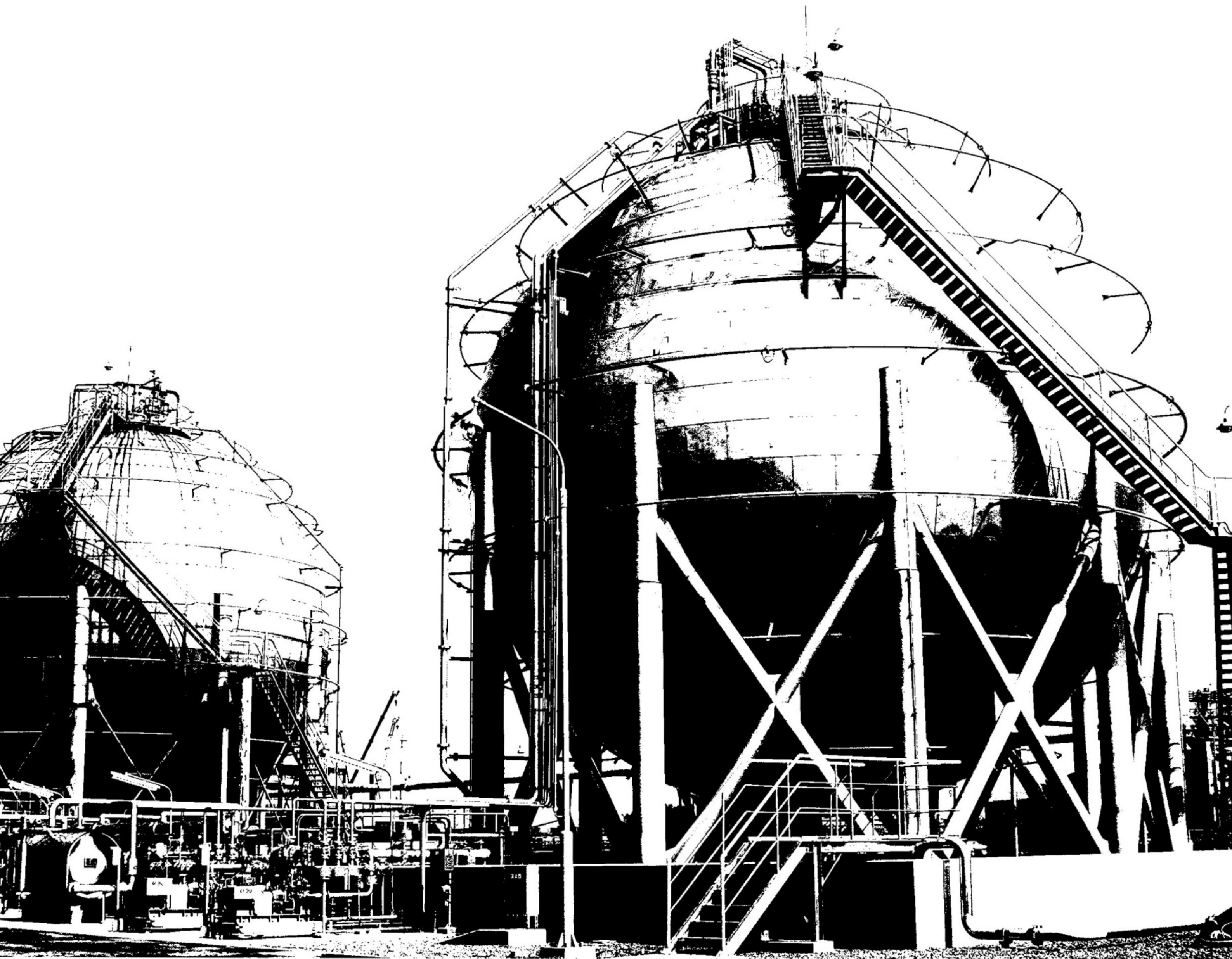
# TOYO KANETSU K.K.

# Annual Report 2010

For the year ended March 31, 2010



# Profile

Toyo Kanetsu K.K. (TKK) was established in 1941. Since that time, TKK has continued to meet the requirements of the industry through our policy of "Customers First".

The Plant & Machinery Business was established in 1950 when in-house welding technology was developed for welded storage tanks. Since then, our expertise has expanded to provide customers with various kinds of storage tanks consisting of more than 5,300 units varying from crude oil storage tanks to LNG storage tanks. In particular, we are proud of our outstanding track record in LNG storage tank construction in Japan and at overseas sites in Asia, Africa, the Middle East, Oceania and the Western Hemisphere. Our technical expertise and our outstanding record of "safety, quality and delivery" have been recognized and appreciated by major clients throughout the world.

