

Annual Business Report

April 1, 2009 through March 31, 2010

日本車両

NIPPON SHARYO, LTD.

Financial Highlights

Comparison of Sales by Segment

(Unit: millions of yen)

Business Segment	181th period (2009-2010)		180th period (2008-2009)		Increase/(decrease)	
	Value	%	Value	%	Value	%
Railway rolling stock and other transportation equipment	65,527	66.4 %	52,720	61.2 %	12,807	24.3 %
Construction equipment	14,461	14.7	18,496	21.5	(4,035)	(21.8)
Steel structure	10,049	10.2	5,947	6.9	4,102	69.0
Other	8,556	8.7	8,977	10.4	(421)	(4.7)
Total	98,594	100.0	86,140	100.0	12,454	14.5

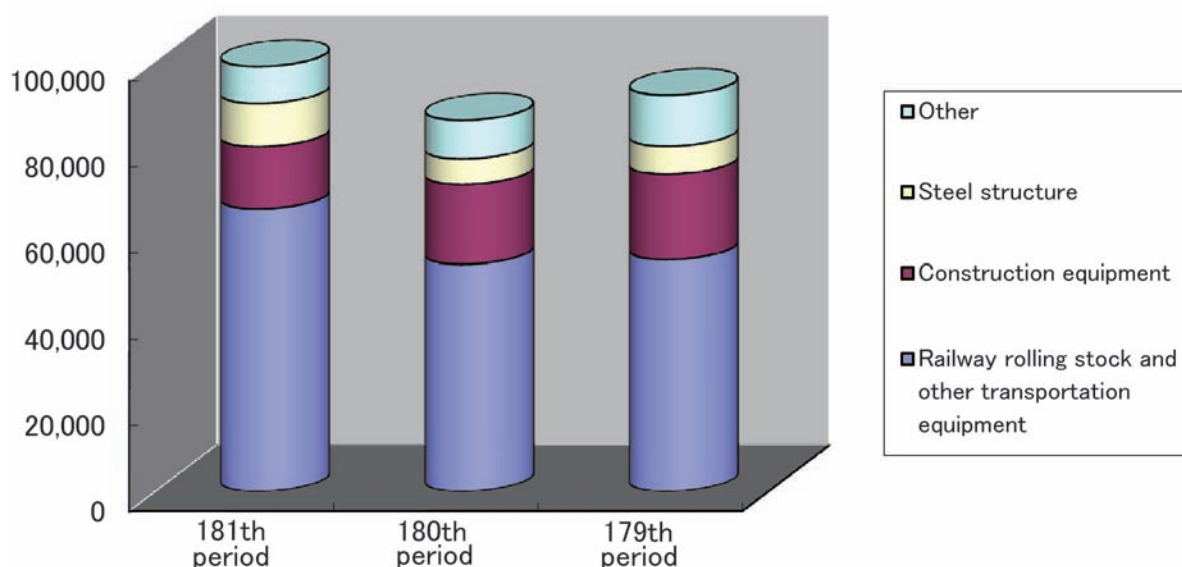
Change in Operating Performance and Asset Status

(Unit: millions of yen except Net income per share)

Titles of account	181th period (2009-2010)	180th period (2008-2009)	179th period (2007-2008)
Net sales	98,594	86,140	91,937
Ordinary income (loss)	7,478	3,174	(1,858)
Net income (loss)	3,787	1,601	(5,474)
Net income per share (loss)	¥26.21	¥11.08	(¥37.86)
Total assets	111,123	127,159	130,538
Total equity	47,613	43,785	46,278

(Millions of Yen)

Comparison of Sales by Segment



Contents

Message from the President	2
Review by Segment	4
Investment in Plant and Equipment	7
Financing Activities	7
Consolidated Financial Statements and Independent Auditors' Report	8
Corporate Information	29
Directory	29



Message from the President

Review of Business Operations

During the fiscal term under review, the Japanese private-sector demand was still weak to realize autonomous recovery while the situation surrounding employment was harsh. The Japanese economy, however, has been recovering slowly as domestic and international businesses have adjusted inventory, as well as export and production have increased based on the recovery of the global economy centering around emerging countries.

Under such circumstances, the Group achieved sales of ¥98,593 million, an increase of 14.5% from the previous year, securing the replacement orders for railway rolling stock, mainly the Series N700 Shinkansen trains, and the sales of machines and equipment for freight car manufacturing for Russia. In terms of profits, the ordinary profit and the net profit respectively recorded ¥7,478 million or an increase of 135.6%, and ¥3,787 million or an increase of 136.5%, therefore each recorded a great increase from the previous year.

The Outlook

Although the Japanese economy is on its way to a gradual recovery, partly towed by the strong Asian economy, the domestic situation is still unclear, for public investment has been continuously restrained and there are concerns of a sharp rebound in the prices of energy and materials. There are expectations, therefore, that domestic demand will continue to be weak for a while. Consequently, 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 continue to be severe, although the tendency of the respective markets will vary among the divisions involved.

In terms of railway rolling stock and other transportation equipment businesses, the railway rolling stock section is expected to meet a decrease of orders both for public and private railway companies, since export proposals have come into the “off-crop” period. The decrease however, is expected to remain limited, as a high demand for railway rolling stock such as the Series N700 Shinkansen for JR Central provides underpinning for the business. We, therefore, expect the trend to be steady for these businesses. Continuing our efforts in cost management and enhancement of profitability, we aim to concentrate on gaining new contracts not just domestically but overseas as well. As for the transportation equipment business, although there are indications in the market that demand for replacement orders can be expected, the underlying tendency of investment in plant and equipment is toward restraint in all sections, which results in a tight situation for receiving orders. We will continue to make further efforts to stimulate demand through proposing products that meet with market needs,

and to reduce costs through projecting the activities for each product.

