

Annual Business Report

April 1, 2008 through March 31, 2009

日本車両

NIPPON SHARYO, LTD.

Financial Highlights

Comparison of Sales by Segment

(Unit: million yen)

Business Segment	180th period (2008-2009)		179th period (2007-2008)		Increase/(decrease)	
	Value	%	Value	%	Value	%
Railway rolling stock and other transportation equipment	52,720	61.2%	53,774	58.5%	(1,054)	(2.0)%
Construction equipment	18,496	21.5	19,808	21.5	(1,312)	(6.6)
Steel structure	5,947	6.9	6,486	7.1	(539)	(8.3)
Other	8,977	10.4	11,869	12.9	(2,892)	(24.4)
Total	86,140	100.0	91,937	100.0	(5,797)	(6.3)

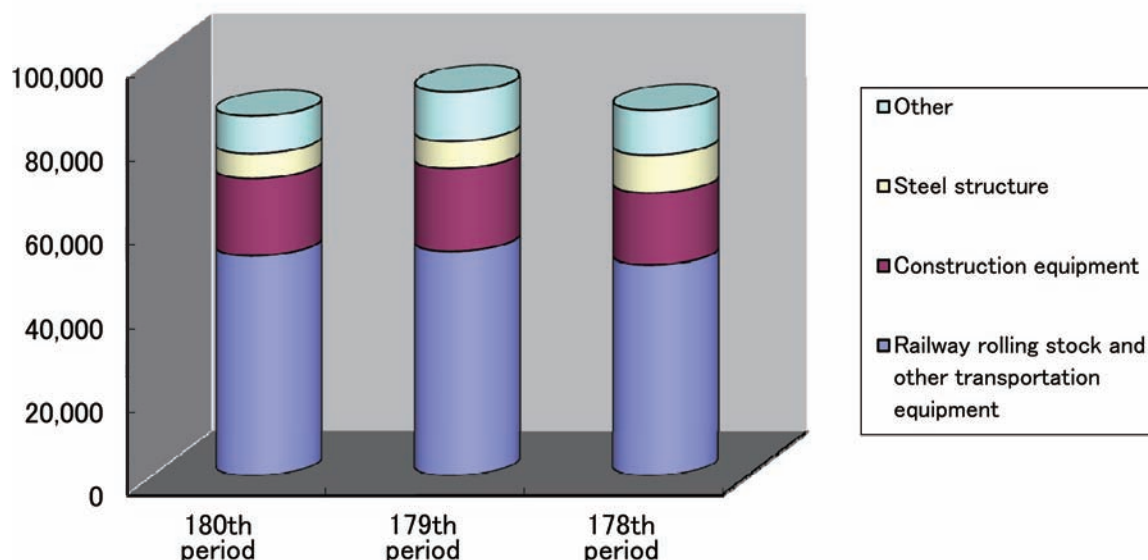
Change in Operating Performance and Asset Status

(Unit: million yen except Net income per share)

Titles of account	180th period (2008-2009)	179th period (2007-2008)	178th period (2006-2007)
Net sales	86,140	91,937	87,554
Ordinary income (loss)	3,174	(1,858)	1,099
Net income (loss)	1,601	(5,474)	959
Net income per share (loss)	¥11.08	(¥37.86)	¥6.63
Total assets	127,159	130,538	143,778
Total equity	43,785	46,278	56,744

(Millions of Yen)

Comparison of Sales by Segment



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Message from the President

Review of Business Operations

During the fiscal year under review, the Japanese economy was strongly influenced by the global economy: surging prices of energy and raw materials during the first half, and the turmoil in the global financial markets as well as the historical decline in stock prices in the latter half, due to the lasting effect of the subprime mortgage fund crisis in the US. The Japanese real economy has rapidly shrunk as businesses have adjusted inventory, and the future economic process has worsened considerably.

Under these circumstances, the Group secured replacement orders for railway rolling stock, mainly the Series N700 Shinkansen trains, and construction machinery. However, as a part of the overseas business sales was deferred to the next fiscal term, the sales for the year under review recorded ¥86,140 million, down ¥5,797 million from the same period of the previous year. In terms of profits, as we eliminated the burden of the initial cost for manufacturing a new-model train and while the profitability of our steel structure business improved, the operating income recorded ¥3,538 million, and the ordinary income ¥3,174 million. Consequently, a net income for the year under review recorded ¥1,601 million, a substantial increase. (A net loss of ¥5,474 million was recorded in the previous year, as an accumulated impairment loss of the fixed assets was calculated as extraordinary losses.)

The Company formed a capital and business tie-up with the Central Japan Railway Company (JR Central) on August 15, 2008. We expect that this contract will enable both businesses to play complementary roles, to improve overall technology in the railway rolling stock business, and to sustain expansion of corporate value. JR Central, through the takeover bid against our common stocks, held the majority of our total issued stocks as of October 15, 2008, and the Company became a consolidated subsidiary of JR Central.

The business operations of each division are summarized in the following.

The Outlook

Influenced by the global financial crisis that originated in the United States, the Japanese economy has plunged into a severer recession compared to the Western countries. A full-scale recovery of our economy is expected to take some time. As for the Company, we expect that the situation surrounding our business will get worse, although the degree of the effects will be presently different among the divisions involved.

In terms of railway rolling stock and other transportation equipment businesses, the railway rolling stock section has continued to be fully engaged in production, as the section has delivered the Series N700 Shinkansen trains for JR Central. We expect that the amount of sales toward public and private railway companies will firmly increase as well as exports. We are to further improve profitability through promoting the projects for process control and cost management as well as to enhance our production capability, while concentrating on gaining new contracts in and out of the country. As for the transportation equipment business, demands for heavy-duty industrial vehicles and such fuel-related products as tank lorries have been decreasing. We, therefore, continue to make further efforts in stimulating demand through proposing products that meet market needs, and to reduce costs through projecting the activities for each product.

In the construction machinery business, replacement demand for products such as large pile driving rigs is expected to be steady while demand for generators, on the other hand, is decreasing. We continue to make efforts to secure a profit through inventory adjustment in response to market trends as well as through improvement in production efficiency.

In the steel structure business, competition in the market is expected to remain very severe. We now give priority to responding to the present economic measures, such as increasing public investment

and accelerated ordering. We will also continue our efforts in securing orders through enhancing our capability for technical proposals, and reducing costs.

In other businesses, we expect that the severe situation will continue in the engineering section as the private sector holds back investment in plant and equipment. To cope with the situation, the Company will make efforts to secure orders through aggressive sales promotions to our customers.

Further, as group-wide policies, we intend to train and educate engineers in order to strengthen our technology as well as to review the overall production systems aiming to improve productivity. At the Toyokawa Plant, we will enhance our production capability of railway rolling stock and improve productivity. For this goal, we will reinforce the overall competitiveness through launching a new parts supply system by setting a parts center in operation, and making one part of the production line a double track. At the Kinuura Plant, some parts of the transportation equipment production line have been moved from the Toyokawa Plant and have been set in operation. Positioning the Kinuura Plant as a production base for the transportation equipment and steel structure businesses, we will endeavor to streamline operations and improve productivity through making efficient use of our management resources.

