follows:

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