In the construction equipment business, a sign of a decrease in replacement demand for products such as pile driving rigs has begun to be seen in the domestic market. Overseas demand, such as in other Asian countries however, remains vigorous. Setting our eyes on such a situation, we continue to make efforts in business development in and out of the country as well as securing profit through our optimization and improvement in production efficiency in response to market changes.

In the steel structure business, the situation is harsh and is caused by the decrease of orders for steel bridges. We continue to make efforts to secure orders through enhancing our capability for technical proposals, and are reducing costs as well as promoting the development of related businesses.

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 strengthening our technological capability and developing new products, as well as promoting proposals in sales activities to our customers.

Further, the whole Company is now in the process of reviewing its overall production system, centering on the railway rolling stock business, in order to establish a system to win in the ever-severe market competition. For this goal, we aim to improve profitability through strengthening our technology and productivity. To cope with the current unstable market situation where changes are rapid and the prospects remain uncertain, we will make efforts to concentrate on regional and product targets which can provide us with more chances to win in the market. The Company will continue to make efficient use of our management resources and to establish bases for the sustainable development of our businesses. Further, the Company will strengthen its complementary and cooperative relationship with JR Central, our parent company, through promoting technical and personnel exchanges. Our goal is to realize a synergy effect through strengthening the comprehensive technology of our railway rolling stock business as well as our other related businesses including business planning, R&D, design, manufacturing and maintenance.



A. Nakagawa.

Akira Nakagawa

President and Chief Executive Officer

Review by Segment

Railway Rolling Stock and Other Transportation Equipment Businesses



Series N700 Shinkansen Train

In railway rolling stock, our sales to the JR Companies amounted to ¥31,700 million. It was achieved through the stable delivery of the Series N700 Shinkansen trains for JR Central as well as the Series E2 Shinkansen trains for JR East, and the diesel cars for JR Kyushu. Our sales for the public and private railways reached ¥11,049 million, including sales of: the latest model of the Skyliner

trains and the Model 3050 EMUs for the Keisei Electric Railway Co., Ltd.; the Model 60000 Romance Car trains for the Odakyu Electric Railway Co., Ltd.; the Series 9000 EMUs for the Keio Electric Railway Co., Ltd.; the Series 4000 and the Series 5000 EMUs for Nagoya Railroad Co., Ltd.; the Model N1000 and the Model 6050 EMUs for the Transportation Bureau, the City of Nagoya; and the



Model AE "Skyliner"

Model MR600 diesel cars for the Mitsuura Railway Co., Ltd. In exported railway cars, we had sales



Diesel Locomotive

of ¥14,746 million, including bi-level passenger cars for the United States, freight car manufacturing machines and equipment for Russia, and subway train parts for Taiwan. Other sales included diesel locomotives and container flat cars. Consequently, our total sales of railway rolling stock reached an all-time high of ¥58,772 million, up 37.2% from the previous year.

Other transportation equipment business areas were affected by the worsening economy. Our sales of high-pressure gas-related products decreased, including our main products of consumer-purpose LPG bulk tank lorries. Meanwhile, the sales of containers and heavy-duty industrial vehicles such as carriers remained sluggish.

As a result, the sales of railway rolling stock and other transportation equipment businesses were

¥65,527 million, an increase of 24.3% from the previous year.

Construction Equipment Business



Casing Rotator

We had steady sales of casing rotators to meet the increasing demand for them in larger-diameter and deeper foundation works as well in response to exhaust emission controls. On the other hand, the sales of pile driving rigs decreased, as construction of houses, buildings and apartments decreased in

number. Furthermore, the trend of decreased public construction still continued and as a result, sales of construction equipment totaled ¥12,733 million, an 8.2% reduction from the previous year.



Pile Driving Rig

In the generator business, sales of portable generators still remained low due to investment control by major rental companies. As a result, the sales of generators were ¥1,727 million, down 62.6% from the previous year.

All in all, the sales in our construction equipment business were ¥14,461 million, a 21.8% reduction from the previous year.

Steel Structure Business

In the steel structure business, our sales included the fabrication and construction of road bridges such as the Second Tomei Expressway Abekawa bridge, the Ken-o Expressway Tanigawa bridge and the Ichihara Minami IC, the Nagaogawa side road bridge, the Shofukuji bridge, the western section of the Yahagigawa Ohashi bridge construction project, and the Rinku footbridge. It also included the construction projects of large-scale over-railway bridges such as the Odaka overbridge



Ken-o Expressway Tanigawa Bridge



Construction Project of Otobashi overbridge

and the Otobashi overbridge.

All in all, sales for the steel structure business reached ¥10,048 million, an increase of 69.0% from the previous year.

Other Businesses

Our main sales included: in the train inspection and maintenance equipment business, bogie assembling equipment for JR Central; in the transportation system business, special automotive flat wagons for steel mills; in the agricultural plant business, the repair work for country elevators; and in the paper-manufacturing machinery business, processing equipment for household paper manufacturers. Sales also included laser processing machines, income from golf course operations, and railway memorabilia.



Paper-manufacturing machinery

All in all, sales in other business areas totaled ¥8,556 million, down 4.7% from the previous year.

The export sales for the year under review amounted to ¥16,939 million, including ¥14,746 million for railway rolling stock and other transportation equipment businesses and ¥2,192 million for the construction equipment business, which represented 17.2% of total sales.

The orders on hand at the end of the year under review reached ¥125,817 million. These comprised ¥102,415 million for the railway rolling stock and other transportation equipment business (¥75,549 million for rolling stock such as the Series N700 Shinkansen trains for JR companies, ¥21,666 million for railway cars for other public and private railway companies, ¥321 million for exported rolling stock, and ¥391 million for other transportation equipment), ¥286 million for the construction equipment business, ¥16,610 million for the steel structure business, and ¥3,984 million for other businesses.