We will cooperate with the parent corporation to build a complementary relationship with each other in order to improve our general technical capability in the railway rolling stock business and to realize a sustainable expansion of our corporate value.



K. Ikushima

Katsuyuki Ikushima

President and Chief Executive Officer

Review by Segment

Railway Rolling Stock and Other Transportation Equipment Businesses

In railway rolling stock, our sales to the JR Companies include the Series N700 Shinkansen trains for JR Central and the first one train unit for direct service through the Sanyo and Kyushu Shinkansen lines for JR West, which amounted to ¥27,910 million. Our sales of EMUs for the public and private railways reached ¥9,363 million, including sales of: the Series 9000 EMUs for the Keio



Series N700 Shinkansen Train

Corporation; the Series 2300 limited express EMUs, the Series 5000 EMUs, the Series 4000 EMUs and the Series 3150 EMUs for the Nagoya Railroad Co., Ltd.; the Series 9000 EMUs for the Tokyo Metro Co., Ltd.; the Series N1000 EMUs for the Transportation Bureau, the City of Nagoya; the



Bi-Level Passenger Car

Series 2000 EMUs for the Aichi Loop Line Co., Ltd.; the Series 2000 EMUs for the Ensyu Railway Co., Ltd.; and the Series MR600 diesel cars for the Matsuura Railway Co., Ltd. In exported railway cars, we had sales of ¥4,880 million, including bi-level passenger cars and other trains for the United States as well as subway trains and their parts for Taiwan. Other sales included diesel locomotives,

container flat cars, and gasoline tank cars. Consequently, our total sales of railway rolling stock were ¥42,850 million, down 6.6% from the previous year.

In other transportation equipment business areas, there was demand not only for our main products of LPG-related products such as consumer-purpose LPG bulk tank lorries but also for LNG-related products. Our sales remained steady as we recorded sales of heavy-duty industrial vehicles such as carriers and automated guided vehicles and containers.



LNG Tank Trailer

As a result, sales of railway rolling stock and other transportation equipment business were ¥52,720

million, a 2.0% reduction from the previous year.

Construction Equipment Business



Casing Rotator

In the construction equipment business, although the decreased trend of public construction continues, replacement demand for construction machinery for foundation work, mainly by major constructors, has been robust. We had steady sales for such machinery as large-size pile driving rigs and casing rotators. On the other hand, sales of small-size pile driving rigs were weak, as the number of houses under construction remained low. As a result, sales of construction equipment totaled ¥13,876 million, a

0.7% reduction from the previous year.

In the generator business, sales of portable generators decreased due to investment control by major rental companies. As a result, the sales of generators were ¥4,619 million, down 20.8% from the previous year.

All in all, the sales in our construction equipment business were ¥18,496 million, a 6.6% reduction from the previous year.



Portable Generator

Steel Structure Business

In the steel structure business which faces a reduction of orders for steel bridges due to the cutbacks in public works projects, we have strengthened cost management as well as improved our



the Kawaguchi Bridge

technological capacity such as in the development of construction technology. The Company merged with Nissha Construction Co., Ltd., our consolidated subsidiary engaged in bridge construction and repairs, as of April 1, 2008.

Our sales for this period of the year included the



the Sakamoto Bo Bridge

fabrication and construction of road bridges such as the Kurosaki Elevated Bridge, the Shimomio Bridge, the Futamatao Ohashi Bridge and the Kawaguchi Bridge, as well as the construction of the Odaka Footbridge, the Sakamoto Bo Bridge and the Ueji Bo Bridge. As for railway bridges, our sales included the fabrication and construction of the Bantan Elevated Bridge.

All in all, sales for the steel structure business were ¥5,947 million, down 8.3% from the previous year.

Other Businesses

Our main sales included: in the agricultural plant business, the repair work for seed drying devices and country elevators for the Japan Agricultural Cooperatives (JA); in the train inspection and maintenance business, various facilities for JR Companies; in the transportation system business, special flat wagons for steel mills; in the paper-manufacturing machinery business, processing equipment for household paper manufacturers. Sales also included laser processing machines, railway memorabilia, and income from golf course operations.



Seed Drying Device

All in all, sales in other business areas totaled ¥8,977 million, down 24.4% from the previous year.

Meanwhile, the Company dissolved Nissha Kogyo Co., Ltd., our consolidated subsidiary engaged in the maintenance services for environmental facilities and equipment, as of June 30, 2008.

The export sales for the year under review amounted to ¥7,293 million, including ¥4,880 million for railway rolling stock and other transportation equipment businesses and ¥2,367 million for the construction equipment business, which represented 8.5% of the total sales.

The orders on hand at the end of the year under review reached a high level of ¥167,301 million,

thanks to the large orders for railway rolling stock such as the Series N700 Shinkansen trains. These comprised ¥138,289 million for the railway rolling stock and other transportation equipment business (¥100,146 million for rolling stock for JR Companies, ¥17,738 million for EMUs for other public and private railway companies, ¥14,466 million for exported rolling stock, and ¥4,556 million for other transportation equipment), ¥8,602 million for the construction machinery business, ¥16,916 million for the steel structure business, and ¥3,493 million for other businesses.

Investment in Plant and Equipment

Plant and equipment investment during the year under review totaled ¥3,306 million, which was mainly targeted at improving productivity. It included, at the Toyokawa Plant, establishing a parts center along the course of production line restructuring and adding a finish-coating workshop. At the Kinuura Plant, it included the preparatory work for the relocation of the high-pressure tank production line, and the increase of machines and equipment for bridge construction.

Financing Activities

As for funding during the year under review, there was nothing to make special note of. The balance of the bonds payable and the borrowing at the end of the year under review was ¥29,422 million, down ¥5,614 million from the end of the previous year.

NIPPON SHARYO, LTD.
Audited Consolidated Financial Statements
March 31, 2009 and 2008



Independent Auditors' Report

To the Board of Directors of
NIPPON SHARYO, LTD.:

We have audited the accompanying consolidated balance sheets of NIPPON SHARYO, LTD. and consolidated subsidiaries (the "NIPPON SHARYO Group") as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the NIPPON SHARYO Group'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 NIPPON SHARYO Group 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 2(f) to the consolidated financial statements, NIPPON SHARYO Group adopted the accounting standard for measurement of inventories effective from the year ended March 31, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(b) to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.
Nagoya, Japan
June 26, 2009