The Material Handling Systems Business was begun in 1953 for manufacture and installation of highly standardized conveyors systems. Since that time, the business has continued to develop the technology to meet the needs of our clients. It supplied one of the largest airport baggage handling systems in the world in 1998 at Kuala Lumpur International Airport in Malaysia. Also, as a leading provider company of logistics solutions in Japan, the business has successfully completed numerous projects such as distribution center systems, truck terminal systems, food distribution processing centers and postal sorting systems. The business became a subsidiary company of TKK under the name of Toyo Kanetsu Solutions K.K. in 2002 in order to maximize the efficiency and also to vitalize TKK Group companies.

The Building Construction Business was started in 1989 for construction of apartment houses with the application of modular steel frame structures. The business has expanded to handling total projects from planning to design and execution, based on its steel structure buildings, supporting a wide range of construction, from individual residences to housing complexes, other buildings, and large-scale shopping complex. In recent years, we have also pushed into the steel pipe piling business, making new efforts toward environmentally friendly execution.

TKK will continue to provide the advanced technology to answer the needs of our clients for today and tomorrow.

# Contents

Toyo Kanetsu K.K. and Consolidated Subsidiaries

# Consolidated Financial Highlights

*For the years ended March 31*

| | Millions of yen | | | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 | ***2010*** |
| For the Years Ended March 31 | | | | | | |
| Net Sales | **¥ 50,446** | ¥ 47,661 | ¥ 49,785 | ¥ 45,548 | ¥ 45,530 | ***$542,144*** |
| Plant & Machinery Business | **24,224** | 26,392 | 23,355 | 17,029 | 14,643 | ***260,340*** |
| Material Handling Systems Business | **20,897** | 11,961 | 15,243 | 17,316 | 20,909 | ***224,574*** |
| Building Construction Business | **2,633** | 5,020 | 5,756 | 5,944 | 5,668 | ***28,298*** |
| Real Estate Utilizing Business | **539** | 592 | 581 | 521 | - | ***5,795*** |
| Other | **2,153** | 3,696 | 4,850 | 4,738 | 4,310 | ***23,137*** |
| Operating Income | **3,863** | 1,867 | 3,686 | 1,887 | 1,904 | ***41,518*** |
| Net Income | **3,560** | 3,005 | 3,810 | 2,836 | 1,626 | ***38,261*** |
| Cash Dividends | **504** | 533 | 415 | 277 | - | ***5,413*** |
| At 31st March: | | | | | | |
| Current Assets | **37,748** | 33,705 | 30,245 | 30,226 | 25,309 | ***405,673*** |
| Property, Plant and Equipment | **12,490** | 13,046 | 16,324 | 16,956 | 16,566 | ***134,228*** |
| Investments and Advances | **7,792** | 7,920 | 12,269 | 21,498 | 24,852 | ***83,737*** |
| Intangible Fixed Assets | **338** | 274 | 221 | 322 | 413 | ***3,637*** |
| Total Assets | **58,368** | 54,945 | 59,059 | 69,002 | 67,140 | ***627,275*** |
| Current Liabilities | **20,842** | 21,555 | 21,272 | 22,865 | 20,084 | ***223,987*** |
| Long-Term Liabilities | **7,250** | 5,375 | 8,988 | 14,195 | 15,647 | ***77,910*** |
| Minority Interests in Consolidated Subsidiaries | - | - | - | - | 10 | - |
| Shareholders' Equity | - | - | - | - | 31,399 | - |
| Total Liabilities, Minority Interests and Shareholders’ Equity | - | - | - | - | 67,140 | - |
| Shareholders’ Equity | **29,549** | 27,824 | 26,564 | 24,651 | - | ***317,561*** |
| Valuation and Translation Adjustments | **618** | 102 | 2,235 | 7,283 | - | ***6,641*** |
| Minority Interests in Consolidated Subsidiaries | **109** | 89 | - | 8 | - | ***1,176*** |
| Total Liabilities and Net Assets | **58,368** | 54,945 | 59,059 | 69,002 | - | ***627,275*** |
| Order Backlog | **¥57,379** | ¥66,071 | ¥57,412 | ¥34,176 | ¥38,467 | ***$616,642*** |

| | Yen | | | | | *U.S.dollars* |
|---|---|---|---|---|---|---|
| Per Share: | **2010** | 2009 | 2008 | 2007 | 2006 | ***2010*** |
| Net Income | **¥28.75** | ¥ 22.99 | ¥ 27.90 | ¥ 20.52 | ¥ 11.76 | ***$0.31*** |
| Cash Dividends | **4.00** | 4.00 | 4.00 | 3.00 | 2.00 | ***0.04*** |
| Shareholders’ Equity | **¥250.39** | ¥222.09 | ¥216.05 | ¥231.10 | ¥227.11 | ***$2.69*** |

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Number of Shareholders | **14,027** | 14,400 | 15,747 | 16,797 | 17,005 |
| Number of Employees | **631** | 629 | 597 | 573 | 552 |

The U.S. dollar amounts in this annual report represent translations of Japanese yen at the rate of ¥93.05=$1.00, solely for readers’ convenience.