Investment in Plant and Equipment

Plant and equipment investment during the year under review totaled ¥3,098 million. At the Toyokawa Plant, it was mainly targeted at strengthening production capacity, including the replacement of large-scale NC routers and the enhancement of production lines for aluminum side frames, the relocation of the glazing area, and the establishment of a rolling stock inspection facility. For improving productivity, at the Kinuura Plant, it included the addition of machines and equipment for bridge construction; and at the Narumi Plant, it included the replacement of large-sized NC horizontal milling and boring machines as well as the replacement of vertical boring and turning mills.

Financing Activities

As for funding during the year under review, the Company joined the CMS or the Cash Management System operated by JR Central, our parent company. The balance of the bonds payable and the borrowing at the end of the year under review were ¥18,728 million, down ¥10,693 million from the end of the previous year.

**NIPPON SHARYO, LTD. AND
CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED FINANACIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009**

**AND
INDEPENDENT AUDITORS' REPORT**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of NIPPON SHARYO, LTD.

We have audited the accompanying consolidated balance sheet of NIPPON SHARYO, LTD. and consolidated subsidiaries (the "Company") as of March 31, 2010, and the related consolidated statements of income, changes in equity, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company for the year ended March 31, 2009 were audited by other auditors whose report, dated June 26, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIPPON SHARYO, LTD. and consolidated subsidiaries as of March 31, 2010, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 29, 2010

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 1,745	¥ 13,666	\$ 18,763
Marketable securities (Note 5)	-	10	-
Notes and accounts receivable (Notes 3, 10 and 14)	25,785	21,411	277,258
Inventories (Note 4)	33,497	41,899	360,183
Deferred tax assets (Note 13)	1,878	2,717	20,194
Other current assets	510	1,114	5,484
Total current assets	63,415	80,817	681,882
PROPERTY, PLANT AND EQUIPMENT:			
Land	16,734	16,740	179,935
Buildings and structures	23,958	23,070	257,613
Machinery and equipment	33,945	33,695	365,000
Construction in progress	205	1,864	2,204
Less accumulated depreciation	(43,632)	(43,748)	(469,161)
Net property, plant and equipment	31,210	31,621	335,591
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5, 9 and 14)	13,607	12,015	146,312
Investments in unconsolidated subsidiaries and associated companies (Note 5)	1,226	1,205	13,183
Deferred tax assets (Note 13)	108	139	1,161
Other assets	1,557	1,362	16,742
Total investments and other assets	16,498	14,721	177,398
TOTAL	¥ 111,123	¥ 127,159	\$ 1,194,871

(Continued)

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 2,591	¥ 5,935	\$ 27,860
Current portion of long-term debt (Notes 7 and 14)	6,025	7,350	64,785
Notes and accounts payable (Note 6)	19,817	21,541	213,086
Accrued expenses	3,981	3,461	42,807
Advances received	5,368	14,458	57,720
Income taxes payable (Note 14)	1,314	122	14,129
Allowance for work-in-process on construction contracts	1,371	1,111	14,742
Other current liabilities	858	1,497	9,226
Total current liabilities	41,325	55,475	444,355
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	10,113	16,137	108,742
Liability for employee retirement benefits (Note 8)	521	489	5,602
Lease obligations (Note 14)	1,868	1,772	20,086
Allowance for PCB disposal expenses (Note 2 l.)	239	154	2,570
Provision for compensation for health damage from asbestos	32	750	344
Deferred tax liabilities (Note 13)	4,794	3,840	51,548
Other long-term liabilities	4,618	4,757	49,656
Total long-term liabilities	22,185	27,899	238,548
COMITTMENT AND			
ONTINGENT LIABILITIES (Note 10)			
EQUITY (Note 12):			
Common stock, authorized, 328,000,000 shares; issued, 146,750,129 shares in 2010 and 2009	11,811	11,811	127,000
Capital surplus	12,044	12,043	129,505
Retained earnings	20,928	17,863	225,032
Unrealized gain on available-for-sale securities	3,213	2,439	34,549
Deferred gain on derivatives under hedge accounting	1	7	11
Treasury stock, at cost, 2,268,568 shares in 2010 and 2,256,169 shares in 2009	(463)	(455)	(4,978)
Total	47,534	43,708	511,119
Minority interests	79	77	849
Total equity	47,613	43,785	511,968
TOTAL	¥ 111,123	¥ 127,159	\$ 1,194,871

(Concluded)

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended March 31, 2010 and 2009

	Millions of Yen				
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities
BALANCE, APRIL 1, 2008	144,580,187	¥ 11,811	¥ 12,042	¥ 17,057	¥ 5,670
Cash dividends, ¥5.5 per share	-	-	-	(795)	-
Net income	-	-	-	1,601	-
Purchase of treasury stock, net	(86,227)	-	1	-	-
Net changes in the year	-	-	-	-	(3,231)
BALANCE, MARCH 31, 2009	144,493,960	¥ 11,811	¥ 12,043	¥ 17,863	¥ 2,439
Cash dividends, ¥5.0 per share	-	-	-	(722)	-
Net income	-	-	-	3,787	-
Purchase of treasury stock, net	(12,399)	-	1	-	-
Net changes in the year	-	-	-	-	774
BALANCE, MARCH 31, 2010	144,481,561	¥ 11,811	¥ 12,044	¥ 20,928	¥ 3,213

	Thousands of U.S. Dollars			
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities
BALANCE, MARCH 31, 2009	\$ 127,000	\$ 129,494	\$ 192,075	\$ 26,226
Cash dividends, \$0.05 per share	-	-	(7,763)	-
Net income	-	-	40,720	-
Purchase of treasury stock, net	-	11	-	-
Net changes in the year	-	-	-	8,323
BALANCE, MARCH 31, 2010	\$ 127,000	\$ 129,505	\$ 225,032	\$ 34,549

See notes to consolidated financial statements.