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheets
As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current assets:			
Cash and cash equivalents	¥ 13,666	¥ 11,767	\$ 139,449
Short-term investments (Note 5)	10	-	102
Notes and accounts receivable (Notes 3 and 10)	21,411	31,497	218,480
Inventories (Note 4)	41,899	32,474	427,541
Deferred tax assets (Note 13)	2,717	1,661	27,724
Other current assets	1,114	400	11,367
Total current assets	80,817	77,799	824,663
Property, plant and equipment:			
Land	16,740	16,743	170,816
Buildings and structures	23,070	22,981	235,408
Machinery and equipment	33,695	32,585	343,827
Construction in progress	1,864	98	19,020
Less accumulated depreciation	(43,748)	(42,817)	(446,408)
Net property, plant and equipment	31,621	29,590	322,663
Investments and other assets:			
Investment securities (Notes 5 and 9)	12,015	21,008	122,602
Investments in unconsolidated subsidiaries and affiliates (Note 5)	1,205	1,215	12,296
Deferred tax assets (Note 13)	139	151	1,419
Other assets	1,362	775	13,898
Total investments and other assets	14,721	23,149	150,215
Total assets	¥ 127,159	¥ 130,538	\$ 1,297,541

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Liabilities:			
Short-term borrowings (Note 7)	¥ 5,935	¥ 9,935	\$ 60,561
Current portion of long-term debt (Note 7)	7,350	1,764	75,000
Notes and accounts payable (Note 6)	21,541	25,417	219,806
Accrued expenses	3,461	3,962	35,316
Advances received	14,458	7,457	147,531
Income taxes payable	122	97	1,245
Allowance for loss on construction in progress	1,111	1,110	11,337
Other current liabilities	1,497	334	15,275
Total current liabilities	55,475	50,076	566,071
Long-term debt (Note 7)	16,137	23,337	164,663
Employee retirement benefit liabilities (Note 8)	489	488	4,990
Lease obligations	1,772	-	18,082
Allowance for PCB disposal expenses	154	153	1,571
Provision for compensation for health damage from asbestos	750	-	7,653
Deferred tax liabilities (Note 13)	3,840	5,293	39,184
Other long-term liabilities	4,757	4,913	48,541
Total long-term liabilities	27,899	34,184	284,684
Total liabilities	83,374	84,260	850,755
Equity (Note 12):			
Common stock	11,811	11,811	120,520
Capital surplus	12,043	12,042	122,888
Retained earnings	17,863	17,057	182,276
Less treasury stock, at cost	(455)	(428)	(4,643)
Total shareholders' equity	41,262	40,482	421,041
Net unrealized gains on available-for-sale securities	2,439	5,670	24,888
Gain (loss) on deferred hedges	7	(0)	71
Total revaluation and translation adjustments	2,446	5,670	24,959
Minority interests	77	126	786
Total equity	43,785	46,278	446,786
Total liabilities and equity	¥ 127,159	¥ 130,538	\$ 1,297,541

The accompanying notes are an integral part of these financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statements of Operations
For the Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Net sales (Note 17)	¥ 86,140	¥ 91,937	\$ 878,980
Cost of sales	76,858	87,279	784,266
Gross profit	9,282	4,658	94,714
Selling, general and administrative expenses	5,744	5,775	58,612
Operating income (loss) (Note 17)	3,538	(1,117)	36,102
Other income (expenses):			
Interest and dividend income	323	405	3,296
Interest expense	(461)	(532)	(4,704)
Equity in earnings of affiliated companies	22	20	224
Other, net	(248)	(634)	(2,530)
	(364)	(741)	(3,714)
Ordinary income (loss)	3,174	(1,858)	32,388
Special gain (loss)			
Gain on sales of investment securities	311	112	3,173
Gain on settlement of compensation products	105	-	1,071
Loss on write-down of marketable securities and other	(1,247)	(407)	(12,723)
Loss on impairment of fixed assets (Note 16)	(3)	(3,882)	(31)
Loss on discontinued operations	-	(433)	-
Loss on sales of property	(108)	(174)	(1,102)
Loss on compensation for damages paid	(204)	-	(2,082)
Loss on provision for compensation for health damage from asbestos	(750)	-	(7,653)
Other, net	4	(153)	41
	(1,892)	(4,937)	(19,306)
Income (loss) before income taxes and minority interests	1,282	(6,795)	13,082
Income taxes (Note 13):			
Current	44	105	449
Prior year	-	113	-
Deferred	(364)	(1,559)	(3,714)
	(320)	(1,341)	(3,265)
Less minority interests in net income of consolidated subsidiaries	1	20	10
Net income (loss)	¥ 1,601	¥ (5,474)	\$ (16,337)
		Yen	U.S. dollars
Per share:			
Net income (loss)	¥ 11.08	¥ (37.86)	\$ 0.11
Cash dividends	5.00	3.00	0.05

The accompanying notes are an integral part of these financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2009 and 2008

	Shareholders' Equity									
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity				
							Millions of yen			
Balance at March 31, 2007	146,750,129	¥ 11,811	¥ 12,041	¥ 22,746	¥ (417)	¥ 46,181				
Cash dividends	-	-	-	(362)	-	(362)				
Change due to increase in number of affiliates	-	-	-	142	(2)	145				
Net loss for the year	-	-	-	(5,474)	-	(5,474)				
Purchase of treasury stock, net	-	-	1	-	(9)	(8)				
Net changes other than shareholders' equity	-	-	-	-	-	-				
Balance at March 31, 2008	146,750,129	¥ 11,811	¥ 12,042	¥ 17,057	¥ (428)	¥ 40,482				
Cash dividends	-	-	-	(795)	-	(795)				
Net income for the year	-	-	-	1,601	-	1,601				
Purchase of treasury stock, net	-	-	1	-	(27)	(26)				
Net changes other than shareholders' equity	-	-	-	-	-	-				
Balance at March 31, 2009	146,750,129	¥ 11,811	¥ 12,043	¥ 17,863	¥ (455)	¥ 41,262				
	Thousands of U.S. dollars									
Balance at March 31, 2008	\$	120,520	\$	122,878	\$	174,051	\$	(4,367)	\$	413,082
Cash dividends		-		-		(8,112)		-		(8,112)
Net income for the year		-		-		16,337		-		16,337
Purchase of treasury stock, net		-		10		-		(276)		(266)
Net changes other than shareholders' equity		-		-		-		-		-
Balance at March 31, 2009	\$	120,520	\$	122,888	\$	182,276	\$	(4,643)	\$	421,041

The accompanying notes are an integral part of these financial statements.

Revaluation and Translation Adjustments

	Net unrealized gains on available-for-sale securities		Gain (loss) on deferred hedges		Total revaluation and translation adjustments		Minority interests		Total equity	
	Millions of yen									
Balance at March 31, 2007	¥	10,456	¥	(0)	¥	10,456	¥	107	¥	56,744
Cash dividends		-		-		-		-		(362)
Change due to increase in number of affiliates		-		-		-		-		145
Net loss for the year		-		-		-		-		(5,474)
Purchase of treasury stock, net		-		-		-		-		(8)
Net changes other than shareholders' equity		(4,786)		0		(4,786)		19		(4,767)
Balance at March 31, 2008	¥	5,670	¥	-	¥	5,670	¥	126	¥	46,278
Cash dividends		-		-		-		-		(795)
Net income for the year		-		-		-		-		1,601
Purchase of treasury stock, net		-		-		-		-		(26)
Net changes other than shareholders' equity		(3,231)		7		(3,224)		(49)		(3,273)
Balance at March 31, 2009	¥	2,439	¥	7	¥	2,446	¥	77	¥	43,785
	Thousands of U.S. dollars									
Balance at March 31, 2008	\$	57,857	\$	-	\$	57,857	\$	1,286	\$	472,225
Cash dividends		-		-		-		-		(8,112)
Net income for the year		-		-		-		-		16,337
Purchase of treasury stock, net		-		-		-		-		(266)
Net changes other than shareholders' equity		(32,969)		71		(32,898)		(500)		(33,398)
Balance at March 31, 2009	\$	24,888	\$	71	\$	24,959	\$	786	\$	446,786

