KPMG

THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

Years ended March 31, 2008 and 2009

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of THE KINKI SHARYO Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, 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 subsidiaries as of March 31, 2009 and 2008, 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 14 to the consolidated financial statements, THE KINKI SHARYO CO., LTD. and consolidated subsidiaries changed its policy of business segment.

Osaka, Japan
June 26, 2009

KPMG AZSA & Co.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2008 and 2009

	Millions of yen	
	2008	2009
ASSETS		
Current Assets:		
Cash and time deposits (Note 4)	¥ 3,834	¥ 9,637
Receivables:		
Trade notes	407	169
Trade accounts	16,253	18,808
Other accounts	630	26
Allowance for doubtful receivables	(31)	(49)
	17,259	18,954
Inventories:		
Finished goods	270	-
Work-in-process	19,417	18,088
Raw materials and supplies	998	664
	20,685	18,752
Deferred income tax assets (Note 9)	300	742
Other current assets	2,760	1,666
Total current assets	44,838	49,751
Investments and Long-term Receivables:		
Investments:		
Unconsolidated subsidiaries and affiliates	355	209
Investment securities (Note 5)	5,507	3,572
	5,862	3,781
Long-term receivables	1,076	153
Allowance for doubtful receivables	(39)	(50)
	6,899	3,884
Property, Plant and Equipment		
Land	2,724	2,704
Buildings and structures (Note 6)	8,136	8,320
Machinery and equipment	12,850	10,843
Construction in progress	71	306
	23,781	22,173
Accumulated depreciation	(14,633)	(13,515)
	9,148	8,658
Other Assets		
Intangible assets	185	179
Deferred income tax assets (Note 9)	6	855
Long-term prepaid expenses	161	280
	¥ 61,237	¥ 63,607

	Millions of yen	
	2008	2009
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Bank loans (Note 7)	¥ 7,500	¥ 6,700
Payables:		
Trade notes	2,218	2,050
Trade accounts	7,948	8,601
Construction	1,064	946
Advances received	9,021	11,615
Income and enterprise taxes payable	652	1,648
Accrued expenses	1,840	1,774
Deferred income tax liabilities (Note 9)	529	-
Allowance for losses on contracts	303	-
Provision for product warranties	-	568
Provision for loss on business liquidation	-	100
Other current liabilities	606	1,548
Total current liabilities	31,681	35,550
Noncurrent Liabilities:		
Retirement and severance benefits (Note 8)	1,706	990
Deferred income tax liabilities (Note 9)	358	0
Other liabilities (Note 6)	1,875	2,767
	3,939	3,757
Contingent Liabilities (Note 15)		
Net Assets (Note 10)		
Common stock:		
Authorized - 120,000,000 shares		
Issued - 69,083,597 shares	5,253	5,253
Capital surplus	3,125	3,125
Retained earnings	14,436	17,017
Treasury stock, at cost	(46)	(59)
172,955 shares in 2009		
Net unrealized holding gains on securities	1,202	44
Net unrealized holding gains on derivatives	1,730	290
Foreign currency translation adjustments	(83)	(1,370)
Total net assets	25,617	24,300
	¥ 61,237	¥ 63,607

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2008 and 2009

	Millions of yen	
	2008	2009
Net sales (Note 11)	¥ 45,184	¥ 65,727
Cost of sales	39,818	53,285
Gross profit	5,366	12,442
Selling, general and administrative expenses	3,185	3,963
Operating income	2,181	8,479
Other income (expenses):		
Interest and dividend income	391	160
Interest expense	(30)	(88)
Equity in net loss of an affiliate	(2)	(122)
Foreign exchange gain (loss)	(244)	80
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 inventories	-	(158)
Other, net	(47)	(33)
	68	(3,147)
Income before income taxes	2,249	5,332
Income taxes (Note 9)		
Current	(1,018)	(2,863)
Deferred	116	457
Net income	¥ 1,347	¥ 2,926

	Yen	
Amounts per share:		
Net income	¥ 19.53	¥ 42.45
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, 2008 and 2009

	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
		Millions of yen							
Balance at March 31, 2007	69,083,597	¥ 5,253	¥ 3,125	¥ 13,434	¥ (40)	¥ 2,029	¥ (79)	¥ 87	¥ 23,809
Cash dividends paid at ¥5.00 per share	-	-	-	(345)	-	-	-	-	(345)
Net income	-	-	-	1,347	-	-	-	-	1,347
Treasury stock	-	-	-	-	(6)	-	-	-	(6)
Net changes during the year	-	-	-	-	-	(827)	1,809	(170)	812
Balance at March 31, 2008	69,083,597	¥ 5,253	¥ 3,125	¥ 14,436	¥ (46)	¥ 1,202	¥ 1,730	¥ (83)	¥ 25,617