# To Our Shareholders

In fiscal year 2010, ended March 31, 2010, the growth in demand for storage facilities due to recovering levels of energy consumption, coupled with the fruition of key measures in the Material Handling Systems Business, allowed the Toyo Kanetsu Group (TKK Group) to achieve a substantial growth in revenues, resulting in increases in both sales and profits compared with the previous fiscal year.

The proposed dividend for the year has been set at ¥4 per share, the same as in the previous year. In November 2009, meanwhile, the TKK Group acquired approximately ¥900 million worth of treasury stock as a measure to promote shareholder return from a long-term perspective.

To fulfill the consolidated performance targets for fiscal year 2010 as set out in the medium-term business plan (for fiscal years 2009 through 2011), the TKK Group is committed to steadily implementing the priority measures detailed below, taking a management perspective oriented still more strongly than before toward the medium to long term. In this way, we will work to meet the expectations of shareholders and other stakeholders by further increasing Group corporate value.

**Basic policy of our core businesses**

Under the TKK Group's management vision of being "a group that sustainably grows and develops backed by its superior technology, products and services," the Company's Plant & Machinery Business and Material Handling Systems Business have respective business policies of securing a stable profit and revitalizing operations and establishing an operating base.

**Priority measures for our core businesses**

[Plant & Machinery Business]

The Plant & Machinery Business will implement five priority measures to achieve its business policy of securing a stable profit.

1) Reinforcing price competitiveness
We will reinforce competitiveness by identifying new suppliers and expanding fabrication shops.

2) Expanding the project handling capability and developing a handling framework
We will enhance our project staff and train engineers.

3) Reinforcing sales and marketing capabilities
We will strengthen relationships with major customers in Japan and overseas with the aim of increasing the volume of orders received.

4) Promoting research and development
We will work to improve our engineering abilities by promoting research into materials, welding technology, and construction methods.

5) Reinforcing human resource management
We will work to strengthen human resources by carrying out training and pursuing active recruitment.

[Material Handling Systems Business]

In the Material Handling Systems Business, we will promote the following five priority measures:

1) Reinforcing price competitiveness
We will work to strengthen competitiveness by rolling out low-cost conveyor systems and undertaking design reviews and by promoting improvement of operational procedures.

2) Reinforcing suggestion-making capability
We will increase our ability to propose low-cost systems solutions by focusing the combined strength of our organization.

3) Further cultivating the core market and expanding into growth markets
We will work to increase the number of inquiries received by focusing business resources on target customers.

4) Fostering human resources and enhancing organizational agility
We will speed up the decision-making process by carrying out training and promoting the flattening and simplification of organizational structures.

5) Reinforcing cooperation with maintenance subsidiaries
We will work together to promote improvement of customer relations by sharing customer information.

[Building Construction Business]

Although the business environment surrounding the construction industry is challenging, we will strive to further reinforce our revenue base by eliminating unprofitable projects and developing new fields, while enhancing our sales and marketing capabilities and construction management framework, and making cost reduction efforts.

We look forward to your continued understanding and support in the future.

August 2010

*Takeshi Mizukami*
*President & Representative Director*

# Board of Directors, Auditors and Corporate Officers

**Directors**

| | |
|---|---|
| *President and Representative Director* | Takeshi Mizukami |
| *Managing Director* | Shinji Shimazaki |
| *Director and Senior Corporate Officer* | Sadao Arita |
| *Director* | Toru Yanagawa |
| *Director and Senior Corporate Officer* | Shoji Fujiyoshi |
| *Director and Senior Corporate Officer* | Isao Shimomae |

**Auditors**

| | |
|---|---|
| *Auditor* | Teruo Nojo |
| *Outside Auditor* | Masaharu Hino |
| *Outside Auditor* | Keiichi Miyakawa |
| *Outside Auditor* | Takashi Nakamura |

**Corporate Officers**

| | |
|---|---|
| *Senior Corporate Officer* | Tetsuya Watanabe |
| *Corporate Officer* | Shiro Ito |
| *Corporate Officer* | Fumitomo Miyashita |
| *Corporate Officer* | Kazuto Abe |
| *Corporate Officer* | Yukio Kurosaka |
| *Corporate Officer* | Masayuki Takeda |
| *Corporate Officer* | Yasuhiro Yamada |
| *Corporate Officer* | Keisuke Kodama |

# Lines of Business

## Plant & Machinery Business

Total engineering and construction for storage tanks such as low temperature tanks, cryogenic tanks, high-pressure spherical tanks, floating roof tanks, cone roof tanks, and dome roof tanks, including all related ancillary works such as civil works, piping, and instrumentation.