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 1,282	¥ (6,795)	\$ 13,082
Adjustments for:			
Depreciation	2,390	2,013	24,388
Loss on impairment of fixed assets	3	3,882	31
Interest and dividend income	(323)	(405)	(3,296)
Interest expense	461	532	4,704
Equity in net earnings of affiliates	(22)	(20)	(224)
Loss on disposals and sales of property, plant and equipment, net	108	142	1,102
Loss on write-down of marketable securities and other	1,247	407	12,724
Gain on sales of investment securities	(311)	(112)	(3,173)
Increase/decrease of assets and liabilities			
Trade notes and accounts receivable	10,217	5,228	104,255
Inventories	(9,425)	(6,620)	(96,173)
Trade notes and accounts payable	(4,644)	(1,408)	(47,388)
Allowance for loss on construction in progress	1	599	10
Provision for compensation for health damage from asbestos	750	-	7,653
Advances received	7,001	3,161	71,439
Other, net	(416)	483	(4,246)
Subtotal	8,319	1,087	84,888
Interest and dividends received	333	405	3,398
Interest paid	(462)	(531)	(4,714)
Compensation for damage paid	(204)	-	(2,082)
Income taxes paid	(96)	(881)	(980)
Net cash provided by operating activities	7,890	80	80,510
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(2,283)	(1,875)	(23,296)
Proceeds from sales of property, plant and equipment	80	8	816
Payments for purchases of investment securities	(229)	(858)	(2,337)
Proceeds from sales of investment securities	2,910	617	29,695
Proceeds from redemption of investment securities	-	1,100	-
Other, net	0	154	0
Net cash provided by (used in) investing activities	478	(854)	4,878
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(4,000)	3,000	(40,816)
Proceeds from long-term debt	150	-	1,531
Repayments of long-term debt	(1,764)	(3,514)	(18,000)
Payments for purchase of fractional shares	(33)	(17)	(337)
Dividends paid	(795)	(362)	(8,112)
Other, net	(27)	8	(277)
Net cash used in financing activities	(6,469)	(885)	(66,011)
Effect of exchange rate changes on cash and cash equivalents	(0)	(2)	(0)
Net increase (decrease) in cash and cash equivalents	1,899	(1,661)	19,377
Cash and cash equivalents at the beginning of the year	11,767	13,428	120,072
Cash and cash equivalents at the end of the year	¥ 13,666	¥ 11,767	\$ 139,449

The accompanying notes are an integral part of these financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries Notes to Consolidated Financial Statements

1. Basis of Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of NIPPON SHARYO, LTD. (the "Company") and its consolidated subsidiaries have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and have been compiled from the original consolidated financial statements in Japan prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau of Japan.

(b) U.S. dollar amounts

The Company and its consolidated subsidiaries maintain its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and these notes represent the result of translating Japanese yen into U.S. dollars at a rate of ¥98 to \$1.00, the approximate rate of exchange at March 31, 2009. The inclusion of such dollar amounts is solely for convenience of the readers and is not intended to imply that the assets and liabilities originating in Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at ¥98 to \$1.00 or at any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated. Investments in significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are carried at cost, since the equities in retained earnings and net income of these companies are not material.

The number of the consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2009 and 2008 was as follows:

	2009	2008
Consolidated subsidiaries (domestic)	4	6
Unconsolidated subsidiaries, stated at cost	2	2
Affiliates accounted for by the equity method	1	1
Affiliates stated at cost	4	6

For equity-method affiliates that have a different fiscal year from that of the Company, the affiliates' financial statements with the closest closing date prior to that of the Company are used for consolidation purposes.

(b) Cash equivalents

The Company and its consolidated subsidiaries consider cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

(c) Valuation of securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or non-trading, and available-for-sale. The classification determines the respective accounting method

to be used to account for the securities. According to the Company's investment policies, the securities portfolio of the Company and its consolidated subsidiaries are classified as available-for-sale securities. The accounting standard requires that available-for-sale securities for which market quotations are available be stated at fair value and that net unrealized gains and losses on such securities be recorded as a separate component of equity, net of applicable income taxes. Gains and losses on the disposition of marketable securities are computed by the moving average method. Available-for-sale securities that are nonmarketable and without marketable quotations are carried at cost determined by the moving average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs when a decline in value is deemed other than temporary.

(d) Accounting for derivatives

Derivatives are valued at fair value if hedge accounting is not appropriate or when there is no hedging designation, and gains and losses on derivatives are recognized in current earnings. Certain transactions classified as hedging transactions are accounted for under the deferral method, whereby unrealized gains and losses on hedging instruments are carried as assets and liabilities respectively on the balance sheet until gains and losses on the hedged items are realized. Foreign exchange forward contracts to translate foreign currency denominated assets and liabilities are accounted for at the contract rates as an interim measure if certain hedging criteria are met. According to the special treatment permitted by the accounting standard for financial instruments, hedging interest swaps are accounted for on an accrual basis and recorded net of interest expense generated from borrowings if certain conditions are met.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for at the aggregate amount of estimated credit loss based on an individual analysis of certain doubtful or troubled receivables and a general reserve for other receivables calculated using the historical loss experience of a certain past period.

(f) Inventories

Prior to April 1, 2008, merchandise, finished goods and work-in-process were stated at cost accumulated by job order, and semi-finished goods and raw materials and supplies were stated at moving average cost. Adjustments in carrying values of individual inventories were charged to income through write-downs.

In July 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The Company and its consolidated subsidiaries have adopted this new accounting standard effective from April 1, 2008. The effect of this

change was to decrease operating income, ordinary income and income before income taxes and minority interests by ¥505 million (\$5,153 thousand), respectively.

(g) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost and are depreciated principally by the straight-line method for buildings and the declining-balance method for other property at rates based on the estimated useful life of the asset.

The Company and its consolidated subsidiaries capitalize property with a cost of ¥100,000 or more. When property is less than ¥200,000, it is depreciated over three years on a straight-line basis.

Expenditures on maintenance and repairs are charged to income as incurred. Upon the disposal of property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded as income or expense.

(Changes in calculation methods)

Due to changes in the corporate tax law, the Company and its consolidated subsidiaries adopted new depreciation methods for tangible fixed assets acquired on or after April 1, 2007, effective from the year ended March 31, 2008. As a result of this change, operating loss, ordinary loss, and loss before taxes and minority interests were ¥38 million, ¥41 million and ¥41 million more, respectively, than they would have been without the change. In addition, for tangible fixed assets purchased before March 31, 2007, the Company and its consolidated subsidiaries depreciate the residual value using the straight-line method over five years starting in the year following the year the tangible fixed assets have been depreciated to the residual value. In the year ended March 31, 2008, operating loss, ordinary loss, and loss before taxes and minority interests were ¥128 million, ¥150 million and ¥147 million more, respectively, than they would have been without the change.