	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

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2008 and 2009

	Millions of yen	
	2008	2009
Cash flows from operating activities:		
Net income before income taxes	¥ 2,249	¥ 5,332
Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,041	1,197
Increase in retirement benefits	157	52
Increase in provision for product warranties	-	568
(Decrease) in allowance for losses on contracts	(205)	(282)
Increase in provision for loss on business liquidation	-	100
Interest and dividend income	(391)	(160)
Interest expense	30	88
Equity in net loss of an affiliate	2	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	(7,807)	489
Decrease (increase) in inventories	(10,322)	1,348
Increase in trade notes and trade accounts payable	3,758	1,243
Payment for revision of retirement benefit plan	-	(2,170)
Payment for compensation for health damage	-	(291)
Interest and dividends received	391	160
Interest paid	(30)	(85)
Income taxes paid	(760)	(1,879)
Other, net	(216)	1,023
Net cash provided by (used in) operating activities	(12,103)	9,741
Cash flows from investing activities:		
Acquisitions of property, plant and equipment, and intangible assets	(2,494)	(1,238)
Proceeds from sales of property, plant and equipment, and intangible assets	1	168
Purchases of investment securities	-	(35)
Proceeds from sales of investment securities	-	30
Proceeds from sales of stock of subsidiaries and affiliates	-	40
Other, net	10	-
Net cash used in investing activities	(2,483)	(1,035)
Cash flows from financing activities:		
Net increase (decrease) in short-term bank loans	7,500	(800)
Cash dividends paid	(345)	(341)
Payments for treasury stock	(6)	(13)
Net cash provided by (used in) financing activities	7,149	(1,154)
Effect of exchange rate changes on cash and cash equivalents	21	(1,749)
Net increase (decrease) in cash and cash equivalents	(7,416)	5,803
Cash and cash equivalents at beginning of year	11,250	3,834
Cash and cash equivalents at end of year (Note 4)	¥ 3,834	¥ 9,637

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 by the Company. 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 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 computed 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 losse unless the derivative financial instrument was applied for 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 where forward foreign exchange contracts and interest rate swap contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts, interest rate swap contracts, and hedged items are accounted for in the following manner:

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

(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and

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 - Finished goods are stated on the identified cost method. 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.)

As 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. Among these, property, plant and equipment for which the allowable limit of depreciation had been reached are to be depreciated evenly over five years beginning from the following fiscal year. As a result, gross profit was ¥43 million less and operating income and income before income taxes were ¥44 million less than they would have been without the application.

Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiary changed the useful lives of machinery based on the reassessment of the useful lives in light of the 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 ¥95 million and ¥168 million for the years ended March 31, 2008 and 2009, 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 cause of retirement. The Company also has a funded noncontributory pension plan which covers a portion of total retirement benefits.

2. Significant accounting policies (cont'd.)

In order to provide for the employees' retirement benefits, the Company and 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 fifteen years by the straight-line method from the year ended March 31, 2001.

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

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

(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 as allowance in the fiscal year ended March 31, 2009 because it became possible to estimate reasonably. As a result, gross profit, operating income and income before tax deceased by ¥568 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.

2. Significant accounting policies (cont'd.)

(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 can be reasonably estimated. As a result, income before tax 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 recognition - Revenue and related costs are generally recorded on the delivery basis. However, the consolidated overseas subsidiaries apply the percentage-of-completion method.

(v) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2009 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 should, in principle, be 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.

(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.

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

Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiary adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which were 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, 2008 and 2009 were as follows:

	Millions of yen	
	2008	2009
Cash and time deposits	¥ 3,834	¥ 9,637
Cash and cash equivalents	¥ 3,834	¥ 9,637

5. Securities

At March 31, 2008 and 2009, 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, 2008 and 2009 were as follows:

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

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

5. Securities

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

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

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

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

d. The total sales of available-for-sale securities were immaterial in the year ended March 31, 2008 and 2009.

e. At March 31, 2008 and 2009, securities with fair values that were not readily determinable were as follows:

	Millions of yen	
	2008	2009
Non-quoted equity securities	¥ 153	¥ 138

6. Pledged assets

At March 31, 2008 and 2009, the following assets were pledged as collateral for deposits on contracts of ¥1,131 million and ¥1,051 million, respectively, and deposits from tenants of ￥70 million (included in other liabilities in noncurrent liabilities):

	Millions of yen	
	2008	2009
Buildings , net book value	¥ 710	¥ 682

7. 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 1.0% and 0.8% at March 31, 2008 and 2009, respectively. The Company has had no difficulty in renewing such notes upon maturity.

The Company had no long-term debt at March 31, 2008 and 2009.

8. Retirement and severance benefits

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

The 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, 2008 and 2009.