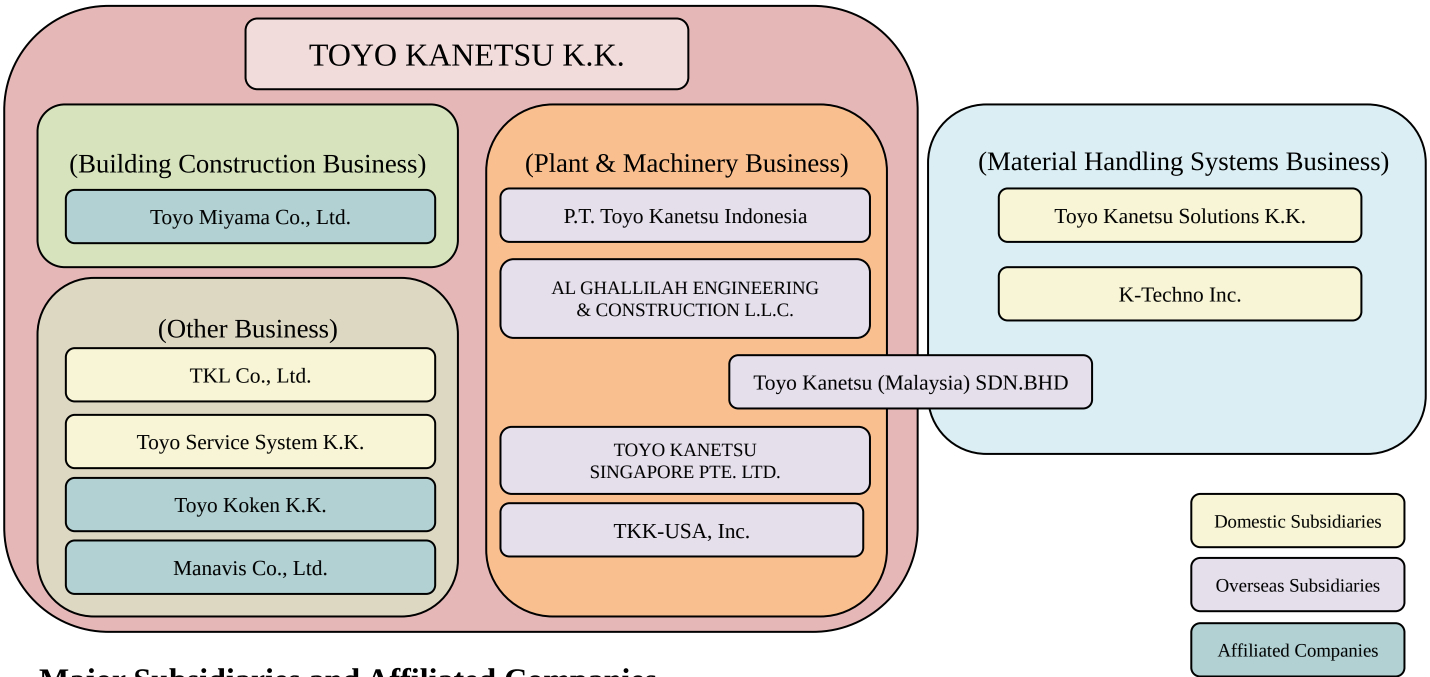

## Material Handling Systems Business

Engineering, construction, and related civil and construction work for all system equipment, system devices, and ancillary equipment related to distribution center systems, truck terminal systems, production line systems, airport baggage handling systems, postal sorting systems, food processing center systems, food production factory systems, apparel center systems, and other systems.

## Building Construction Business

All use, building structural planning design and construction of condominiums, apartment buildings, offices, stores, medical facilities, residential housing, and warehouses; steel pipe piling design and execution.