For the year ended March 31, 2009, the Company and its consolidated subsidiaries reviewed the useful lives of tangible fixed assets, and changed the useful lives for some of tangible fixed assets in accordance with changes in the corporate tax law. As a result of this change, operating income, ordinary income, and income before income taxes and minority interests for the year ended March 31, 2009 were ¥108 million (\$1,102 thousand) less than they would have been with the previous accounting method.

(h) Impairment loss on long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of an impaired asset or a group of assets to the recoverable amount, measured as the higher of the asset's net selling price or value in use. For the years ended March 31, 2009 and 2008, the Company and its consolidated subsidiaries recognized ¥3 million (\$31 thousand) and ¥3,882 million, respectively, as impairment loss on fixed assets.

(i) Accounting for finance leases

Effective from the year ended March 31, 2009, the Company has adopted ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," and the related Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions," originally issued by the Business Accounting Council of Japan on June 17, 1993 and by the Japanese Institute of Certified Public Accountants ("JICPA") on January 18, 1994, respectively, and both revised by ASBJ on March 30, 2007. The new accounting standard requires that all finance lease transactions be accounted for in a manner similar to that used with ordinary sale or purchase transactions.

The Company accounted for leases which existed at the transition date and did not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured by the obligations under the finance leases less interest expense at the transition date.

This change had no effect on income and loss.

Capitalized leased assets, included in machinery and equipment, are depreciated by the straight-line method over the lease term, with the residual value zero or the guaranteed amount at the lease termination date.

(j) Allowance for loss on construction in progress

Allowance for loss on construction in progress is provided based on an estimate of the total loss in respect to construction projects on which eventual losses are deemed inevitable and the amounts of the loss can be reasonably estimated.

(k) Employee retirement benefits

Employees who terminate their service with the Company and its consolidated subsidiaries are entitled to retirement benefits generally determined by reference to the basic rate of pay at the time of termination, length of service and conditions under which the termination occurs. The Company has a lump-sum retirement benefit plan and has established a noncontributory defined benefit pension plan, which is assumed to cover retirement benefits for employees who have retired voluntarily. The Company's consolidated subsidiaries have similar retirement benefit plans.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard for employees' retirement benefits, "Opinion Concerning Establishment of Accounting Standard for Retirement Benefits." In accordance with the new accounting standard, the Company and its consolidated subsidiaries recognize retirement benefits, including pension cost and related liability, based principally on the actuarial present value of the projected benefit obligation using the actuarial appraisal approach and the fair value of pension plan assets available for benefits at the respective year-end. The transitional provision for the adoption of this accounting standard amounted to ¥12,968 million. Transitional provision of ¥8,718 million was charged to income for the year ended March 31, 2001. The remaining unrecognized transitional provision of ¥4,250 million is being amortized on a straight-line basis over 15 years. Unrecognized actuarial differences in the projected benefit obligation or value of pension plan assets arising from actual amounts being different from the amounts projected and from changes in assumptions upon which the projections were made are to be amortized on a

straight-line basis over 15 years, which is within average remaining service years of employees, from the year following the fiscal year in which they arise.

(l) Allowance for Polychlorinated Biphenyl (“PCB”) disposal expenses

An allowance for PCB disposal expenses has been provided based on the published estimated disposal fee schedule issued by the Japan Environmental Safety Corporation.

(m) Provision for compensation for health damage from asbestos

A provision for compensation for health damage from asbestos has been recorded based on the estimated compensation amount for former employees who suffered health damage from asbestos.

(n) Income taxes

Income taxes are accounted for by the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(o) Translation of foreign currency accounts

Receivables, payables and securities denominated in foreign currencies, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at the exchange rates prevailing at the fiscal year-end. Transactions in foreign currencies are recorded based on the exchange rates prevailing on the transaction dates. Resulting translation gains and losses are included in the current earnings.

(p) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses amounted to ¥882 million (\$9,000 thousand) and ¥653 million for the years ended March 31, 2009 and 2008, respectively, and are included in general and administrative expenses and manufacturing cost in the accompanying consolidated statements of income.

(q) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year in which a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

(r) Per share data

Net income per share is computed by dividing the 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, 2009 and 2008 was not applicable because the Company had no dilutive common shares. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective year.

3. Notes and Accounts Receivable

Notes and accounts receivable at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trade notes	¥ 4,174	¥ 6,795	\$ 42,592
Trade notes			
- Unconsolidated subsidiaries and affiliates	111	99	1,133
Trade accounts	13,652	24,467	139,306
Trade accounts			
- Unconsolidated subsidiaries and affiliates	3,267	61	33,337
Other	261	161	2,663
Less, allowance for doubtful accounts	(54)	(86)	(551)
	<u>¥ 21,411</u>	<u>¥ 31,497</u>	<u>\$218,480</u>

4. Inventories

Inventories at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Merchandise	¥ 321	¥ 429	\$ 3,276
Finished goods	1,718	1,403	17,531
Work-in-process and semi-finished goods	38,186	28,976	389,652
Raw materials	1,674	1,666	17,082
	<u>¥ 41,899</u>	<u>¥ 32,474</u>	<u>\$427,541</u>

5. Investments

Short-term investments at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Bonds	¥ 10	¥ -	\$ 102

Investment securities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Marketable securities:			
Equity securities	¥ 11,063	¥ 19,943	\$112,888
Bond	10	20	102
Total marketable securities	11,073	19,963	112,990
Other nonmarketable securities	2,147	2,260	21,908
	<u>¥ 13,220</u>	<u>¥ 22,223</u>	<u>\$134,898</u>

Marketable securities classified as available-for-sale are stated at fair value, with unrealized gains and losses excluded from current earnings and reported as a net amount within the equity account until realized. Gross unrealized gains and losses for marketable available-for-sale securities at March 31, 2009 and 2008 were summarized as follows:

	Cost	Gross unrealized gains
	Millions of yen	
At March 31, 2009:		
Marketable securities:		
Equity securities	¥ 7,002	¥ 4,367
Bonds	20	-
	<u>¥ 7,022</u>	<u>¥ 4,367</u>
At March 31, 2008:		
Marketable securities:		
Equity securities	¥ 10,516	¥ 10,093
Bonds	20	0
	<u>¥ 10,536</u>	<u>¥ 10,093</u>
	Thousands of U.S. dollars	

At March 31, 2009:		
Marketable securities:		
Equity securities	\$ 71,449	\$ 44,561
Bonds	204	0
	<u>\$ 71,653</u>	<u>\$ 44,561</u>

	Gross unrealized losses	Fair and carrying value
	Millions of yen	

At March 31, 2009:		
Marketable securities:		
Equity securities	¥ (306)	¥ 11,063
Bonds	-	20
	<u>¥ (306)</u>	<u>¥ 11,083</u>

At March 31, 2008:		
Marketable securities:		
Equity securities	¥ (666)	¥ 19,943
Bonds	-	20
	<u>¥ (666)</u>	<u>¥ 19,963</u>
	Thousands of U.S. dollars	

At March 31, 2009:		
Marketable securities:		
Equity securities	\$ (3,122)	\$ 112,888
Bonds	-	204
	<u>\$ (3,122)</u>	<u>\$ 113,092</u>

During the year ended March 31, 2009 and 2008, the Company and its consolidated subsidiaries recorded a loss on the write-down on investment securities due to a permanent diminution in value in the amount of ¥1,247 million (\$12,723 thousand) and ¥407 million, respectively. In addition, for the year ended March 31, 2009 and 2008, the Company and its consolidated subsidiaries recorded realized gains of ¥266 million (\$2,714 thousand) and ¥112 million, respectively, for the sale of available-for-sale securities.