Millions of Yen

	Deferred gain on derivatives under hedge accounting	Treasury stock	Total	Minority interests	Total equity
BALANCE, APRIL 1, 2008	- ¥	(428) ¥	46,152 ¥	126 ¥	46,278
Cash dividends, ¥5.5 per share	-	-	(795)	-	(795)
Net income	-	-	1,601	-	1,601
Purchase of treasury stock, net	-	(27)	(26)	-	(26)
Net changes in the year	¥ 7	-	(3,224)	(49)	(3,273)
BALANCE, MARCH 31, 2009	¥ 7	¥ (455)	¥ 43,708	¥ 77	¥ 43,785
Cash dividends, ¥5.0 per share	-	-	(722)	-	(722)
Net income	-	-	3,787	-	3,787
Purchase of treasury stock, net	-	(8)	(7)	-	(7)
Net changes in the year	(6)	-	768	2	770
BALANCE, MARCH 31, 2010	¥ 1	¥ (463)	¥ 47,534	¥ 79	¥ 47,613

Thousands of U.S. Dollars

	Deferred gain on derivatives under hedge accounting	Treasury stock	Total	Minority interests	Total equity
BALANCE, MARCH 31, 2009	\$ 76	\$ (4,892)	\$ 469,979	\$ 827	\$ 470,806
Cash dividends, \$0.05 per share	-	-	(7,763)	-	(7,763)
Net income	-	-	40,720	-	40,720
Purchase of treasury stock, net	-	(86)	(75)	-	(75)
Net changes in the year	(65)	-	8,258	22	8,280
BALANCE, MARCH 31, 2010	\$ 11	\$ (4,978)	\$ 511,119	\$ 849	\$ 511,968

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 6,382	¥ 1,282	\$ 68,624
Adjustments for:			
Income taxes-paid	(99)	(96)	(1,065)
Income taxes- refunded	102	-	1,097
Depreciation	2,701	2,390	29,043
Loss on impairment of fixed assets	274	3	2,946
Equity in net earnings of associated companies	(22)	(22)	(237)
Loss on sales and disposals of property, plant and equipment, net	153	108	1,645
Loss on write-down of investment securities	90	1,247	968
Gain on sales of investment securities-net	(37)	(311)	(397)
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(4,551)	10,217	(48,935)
Decrease (increase) in inventories	8,402	(9,425)	90,344
Decrease in trade notes and accounts payable	(2,352)	(4,644)	(25,291)
Increase in allowance for loss on construction in progress	260	1	2,796
(Decrease) increase in provision for compensation for health damage from asbestos	(718)	750	(7,720)
(Decrease) increase in advances received	(9,090)	7,001	(97,742)
Increase in liability for employee retirement benefits	32	-	344
Other- net	1,917	(611)	20,612
Net cash provided by operating activities	3,444	7,890	37,032
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3,452)	(2,283)	(37,118)
Proceeds from sales of property, plant and equipment	64	80	688
Purchases of investment securities	(402)	(229)	(4,323)
Proceeds from sales of investment securities	47	2,910	506
Other-net	(50)	0	(538)
Net cash (used in) provided by investing activities	(3,793)	478	(40,785)
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	(3,344)	(4,000)	(35,957)
Proceeds from long-term debt	-	150	-
Repayments of long-term debt	(4,350)	(1,764)	(46,774)
Repayments of bonds	(3,000)	-	(32,258)
Payments for purchase of fractional shares	-	(33)	-
Dividends paid	(723)	(795)	(7,775)
Other-net	(155)	(27)	(1,667)
Net cash used in financing activities	(11,572)	(6,469)	(124,431)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	-	(0)	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,921)	1,899	(128,184)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,666	11,767	146,947
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 1,745	¥ 13,666	\$ 18,763
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets	-	¥ 2,396	-
Finance lease obligations	-	¥ 2,452	-

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
Years Ended March 31, 2010 and 2009

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act 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 of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2009 financial statements to conform to the classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which NIPPON SHARYO, LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93 to \$1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2010 include the accounts of the Company and its significant subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in unconsolidated subsidiaries and associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The number of the consolidated subsidiaries, unconsolidated subsidiaries and associated companies for the years ended March 31, 2010 and 2009 was as follows:

	2010	2009
Consolidated subsidiaries (domestic)	4	4
Unconsolidated subsidiaries, stated at cost	2	2
Associated companies accounted for by the equity method	1	1
Associated companies stated at cost	4	4

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

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months from the date of acquisition.

c. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured

at fair value and unrealized gains / losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but unrealized gains / losses are deferred until the underlying transactions are completed.

Long-term debt denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

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.

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 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 for the year ended March 31, 2009.

g. Property, plant and equipment

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 lives of the assets.

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 less than they would have been with the previous accounting method.

The range of useful lives is principally from 10 to 60 years for buildings and structures and from 6 to 17 years for machinery and equipment.

h. 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, 2010 and 2009, the Company and its consolidated subsidiaries recognized ¥274 million (\$2,946 thousand) and ¥3 million, respectively, as impairment loss on long-lived assets.

i. Leases

In March 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions”, which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard require that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and did not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group 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 at the obligations under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

j. Allowance for work-in-process on construction contracts

Allowance for work-in-process on construction contracts 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. Provision for allowance for work-in-process on construction contracts included in cost of sales for the year ended March 31, 2010 was ¥259 million (\$2,785 thousand).

k. Liability for 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 Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥4,250 million, determined as of April 1, 2000, is being amortized over 15 years.