	Millions of yen	
	2008	2009
Benefit obligation	¥ 5,846	¥ 2,431
Fair value of plan assets	(769)	-
Funded status:		
Benefit obligation in excess of plan assets	5,077	2,431
Unrecognized net transition obligation	(2,492)	(756)
Unrecognized actuarial differences	(879)	(545)
Unrecognized prior service cost	-	(140)
Total	1,706	990
Retirement and severance benefits in the consolidated balance sheets	¥ 1,706	¥ 990

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:

8. Retirement and severance benefits (cont'd)

		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 ¥978 million and was included in other liabilities in noncurrent liabilities.

	Millions of yen			
	2008		2009	
Service cost	¥	246	¥	211
Interest cost		117		97
Expected return on plan assets		(15)		(11)
Amortization of net transition obligation		356		298
Amortization of actuarial differences		125		131
Amortization of prior service cost		-		4
Other		44		90
Net periodic benefit cost		873		820
Loss on revision of retirement benefit plan		-		2,376
Total	¥	873	¥	3,196

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, 2008 and 2009 was 2.0%. The expected rate of return on plan assets used by the Companies at March 31, 2008 and 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.

9. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2009 were as follows:

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

		Millions of yen
		2009
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
		2,417
Valuation allowance		(314)
Total deferred income tax assets		2,103
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		(506)
Net deferred income tax liabilities	¥	1,597

9. Income taxes (cont'd)

(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, 2008 after tax effect accounting was applied was not material.

	2009
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	45.1 %

10. 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.

10. Net assets (cont'd)

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.

11. 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, 2008 and 2009.

Sales to KC for the years ended March 31, 2008 and 2009 were ¥94 million and ¥1,583 million, respectively. Receivables from KC at March 31, 2008 and 2009 were ¥53 million and ¥1,007 million, respectively.

12. 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 has not been applied at March 31, 2008 and 2009 was as follows:

Current related	Millions of yen		
	2008		
	Contract or notional amount	Fair value	Net recognized gains
Foreign exchange forward contracts:			
Selling			
U.S. dollars	¥ 2,095	¥ 1,809	¥ 286
Total	¥ 2,095	¥ 1,809	¥ 286

12. Derivative transactions (cont'd)

Current related	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)

(b) 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.

(c) The Company's control system

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

13. Leases

Information on non-capitalized finance leases at March 31, 2008 and 2009 was as follows:

	Millions of yen	
	2008	2009
Original lease obligations for furniture and fixtures (including finance charges) ·········	¥ 35	¥ 35
Payments due within one year ····················	¥ 7	¥ 7
Payments due after one year ····················	21	14
Total payments remaining ······················	¥ 28	¥ 21

Lease payments under such leases for the years ended March 31, 2008 and 2009 were ¥6 million and ¥7 million, respectively.

13. Leases (cont'd)

Obligations under operating leases at March 31, 2008 and 2009 were as follows:

	Millions of yen	
	2008	2009
Payments due within one year	¥ 58	¥ 48
Payments due after one year	22	60
Total payments remaining	¥ 80	¥ 108

14. Segment information

Information by business segment of the Companies was as follows:

Year ended March 31, 2008:

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

Year ended March 31, 2009:

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

14. 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: (a) One consolidated domestic subsidiary had previously manufactured mainly train parts. After a reorganization of its business, however, it now manufactures mainly aluminum materials. Effective April 1, 2007, a four–segment classification has been presented due to this change. Previously while a three-segment classification was presented for the year ended March 31, 2007.

(b) 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 ¥1,314 million and ¥1,418 million for the years ended March 31, 2008 and 2009, respectively, comprised mainly expenses of administrative departments.

Corporate assets of ¥2,972 million and ¥3,849 million at March 31, 2008 and 2009, respectively, comprised mainly cash and cash equivalents and assets of administrative departments.

Information by geographic segment was as follows:

Year ended March 31, 2008:

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

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

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

14. Segment information (cont'd)
Corporate operating expenses of ¥1,314 million and ¥1,418 million for the years ended March 31, 2008 and 2009, respectively, comprised mainly expenses of administrative departments.

Corporate assets of ¥2,972 million and ¥3,849 million at March 31, 2008 and 2009, 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, 2008:

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

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 %

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

15. Contingent liabilities
Contingent liabilities at March 31, 2008 and 2009 were as follows:

	Millions of yen	
	2008	2009
Guarantees of loans from banks to an affiliate ……………	¥ 200	¥ 200

Note: As described in Note 2 (a), all the stock of this affiliate the Company owned was transferred as of March 31, 2009.

16. Subsequent events

Cash dividends

At the Company's Board of Directors meeting held on May 11, 2009, an appropriation of nonconsolidated retained earnings for the year ended March 31, 2009 was duly approved as follows:

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