Expected maturities of available-for-sale securities at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥ 10	\$ 102
Due after one year through five years	10	102
Due after five years through ten years	-	-
Due after ten years	-	-
	<u>¥ 20</u>	<u>\$ 204</u>

6. Notes and Accounts Payable

Notes and accounts payable at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trade notes	¥ 3,101	¥ 5,072	\$ 31,643
Trade accounts	16,372	18,998	167,061
- Unconsolidated subsidiaries and affiliates	42	88	429
Other	2,026	1,259	20,673
	<u>¥ 21,541</u>	<u>¥ 25,417</u>	<u>\$ 219,806</u>

7. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Unsecured bank loans with an average interest rate of 1.26% per annum at March 31, 2009	¥ 5,935	¥ 9,935	\$ 60,561

Long-term debt at March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
0.68% unsecured straight bond due December 2009	¥ 3,000	¥ 3,000	\$ 30,612
1.992% unsecured straight bond due December 2012	2,500	2,500	25,510
Unsecured straight bonds with floating rates due 2010 through 2012	13,500	13,500	137,756
Unsecured bank loans due through 2015 with interest rates ranging from 0.99% to 3.04% at March 31, 2009	4,487	6,101	45,785
	<u>23,487</u>	<u>25,101</u>	<u>239,663</u>
Less, current portion	<u>(7,350)</u>	<u>(1,764)</u>	<u>(75,000)</u>
	<u>¥ 16,137</u>	<u>¥ 23,337</u>	<u>\$ 164,663</u>

The Company entered into the contracts with banks to swap interest from floating rates based on TIBOR to fixed rates in order to hedge against future fluctuations in interest rates. Under these swap contracts, fixed interest rates ranged from 1.423% to 1.940%.

The aggregate annual maturities of long-term debt at March 31, 2009 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 7,350	\$ 75,000
2011	6,025	61,480
2012	25	255
2013	10,025	102,296
Thereafter	62	632
	<u>¥ 23,487</u>	<u>\$ 239,663</u>

8. Employee Retirement Benefits

The Company and its consolidated subsidiaries have noncontributory defined benefit pension plans and lump-sum retirement benefit plans which substantially cover all employees.

Employee retirement benefit liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ 18,098	¥ 18,433	\$184,673
Less fair value of pension plan assets	(9,346)	(14,681)	(95,367)
Less unrecognized transitional provision	(1,698)	(1,981)	(17,327)
Less unrecognized actuarial differences	(6,565)	(1,283)	(66,989)
Employee retirement benefit liabilities	<u>¥ 489</u>	<u>¥ 488</u>	<u>\$ 4,990</u>

Note: Consolidated subsidiaries adopted the simplified method for the calculation of projected benefit obligation based on the amount which would be required if all eligible employees voluntarily terminated their employment as of the year-end.

The components of retirement benefit expenses for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 785	¥ 831	\$ 8,010
Interest cost	349	370	3,561
Expected return on pension plan assets	(206)	(217)	(2,102)
Amortization of transitional provision (Note 2(l))	283	283	2,888
Amortization of actuarial differences	140	(201)	1,429
Net periodic retirement benefit expense	<u>¥ 1,351</u>	<u>¥ 1,066</u>	<u>\$ 13,786</u>

Note: Retirement benefit expense of subsidiaries, calculated by the simplified method, was included in "service cost."

Major assumptions used in the calculations of the above information at March 31, 2009 and 2008 were as follows:

	2009	2008
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected return on pension plan assets	2.0%	2.0%
Amortization period of unrecognized actuarial differences	15 years (expensed from the following fiscal year)	15 years (expensed from the following fiscal year)
Amortization period of transitional provision	15 years	15 years

9. Assets Pledged as Collateral

Securities pledged as substitutes for cash deposits at an institution of real estate business at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Investment securities	<u>¥ 10</u>	<u>¥ 10</u>	<u>\$ 102</u>

10. Contingent Liabilities

In some cases, the Company sells its construction equipment products through leasing companies. Some of these leasing companies request that the Company enter into lease credits guarantee contracts. Under these contracts, if the lease credits are unrecoverable from the lessee, the Company's construction equipment products user, the Company guarantees payment of the amount defined by the contract. Such guarantees at March 31, 2009 and 2008 amounted to ¥1,229 million (\$12,541 thousand) and ¥1,591 million, respectively.

Trade notes discounted at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trade notes receivable discounted with bank	<u>¥ 78</u>	<u>¥ 192</u>	<u>\$ 796</u>

11. Lease Transactions

The Company and its consolidated subsidiaries use certain machinery and equipment under finance lease contracts. From the year ended March 31, 2009, as stated in Note 1(i), all finance lease transactions are accounted for in a manner similar to that used with ordinary sale or purchase transactions.

For the year ended March 31, 2008 pro forma information for leased property, including the acquisition cost, accumulated depreciation and future minimum lease payments, under finance leases that do not transfer the ownership of the leased property to the lessee and calculated on an "as if capitalized" basis was as follows:

	Acquisition costs	Accumulated depreciation	Balance
	Millions of yen		
At March 31, 2008:			
Machinery	¥ 2,660	¥ 1,117	¥ 1,543
Equipment	467	210	257
	<u>¥ 3,127</u>	<u>¥ 1,327</u>	<u>¥ 1,800</u>

Aggregate minimum future lease obligations at March 31, 2008 and lease expenses for the year then ended were as follows:

	Millions of yen
	2008
Due within one year	¥ 515
Due over one year	1,285
	<u>¥ 1,800</u>
Lease expenses for the year	<u>¥ 611</u>

Pro forma amounts for acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Pro forma depreciation

expense, which was not reflected in the accompanying consolidated statements of income, computed by the straight-line method would have been ¥611 million for the year ended March 31, 2008.

12. Equity

The authorized number of shares of common stock without par value is 328 million. At both March 31, 2009 and 2008, the number of shares of common stock issued was 146,750,129 shares. At March 31, 2009 and 2008, the number of shares of treasury stock held by the Company and its consolidated subsidiaries was 2,256,169 and 2,169,942, respectively.