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

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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 and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

p. Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses amounted to ¥986 million (\$10,602 thousand) and ¥882 million for the years ended March 31, 2010 and 2009, respectively, and are included in general and administrative expenses and manufacturing costs 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 information

Basic 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, 2010 and 2009 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.

s. Construction contracts

In December 2007, the ASBJ issued ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and

ASBJ Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts". Under previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts. This standard is applicable to construction contracts and software development contracts and is effective for fiscal years beginning on or after April 1, 2009. The effect of this change was to increase operating income and income before income taxes and minority interests by ¥177 million (\$1,903 thousand) for the year ended March 31, 2010.

t. New Accounting Pronouncements

Asset Retirement Obligations – In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections – In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting

Changes and Error Corrections” and ASBJ Guidance No. 24 “Guidance on Accounting Standard for Accounting Changes and Error Corrections”. Accounting treatment under this standard and guidance are as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentation:

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates:

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors:

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures – In March 2008, the ASBJ revised ASBJ Statement No. 17 “Accounting Standard for Segment Information Disclosures” and issued ASBJ Guidance No. 20 “Guidance on Accounting Standard for Segment Information Disclosures”. Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Trade notes	¥ 3,688	¥ 4,174	\$ 39,656
Trade notes			
- Unconsolidated subsidiaries and associated companies	75	111	807
Trade accounts	18,733	13,652	201,430
Trade accounts			
- Unconsolidated subsidiaries and associated companies	3,259	3,267	35,043
Other	156	261	1,677
Less, allowance for doubtful accounts	(126)	(54)	(1,355)
	<u>¥ 25,785</u>	<u>¥ 21,411</u>	<u>\$277,258</u>

4. INVENTORIES

Inventories at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Merchandise	¥ 125	¥ 321	\$ 1,344
Finished goods	1,516	1,718	16,301
Work-in-process and semi-finished goods	30,379	38,186	326,656
Raw materials	1,477	1,674	15,882
	<u>¥ 33,497</u>	<u>¥ 41,899</u>	<u>\$360,183</u>

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Current:			
Bonds	¥ -	¥ 10	\$ -
	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Non-current:			
Equity securities	¥ 13,597	¥ 12,005	\$146,204
Bonds	10	10	108
Total	<u>¥ 13,607</u>	<u>¥ 12,015</u>	<u>\$146,312</u>

The costs and aggregate fair values of marketable and instrument securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen	
	Cost	Gross unrealized gains
March 31, 2010		
Securities classified as Available-for-sale:		
Equity securities	¥ 7,195	¥ 5,548
Bonds	10	-
	<u>¥ 7,205</u>	<u>¥ 5,548</u>

March 31, 2009:		
Securities classified as Available-for-sale:		
Equity securities	¥ 7,002	¥ 4,367
Bonds	20	-
	<u>¥ 7,022</u>	<u>¥ 4,367</u>

	Thousands of U.S. Dollars	
	March 31, 2010:	
Securities classified as Available-for-sale:		
Equity securities	\$ 77,366	\$ 59,656
Bonds	107	-
	<u>\$ 77,473</u>	<u>\$ 59,656</u>

	Millions of Yen	
	Gross unrealized losses	Fair and carrying value

March 31, 2010		
Securities classified as Available-for-sale:		
Equity securities	¥ (166)	¥ 12,577
Bonds	-	10
	<u>¥ (166)</u>	<u>¥ 12,587</u>

March 31, 2009:		
Securities classified as Available-for-sale:		
Equity securities	¥ (306)	¥ 11,063
Bonds	-	20
	<u>¥ (306)</u>	<u>¥ 11,083</u>

	Thousands of U.S. Dollars	
	March 31, 2010:	
Securities classified as Available-for-sale:		
Equity securities	\$ (1,785)	\$ 135,237
Bonds	-	107
	<u>\$ (1,785)</u>	<u>\$ 135,344</u>

For the year ended March 31, 2009, the Company and its consolidated subsidiaries recognized gains of ¥266 million for the sale of available-for-sale securities.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 were as follows. Similar information for 2010 is disclosed in Note 14.

March 31, 2009	Carrying amount
	Millions of Yen
Available-for-sale:	
Equity securities	¥ 941
Total	<u>¥ 941</u>

The information of available-for-sale securities which were sold during the year ended March 31, 2010 was as follows:

March 31, 2010	Millions of Yen		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 47	¥ 39	¥ 2
Total	<u>¥ 47</u>	<u>¥ 39</u>	<u>¥ 2</u>

March 31, 2010	Thousands of U.S. Dollars		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	\$ 505	\$ 419	\$ 22
Total	<u>\$ 505</u>	<u>\$ 419</u>	<u>\$ 22</u>

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2010 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	-	-
Due after one year through five years	¥ 10	\$ 108
Due after five years and thereafter	-	-
Total	<u>¥ 10</u>	<u>\$ 108</u>

6. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Trade notes	¥ 2,268	¥ 3,101	\$ 24,387
Trade accounts	14,848	16,372	159,656
-Unconsolidated subsidiaries and associated companies	46	42	495
Other	2,655	2,026	28,548
	<u>¥ 19,817</u>	<u>¥ 21,541</u>	<u>\$213,086</u>

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Unsecured bank loans with an average interest rate of 0.80% per annum at March 31, 2010	¥ 2,591	¥ 5,935	\$ 27,860

Long-term debt at March 31, 2010 and 2009 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
0.68% unsecured straight bond due December 2009	-	¥ 3,000	-
1.992% unsecured straight bond due December 2012	¥ 2,500	2,500	\$ 26,882
Unsecured straight bonds with floating rates due 2010 through 2012	13,500	13,500	145,161
Unsecured bank loans due through 2015 with interest rate of 3.04% at March 31, 2010	138	4,487	1,484
	16,138	23,487	173,527
Less current portion	(6,025)	(7,350)	(64,785)
	¥ 10,113	¥ 16,137	\$ 108,742

The Company entered into 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, 2010 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 6,025	\$ 64,785
2012	25	269
2013	10,025	107,795
2014	25	269
2015	25	269
Thereafter	13	140
	¥ 16,138	\$ 173,527

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. The Company has an employee retirement benefit trust.