At March 31, 2009 and 2008, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥2,475 million (\$25,255 thousand) at both March 31, 2009 and 2008. The Corporate Law of Japan (formerly the Commercial Code of Japan) provides that an amount equivalent to 10% of cash dividends as an appropriation of retained earnings be appropriated as legal reserve until the total amount of additional paid-in capital and legal reserve equals 25% of common stock. The reduction of legal reserve is restricted under certain circumstances by action of the shareholders of the Company.

On June 26, 2009 at the annual general meeting, shareholders of the Company resolved to approve the payment of year-end cash dividends of ¥2.5 (\$0.026) per share, in the aggregate amount of ¥361 million (\$3,684 thousand). 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. Income Taxes

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of
	2009	2008	U.S. dollars
Deferred tax assets:			2009
Employee retirement benefit liability	¥ 1,698	¥ 1,561	\$ 17,327
Loss on impairment of fixed assets	1,334	1,408	13,612
Revaluation of fixed assets	907	907	9,255
Accrued bonuses to employees	531	465	5,418
Loss on write-down of inventories	612	531	6,246
Allowance for loss on construction in progress	447	447	4,561
Revenue recognition for tax purposes	667	-	6,806
Loss on write-down of marketable securities and other	102	219	1,041
Operating loss carryforwards	614	2,116	6,265
Other	1,025	881	10,459
	7,937	8,535	80,990
Less valuation allowance	(2,813)	(3,755)	(28,704)
Total deferred tax assets	5,124	4,780	52,286
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(1,623)	(3,759)	(16,561)
Deferred gain on sale of property	(1,739)	(1,761)	(17,745)
Revaluation of fixed property	(2,741)	(2,741)	(27,969)
Other	(5)	-	(52)
Total deferred tax liabilities	(6,108)	(8,261)	(62,327)
Net deferred tax liabilities	¥ (984)	¥ (3,481)	\$(10,041)

Deferred tax assets and liabilities at March 31, 2009 and 2008 were recorded as follows:

	Millions of yen		Thousands of
	2009	2008	U.S. dollars
Deferred tax assets:			2009
Current	¥ 2,717	¥ 1,661	\$ 27,724
Noncurrent	139	151	1,419
Deferred tax liabilities:			
Noncurrent	(3,840)	(5,293)	(39,184)
Net deferred tax liabilities	¥ (984)	¥ (3,481)	\$(10,041)

In assessing the reliability of deferred tax assets, management of the Company and its consolidated subsidiaries considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2009 and

2008, a valuation allowance was provided to reduce the deferred tax assets to the amount that the management believed the deferred tax assets to be realizable.

The reconciliation of the difference between the Japanese statutory tax rate and the effective tax rate on pretax income for the year ended March 31, 2009 was as follow:

	Percentage of pretax income
Japanese statutory tax rate:	40.2 %
Increase (decrease) due to:	
Permanently nondeductible expenses	2.4
Valuation allowance	(64.9)
Tax exempt income	(9.9)
Local minimum taxes per capita levy	2.8
Other	4.4
Actual effective income tax rate	<u>(25.0) %</u>

A reconciliation for the year ended March 31, 2008 is not disclosed because a loss was recorded before income taxes and minority interests.

14. Derivative Financial Instruments

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with assets and liabilities. The Company also enters into interest rate swap contracts to manage its interest rate exposure on certain liabilities. As foreign currency forward contracts and interest rate swap contracts qualified for hedge accounting for the years ended March 31, 2009 and 2008, fair value information was not disclosed.

15. Cash and Cash Equivalents

Significant non-fund transactions for the year ended March 31, 2009

The following assets and obligations related to finance leases were added to non-fund transactions:

	Millions of yen	Thousands of U.S. dollars
Lease assets	¥ 2,396	\$ 24,449
Lease obligations	¥ 2,452	\$ 25,020

Significant non-fund transactions for the year ended March 31, 2008

None.

16. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries recognized impairment loss on the following asset groups.

	Use application	Location	Account	Millions of yen	Thousands of U.S. dollars
For the year ended March 31, 2009:	Idle property, etc. (2 items)	Kawasaki-cho, Miyagi, etc.	Land	¥ 3	\$ 31
			Total	¥ 3	\$ 31
				<u>¥ 3</u>	<u>\$ 31</u>
For the year ended March 31, 2008:	Assets of the PCB disposal business (1 item)	Handa-shi, Aichi	Construction in progress, etc.	¥ 3,753	
	NISSHA CONSTRUCTION CO., LTD. (1 item)	Handa-shi, Aichi, etc.	Other (tools, furniture and fixtures), etc.	113	
	Idle property, etc. (11 items)	Aso-shi, Kumamoto, etc.	Land, etc.	16	
			Total	<u>¥ 3,882</u>	

The asset groups were segmented by business in accordance with the segmentation applied for management accounting. However, assets of the golf business, rental properties and idle properties were grouped according to the individual properties.

For the year ended March 31, 2009, impairment loss was recognized for idle property, etc. when its market price was less than its book value.

For the year ended March 31, 2008, impairment loss was recognized on several grounds. For the assets of the PCB disposal business, the decision was made to proceed with an examination of the option of abandoning commercialization. For NISSHA CONSTRUCTION CO., LTD., negative operational income had been recorded for consecutive years. For idle property, etc., the market prices of the subject assets were less than the book values. For the assets of the laminated lumber business, it was decided to abandon the business. In relation to the impairment loss on these assets, the recoverable amounts were measured by the net sales value of disposal calculated by adjusting the property tax valuation.

17. Segment Information

The Companies' operations are classified into four segments, Transportation Equipment business, Construction Equipment business, Steel Structure business and Other business. The Transportation Equipment segment is composed of those operations involved in the manufacture and sale of rolling stocks, automated transit systems, high-pressure vessels and other specialized freight cars. The Construction Equipment segment is principally involved in the manufacture and sale of foundation work equipment for construction, portable/emergency diesel generators and machinery for paper mills. The Steel Structure segment is composed of manufacture and construction of roadway and railway bridges, water gates.

(1) Business segment information

Information by business segment for the years ended March 31, 2009 and 2008 was as follows:

	Transportation Equipment	Construction Equipment	Steel Structure	Other	Total	Corporate/ elimination	Consolidated
Millions of yen							
For the year 2009:							
Net sales:							
External customers	¥ 52,720	¥ 18,496	¥ 5,947	¥ 8,977	¥ 86,140	¥ -	¥ 86,140
Intersegment sales	507	0	-	953	1,460	(1,460)	-
Total net sales	53,227	18,496	5,947	9,930	87,600	(1,460)	86,140
Operating costs and expenses	49,442	16,455	5,865	9,941	81,703	899	82,602
Operating income (loss)	¥ 3,785	¥ 2,041	¥ 82	¥ (11)	¥ 5,897	¥ (2,359)	¥ 3,538
Identifiable assets	¥ 55,373	¥ 19,365	¥ 16,163	¥ 8,684	¥ 99,585	¥ 27,574	¥127,159
Depreciation	1,134	499	330	156	2,119	271	2,390
Loss on impairment of fixed assets	-	-	-	-	-	3	3
Capital expenditures	1,869	750	331	238	3,188	161	3,349
For the year 2008:							
Net sales:							
External customers	¥ 53,774	¥ 19,808	¥ 6,486	¥ 11,869	¥ 91,937	¥ -	¥ 91,937
Intersegment sales	486	-	-	978	1,464	(1,464)	-
Total net sales	54,260	19,808	6,486	12,847	93,401	(1,464)	91,937
Operating costs and expenses	54,605	17,315	7,933	12,652	92,505	549	93,054
Operating income (loss)	¥ (345)	¥ 2,493	¥ (1,447)	¥ 195	¥ 896	¥ (2,013)	¥ (1,117)
Identifiable assets	¥ 56,079	¥ 19,132	¥ 15,892	¥ 8,856	¥ 99,959	¥ 30,579	¥130,538
Depreciation	961	333	303	126	1,723	290	2,013
Loss on impairment of fixed assets	-	-	113	3,757	3,870	12	3,882
Capital expenditures	1,259	241	485	159	2,144	944	3,088
Thousands of U.S. dollars							
For the year 2009:							
Net sales:							
External customers	\$537,959	\$188,735	\$ 60,684	\$ 91,602	\$878,980	\$ -	\$878,980
Intersegment sales	5,174	0	-	9,724	14,898	(14,898)	-
Total net sales	543,133	188,735	60,684	101,326	893,878	(14,898)	878,980
Operating costs and expenses	504,510	167,908	59,847	101,439	833,704	9,174	842,878
Operating income (loss)	\$ 38,623	\$ 20,827	\$ 837	\$ (113)	\$ 60,174	\$(24,072)	\$ 36,102
Identifiable assets	\$565,031	\$197,602	\$164,929	\$ 88,611	\$1,016,173	\$281,368	\$1,297,541
Depreciation	11,571	5,092	3,367	1,592	21,622	2,766	24,388
Loss on impairment of fixed assets	-	-	-	-	-	31	31
Capital expenditures	19,071	7,653	3,378	2,429	32,531	1,642	34,173

- Notes: 1. Operating costs and expenses in the corporate / elimination column represent unallocated corporate operating expenses, such as general and administrative expenses of the Company, net of intersegment transactions.
2. Identifiable assets in the corporate / elimination column represent unallocated general corporate items, such as cash and short-term or long-term investments in securities and general managed property, net of intersegment balances.
3. As disclosed in Note 2(f), from the year ended March 31, 2009, the Company adopted ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." As a result, operating income for the year ended March 31, 2009 was ¥502 million (\$5,122 thousand) less in the Transportation Equipment business segment and ¥2 million (\$20 thousand) less in the Construction Equipment business segment than the amounts that would have been recorded with the previous accounting method.
4. As disclosed in Note 2(g), from the year ended March 31, 2009, the Company and its consolidated subsidiaries reviewed the useful lives of tangible fixed assets and changed the useful lives for some of tangible fixed assets in accordance with changes in the corporate tax law. As a result of this change, operating income for the year ended March 31, 2009 was ¥86 million (\$878 thousand) less in the Transportation Equipment business segment, ¥24 million (\$245 thousand) less in the Steel Structure business segment, and ¥2 million (\$20 thousand) more in Construction Equipment business segment, than

the amounts that would have been recorded with the previous accounting method.

5. *As disclosed in Note 2(g), from the year ended March 31, 2008, the Company and its consolidated subsidiaries have changed depreciation method of tangible fixed assets acquired on or after April 1, 2007 in accordance with the Tax Reform 2007. As a result, operating loss for the year ended March 31, 2008 was ¥13 million more in the Transportation Equipment business segment, ¥10 million more in the Construction Equipment business segment, ¥9 million more in the Steel Structure business segment, and ¥3 million more in the Other business segment than the amounts that would have been recorded with the previous accounting method.*
6. *As disclosed in Note 2(g), from the year ended March 31, 2008, the Company and its consolidated subsidiaries depreciate the residual amount of tangible fixed assets acquired on or before March 31, 2007 by the straight-line method over 5 years from the last year of their regular depreciation period. As a result, operating loss for the year ended March 31, 2008 was ¥46 million more in the Transportation Equipment business segment, ¥34 million more in the Construction Equipment business segment, ¥21 million more in the Steel Structure business segment, and ¥22 million more in the Other business segment than the amounts that would have been recorded with the previous accounting method.*

(2) Geographic segment information

The Company has no consolidated subsidiaries or significant branches outside Japan.

(3) Overseas sales information

Overseas sales (export sales from Japan) for the years ended March 31, 2009 and 2008 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Overseas sales:			
Asia	¥ 5,063	¥ 9,178	\$ 51,663
North America	1,911	1,568	19,500
Other area	319	222	3,255
Total	<u>¥ 7,293</u>	<u>¥ 10,968</u>	<u>\$ 74,418</u>
Consolidated net sales	<u>¥ 86,140</u>	<u>¥ 91,937</u>	<u>\$878,980</u>
Percentage of overseas sales to total consolidated net sales	8.5%	11.9%	8.5%

Corporate Information

Corporate Profile

Company Name: Nippon Sharyo, Ltd.

Capital Stock

Common Stock:Authorized	328,000,000 shares
Common Stock:Issued	146,750,129 shares
Number of Shareholders	13,191 persons (March 31, 2009)

Corporate History

Sep. 1896	Established in Nagoya City.
Jun. 1938	Founded Narumi Plant.
May 1949	Re-listed on Tokyo Security Exchange.
Jun. 1959	Began Construction Machinery Business.
Oct. 1961	Started Bridge Manufacturing.
Jul. 1964	Founded Toyokawa Plant.
Jun. 1975	Founded Kinuura Plant.
Sep. 1996	100th Anniversary.
Feb. 2002	Manufactured 2000th Shinkansen EMU.
Aug.2008	Equity and business tie-up entered into with Central Japan Railway Company.

Line of Business

Overview of the Main Segments

Nippon Sharyo manufactures and sells the following products:

Business segment	Lines of business
Railway rolling stock and other transportation equipment	EMUs, Railway Motor Cars, Passenger Cars, Linear Motor Cars, Freight Cars, Locomotives, Track Maintenance Machines, Rolling Stock Components, Tank Trucks and Tank Trailers, Storage Tanks, Heavy-duty Industrial Vehicles, Containers, Automated Guideway Transit Systems, Automated Guided Vehicles
Construction equipment	Pile Driving Rigs, Crawler Cranes, Hydraulic Hammers, Casing Rotators, Other Products Related to Foundation Work, Portable Diesel Generator Sets, Emergency Generators, Various Products Related to Electric Machines
Steel structure	Roadway Bridges, Railway Bridges, Water Gates
Other	Agricultural Plants, Grain Complex, Seed Processing Plants, Composting Plants, Carbonization Facility, Railway Rolling Stock Inspection/Maintenance System, Pulp and Paper Plants, Real Estate Rental, Cast Steel Products, Forged Products, Golf Course Operations

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