The liability for employee retirement benefits at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥ 16,991	¥ 18,098	\$ 182,699
Fair value of plan assets	(10,440)	(9,346)	(112,258)
Unrecognized transitional obligation	(1,415)	(1,698)	(15,215)
Unrecognized actuarial loss	(4,615)	(6,565)	(49,624)
Net liability	¥ 521	¥ 489	\$ 5,602

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 benefit costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 680	¥ 785	\$ 7,312
Interest cost	345	349	3,710
Expected return on plan assets	(181)	(206)	(1,946)
Amortization of transitional obligation (Note 2k)	283	283	3,043
Recognized actuarial loss	501	140	5,386
Net periodic benefit costs	¥ 1,628	¥ 1,351	\$ 17,505

Note: Benefit costs 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, 2010 and 2009 were as follows:

	2010	2009
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Recognition period of actuarial gain/loss	15 years	15 years
Amortization period of transitional obligation	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, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Investment securities	¥ 10	¥ 10	\$ 108

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 users of the Company's construction equipment products, the Company guarantees payment of the amount defined by the contract to the leasing companies. Such guarantees at March 31, 2010 amounted to ¥1,091 million (\$11,731 thousand).

Trade notes discounted at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
Trade notes receivable discounted with bank	¥ 129	\$ 1,387

11. LEASE TRANSACTIONS

The Company and its consolidated subsidiaries use certain machinery and equipment under finance lease contracts. All finance lease transactions are accounted for in a manner similar to that used with ordinary sale or purchase transactions.

A consolidated subsidiary subleases machinery.

Investments in lease and lease obligations resulted from the sublease transaction at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of
	2010	2009	U.S. Dollars
Investments in lease:			2010
Due within one year	¥ 225	¥ 220	\$ 2,419
Due after one year	787	658	8,463
Total	¥ 1,012	¥ 878	\$ 10,882
			Thousands of
			U.S. Dollars
			2010
Lease obligations:			
Due within one year	¥ 234	¥ 225	\$ 2,516
Due after one year	851	684	9,151
Total	¥ 1,085	¥ 909	\$ 11,667

12. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital

surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. INCOME TAXES

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of
	2010	2009	U.S. Dollars
			2010
Deferred tax assets:			
Employee retirement benefit liability	¥ 1,680	¥ 1,698	\$ 18,064
Loss on impairment of fixed assets	1,409	1,334	15,151
Revaluation of fixed assets	907	907	9,753
Accrued bonuses to employees	590	531	6,344
Loss on write-down of inventories	408	612	4,387
Allowance for loss on construction in progress	550	447	5,914
Revenue recognition for tax purposes	-	667	-
Loss on write-down of marketable securities and other	96	102	1,032
Tax loss carryforwards	93	614	1,000
Other	967	1,025	10,398
	6,700	7,937	72,043
Less valuation allowance	(2,910)	(2,813)	(31,290)
Total deferred tax assets	3,790	5,124	40,753
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(2,138)	(1,623)	(22,989)
Deferred gain on sales of property	(1,718)	(1,739)	(18,473)
Revaluation of fixed property	(2,741)	(2,741)	(29,473)
Other	(1)	(5)	(11)
Total deferred tax liabilities	(6,598)	(6,108)	(70,946)
Net deferred tax liabilities	¥ (2,808)	¥ (984)	\$ (30,193)

Deferred tax assets and liabilities at March 31, 2010 and 2009 were recorded as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Current	¥ 1,878	¥ 2,717	\$ 20,194
Noncurrent	108	139	1,161
Deferred tax liabilities:			
Noncurrent	(4,794)	(3,840)	(51,548)
Net deferred tax liabilities	¥ (2,808)	¥ (984)	\$(30,193)

In assessing the recoverability of deferred tax assets, management of the Group 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, 2010 and 2009, a valuation allowance was

provided to reduce the deferred tax assets to the amount that 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 follows:

Japanese statutory tax rate:	2009
Increase (decrease) due to:	40.2 %
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	(25.0) %

The reconciliation for the year ended March 31, 2010 was not disclosed because the difference between the Japanese statutory tax rate and the effective tax rate on pretax income was immaterial.

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Group policy for financial instruments

The Group utilizes CMS (Cash Management System) provided by their parent company (Central Japan Railway Company) to operate and finance funds. The Group finances capital investments mainly with bank loans and bond issues. Derivative transactions are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables, such as notes and accounts receivables are exposed to customer credit risk.

Although receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, the position, net of receivables in foreign currencies, is hedged by using forward currency contracts.

Short-term borrowings are mainly used for financing operating capital, and bonds, long-term debt and lease obligations are primarily used for financing capital investments. Although a part of long-term debt is exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps.

Long-term deposits included in other long-term liabilities are mainly related to membership liability from golf course operations.

Derivatives mainly include forward foreign currency contracts and interest-rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables, payables and forecasted transactions, and from changes in interest rates of long-term debt. Please see the Note 15 for more about derivatives.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables by monitoring payment terms and balances of customers to identify default risk of customers at an early stage.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, when foreign currency trade receivables and payables are expected from forecasted transactions, forward foreign currency contracts may be used.

Interest-rate swaps are used to manage exposure to market risks from changes in the interest rates of loan payables and bond payables.

Investment securities are managed by monitoring the market values and the financial position of issuers on a regular basis.

The basic principles of derivative transactions have been approved by the manager of corporate planning. Reconciliations of

the derivative transactions and balances with customers are made, and the transaction data has been reported to the manager of corporate planning.

Liquidity risk management

The Group establishes or updates its cash management plan according to reports from each department and manages to maintain liquidity risk.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 15 for the detail of the fair value of derivatives.

(a) Fair value of financial instruments

March 31, 2010

	Millions of Yen		
	Carrying amount	Fair Value	Unrealized gain/loss
	2010		
Cash and cash equivalents	¥ 1,745	¥ 1,745	-
Notes and accounts receivable	25,785	25,785	-
Investment securities	12,587	12,587	-
Total	¥ 40,117	¥ 40,117	-
Notes and accounts payable	¥ 19,817	¥ 19,817	-
Short-term borrowings	2,591	2,591	-
Income taxes payable	1,314	1,314	-
Long-term debt including current portion	16,138	16,350	¥ 212
Lease obligations	1,868	1,766	(102)
Total	¥ 41,728	¥ 41,838	¥ 110

March 31, 2010

	Thousands of U.S. Dollars		
	Carrying amount	Fair Value	Unrealized gain/loss
	2010		
Cash and cash equivalents	\$ 18,763	\$ 18,763	-
Notes and accounts receivable	277,258	277,258	-
Investment securities	135,344	135,344	-
Total	\$ 431,365	\$ 431,365	-
Notes and accounts payable	\$ 213,086	\$ 213,086	-
Short-term borrowings	27,860	27,860	-
Income taxes payable	14,129	14,129	-
Long-term debt including current portion	173,527	175,807	\$ 2,280
Lease obligations	20,086	18,989	(1,097)
Total	\$ 448,688	\$ 449,871	\$ 1,183

Cash and cash equivalents and notes and accounts receivable

The carrying values of cash and cash equivalents and notes and accounts receivables approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market prices of the stock exchange and at the quoted prices obtained from financial institutions for certain debt instruments. The information on the fair value of the investment securities by classification is included in Note 5.

Notes and accounts payable, short-term borrowings and income taxes payable

The carrying values of notes and accounts payable, short-term borrowings and income tax payable approximate fair value since they are scheduled to be settled in a short period of time.

Long-term debt and lease obligations

The fair values of long-term debt and lease obligations are measured at the present value of the total of the principal and interest value discounted by the interest rate applied to new loans.

Derivative transactions

The information on the fair value of derivatives is included in Note 15.

(b) Financial instruments whose fair value cannot be reliably determined.

	Millions of Yen		Thousands of U.S. Dollars	
	2010		2010	
Unlisted securities	¥	1,020	\$	10,968
Investments in unconsolidated subsidiaries and associated companies		1,226		13,183
Long-term deposits included in other long-term liabilities		4,161		44,742

(5) Maturity analysis for financial and asset securities with contractual maturities

March 31, 2010	Millions of Yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 1,745	-	-	-
Notes and accounts receivable-trade	24,565	¥ 1,189	-	-
Investment securities:				
Available-for-sale securities with contractual maturities	-	10	-	-
Total	¥ 26,310	¥ 1,199	-	-

March 31, 2010	Thousands of U.S. Dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$ 18,763	-	-	-
Notes and accounts receivable-trade	264,140	\$ 12,784	-	-
Investment securities:				
Available-for-sale securities with contractual maturities	-	108	-	-
Total	\$ 282,903	\$ 12,892	-	-

Please see Note 7 for annual maturities of long-term debt and Note 11 for obligations under finance leases, respectively.

15. DERIVATIVE TRANSACTIONS

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

As noted in Note 14, the Group applied ASBJ Statement No. 10 and in accordance with internal policies which and ASBJ Guidance No. 19 ASBJ Guidance No. the Group applied ASBJ Statement Numbers and Related Disclosures.” The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, required information is disclosed only for 2010.

Derivative transactions to which hedge accounting is applied for the year ended March 31, 2010 was as follows:

At March 31, 2010	Hedged item	Millions of Yen			Thousands of U.S. Dollars		
		Contract amount	Contract Amount Due after one year	Fair value	Contract amount	Contract Amount Due after one year	Fair value
Currency:							
Foreign exchange forward contracts USD (Buying)	Advance payment	¥ 30	-	¥ 0	\$ 323	-	\$ 0
Interest rate:							
Interest rate swap contracts Receive floating/Pay fixed	Long-term debt	¥ 13,637	¥ 7,612	Note	\$146,634	\$ 81,849	Note

Note: Fair value of the interest rate swap contracts is included in the fair value of long-term debt (Note 14) since the interest rate swaps qualify for hedge accounting and meet specific matching criteria and are not remeasured at market value.

The fair value of the foreign exchange forward contracts and interest rate swap contracts that qualified for hedge accounting for the year ended March 31, 2009 was not disclosed.

16. LOSS ON IMPAIRMENT OF FIXED ASSETS

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

	Asset group	Location	Account	Millions of Yen	Thousands of U.S. Dollars
For the year ended March 31, 2010:	Forging operation	Handa-shi, Aichi	Building, machinery and equipment, etc.	¥ 271	\$ 2,914
	Unused property (2 items)	Kani-shi, Gifu, etc.	Land, etc.	3	32
			Total	¥ 274	\$ 2,946
For the year ended March 31, 2009:	Unused property (2 items)	Kawasaki-cho, Miyagi, etc.	Land	¥ 3	
			Total	¥ 3	

The Group reviewed its long-lived assets for impairment.

For the year ended March 31, 2010, the Group recognized an impairment loss of ¥274 million (\$2,946 thousand) for assets used for forging operations due to continuous loss of the forging operation and for unused property. The recoverable amounts of such assets were measured at net selling value.

For the year ended March 31, 2009, an impairment loss was recognized for unused property since its market price was less than its book value.

17. RELATED PARTY DISCLOSURES

Central Japan Railway Company (the "Parent") directly owned 51.3% of the total shares of the Company as of the year ended March 31, 2010. The Company distributes transportation vehicles to the Parent.

Transactions of the Company with the Parent and associated companies for the years ended March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
Sales	¥ 26,792	\$ 288,086

The balances due to or from the Parent at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
Trade notes and accounts receivable	¥ 3,230	\$ 34,731
Short-term borrowings	2,146	23,075

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2010 was approved at the Company's shareholders meeting held on June 29, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.5 (\$0.03) per share	¥ 361	\$ 3,882

19. SEGMENT INFORMATION

The Group's 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 and water gates.

(1) Business segment information

Information by business segment for the years ended March 31, 2010 and 2009 was as follows:

	Transportation Equipment	Construction Equipment	Steel Structure	Other	Total	Corporate/ eliminations	Consolidated
Millions of Yen							
For the year 2010:							
Sales to customers	¥ 65,527	¥ 14,461	¥ 10,049	¥ 8,557	¥ 98,594	¥ -	¥ 98,594
Intersegment sales	505	4	-	871	1,380	(1,380)	-
Total sales	66,032	14,465	10,049	9,428	99,974	(1,380)	98,594
Operating expenses	58,226	12,845	9,491	9,311	89,873	1,106	90,979
Operating income	¥ 7,806	¥ 1,620	¥ 558	¥ 117	¥ 10,101	¥ (2,486)	¥ 7,615
Total assets	¥ 50,099	¥ 18,702	¥ 19,235	¥ 7,356	¥ 95,392	¥ 15,731	¥111,123
Depreciation	1,243	624	382	155	2,404	297	2,701
Impairment loss	-	-	-	271	271	3	274
Capital expenditures	1,512	984	253	59	2,808	228	3,036
For the year 2009:							
Sales to customers	¥ 52,720	¥ 18,496	¥ 5,947	¥ 8,977	¥ 86,140	¥ -	¥ 86,140
Intersegment sales	507	0	-	953	1,460	(1,460)	-
Total sales	53,227	18,496	5,947	9,930	87,600	(1,460)	86,140
Operating 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
Total 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
Impairment loss	-	-	-	-	-	3	3
Capital expenditures	1,869	750	331	238	3,188	161	3,349
Thousands of U.S. Dollars							
For the year 2010:							
Sales to customers	\$704,591	\$155,495	\$108,054	\$ 92,011	\$1,060,151	\$ -	\$1,060,151
Intersegment sales	5,431	43	-	9,365	14,839	(14,839)	-
Total sales	710,022	188,538	108,054	101,376	1,074,990	(14,898)	1,060,151
Operating expenses	626,086	138,119	102,054	100,118	966,377	11,892	978,269
Operating income	\$ 83,936	\$ 17,419	\$ 6,000	\$ 1,258	\$108,613	\$(26,731)	\$ 81,882
Total assets	\$538,699	\$201,097	\$206,828	\$ 79,096	\$1,025,720	\$169,151	\$1,194,871
Depreciation	13,365	6,710	4,107	1,667	25,849	3,194	29,043
Impairment loss	-	-	-	2,914	2,914	32	2,946
Capital expenditures	16,258	10,581	2,721	634	30,194	2,451	32,645

Notes: 1. Operating expenses in the corporate / eliminations column represent unallocated corporate operating expenses in the amount of ¥2,579 million (\$27,731 thousand) and ¥2,433 million for the years ended March 31, 2010 and 2009, respectively, such as general and administrative expenses of the Company, net of intersegment transactions.

2. Total assets in the corporate / eliminations column represent unallocated general corporate items in the amount of ¥16,756 million (\$180,172 thousand) and ¥28,523 million as of March 31, 2010 and 2009, respectively, 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 2s, from the year ended March 31, 2010, the Company has adopted the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007). As a result, net sales increased by ¥1,133 million (\$12,183 thousand) and operating income increased by ¥177 million (\$1,903 thousand) for the year ended March 31, 2010 in the Steel Structure business.

4. As disclosed in Note 2f, 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 less in the Transportation Equipment business segment and ¥2 million less in the Construction Equipment business segment, than the amounts that would have been recorded with the previous accounting method.

(2) Geographical segment information

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

(3) Sales to foreign customer

Sales to foreign customer for the years ended March 31, 2010 and 2009 was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Asia	¥ 9,731	¥ 5,063	\$ 104,635
North America	792	1,911	8,516
Other area	6,416	319	68,989
Total	¥ 16,939	¥ 7,293	\$ 182,140
Total sales	¥ 98,594	¥ 86,140	\$ 1,060,151
Percentage of sales to foreign customers to total sales	17.2%	8.5%	17.2%

Note1. Classification of countries or area is based on geographical proximity.

Note2. Countries or area in each classification is as follows:

(1)North America... United States of America

(2)Asia ... Taiwan and South Korea

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	14,799persons (March 31, 2010)

Corporate History

Sep. 1896	Established in Nagoya City.
Jun. 1938	Founded Narumi Plant.
May 1949	Re-listed on Tokyo Security Exchange.
Jan. 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, Railway Rolling Stock Inspection/Maintenance System, Pulp and Paper Plants, Real Estate Rental, Cast Steel Products, Forged Products, Golf Course Operations

Directory

OFFICE

HEAD OFFICE (NAGOYA)

1-1 Sanbonmatsu-cho,
Atsuta-ku, Nagoya 456-8691, JAPAN
Phone: +81-52-882-3316
Fax: +81-52-882-3781

TOKYO OFFICE

12th Fl. Marunouchi Central Bldg.
1-9-1 Marunouchi,
Chiyoda-ku, Tokyo100-0005 JAPAN
Phone: +81-3-6688-6789
Fax: +81-3-6688-6809

OSAKA BRANCH

8th Fl, OX Umeda Building Annex
2-7-18 Shibata,
Kita-ku, Osaka 530-0012, JAPAN
Phone: +81-6-6372-5851
Fax: +81-6-6372-5886

SHANGHAI REPRESENTATIVE OFFICE

Tomson Centre Room A1607,
No.228 Zhangyang Road,
Pudong New District,
Shanghai, PRC
Phone: +86-21-5888-8706
Fax: +86-21-5888-8705

PLANT

TOYOKAWA PLANT

(Railway rolling stock & other transportation equipment)
2-20 Honohara,
Toyokawa, Aichi-pref 442-8502, JAPAN
Phone: +81-533-85-4112
Fax: +81-533-85-3619

NARUMI PLANT

(Construction equipment)
80 Ryucho, Narumi-cho,
Midori-ku, Nagoya 458-8502, JAPAN
Phone: +81-52-623-3311
Fax: +81-52-623-4349

KINUURA PLANT

(Steel structure)
20 11-gouchi,
Handa, Aichi 475-0831, JAPAN
Phone: +81-569-22-7511
Fax: +81-569-22-7577