# TKK Group Companies




## Major Subsidiaries and Affiliated Companies

### (Domestic)

**Toyo Kanetsu Solutions K.K.**

| | |
|---|---|
| Establishment | October 1, 2002 |
| Capital | ¥400 million |
| Business | Planning, design, manufacturing, construction, and sales for material handling systems |

**K-Techno Inc.**

| | |
|---|---|
| Establishment | April 17, 1992 |
| Capital | ¥60 million |
| Business | Distribution business consulting; servicing, maintenance, tuning of distribution equipment; parts sales |

**TKL Co., Ltd.**

| | |
|---|---|
| Establishment | September 13, 1985 |
| Capital | ¥10 million |
| Business | Leasing operations, provisional equipment operations |

**Toyo Service System K.K.**

| | |
|---|---|
| Establishment | September 19, 1986 |
| Capital | ¥60 million |
| Business | Building management, real estate, and OA-related operations |

**Toyo Miyama Co., Ltd.**

| | |
|---|---|
| Establishment | August 8, 1988 |
| Capital | ¥100 million |
| Business | Design, industrial manufacturing, and on-site construction of house components, steel construction housing, stores, offices, and other buildings |

**Toyo Koken K.K.**

| | |
|---|---|
| Establishment | February 11, 1957 |
| Capital | ¥897.49 million |
| Business | Design, manufacturing and construction of winches and hoists, lift ladders, conveyors, balancers, industrial robots, and other machinery |

### (Overseas)

**P.T. Toyo Kanetsu Indonesia**

| | |
|---|---|
| Establishment | September 9, 1974 |
| Capital | US$2,000,000 |
| Business | Manufacturing and sales of tanks and steel framing |

**Toyo Kanetsu (Malaysia) SDN. BHD**

| | |
|---|---|
| Establishment | April 13, 1992 |
| Capital | RM2,000,000 |
| Business | Manufacturing and sales of storage tanks; manufacturing and sales of material handling system equipment and devices |

**AL GHALLILAH ENGINEERING & CONSTRUCTION L.L.C.**

| | |
|---|---|
| Establishment | May 21, 1997 |
| Capital | OMR150,000 |
| Business | Manufacturing and sales of storage tanks, pressure vessels, onshore & offshore steel structures |

**TOYO KANETSU SINGAPORE PTE. LTD.**

| | |
|---|---|
| Establishment | August 8, 2006 |
| Capital | S$500,000 |
| Business | Manufacturing and sales of storage tanks, pressure vessels, onshore & offshore steel structures |

# Analysis of Operating Environment and Results

In the fiscal year ended March 31, 2010, thanks to the success of economic measures taken by Japan, Europe, America, and the developing nations of Asia, and despite the persistence of a deflationary gap and other issues, the Japanese economy showed a gradual recovery from the serious economic downturn that began with the financial crisis in the fall of 2008.

The Plant & Machinery Business benefited from the expansion in energy consumption and the recovery in the crude oil price that accompanied the economic recovery in China, India, and other developing nations. This led to the revival of plans for storage facilities and other energy-related projects that had been suspended or postponed. In particular, increased demand for gas in response to CO2 reduction measures led to an upsurge in new LNG-related projects.

In the Material Handling Systems Business, corporations are responding to reduced volumes of goods and calls for reduced CO2 emissions by reorganizing and integrating logistics bases and outsourcing logistics operations. Our Material Handling Systems Business benefited from this trend toward complex and increasingly sophisticated needs among users of logistics systems.

In the Building Construction Business, where the market has been slow to recover, although construction material costs and other costs fell, stagnant demand made for intense competition and a continued challenging environment.

Against this business background, consolidated net sales for the fiscal year were ¥50,447 million (US$542,144 thousand), up 5.8% from the previous year while operating income was ¥3,863 million (US$41,518 thousand), up 106.9% from the previous year. Net income grew by 18.5% from the previous year to ¥3,560 million (US$38,261 thousand), a result influenced by a fall in extraordinary income, a growth in deferred income taxes, and other factors. Total orders received were ¥39,062 million (US$419,796 thousand), down 24.9% from the previous year.

**Plant & Machinery Business**

In overseas markets, demand for storage facilities was at high levels due to the expansion of supply facilities in response to growing energy consumption. We used our strengths in the form of international competitiveness and an abundant track record of achievement to win an order for 43 tanks for a Middle Eastern oil refinery. In the Japanese maintenance market, we received orders for modification works to floating-roof tanks following a partial revision to the Fire Service Law. On the strength of our management system solutions integrating all stages from design to construction, we also won an inclusive multi-year contract for tank maintenance at a large oil refinery, representing a further expansion of our capacities in this field of operations. Regarding sales and profits, large-scale project completion in the overseas market was one factor explaining the lack of net sales growth. However, thanks to steady progress with ongoing large-scale LNG projects and maintenance works in Japan, and due to progress with profit-enhancing measures, profits increased despite the decrease in sales income.

As a result, net sales for this business were ¥24,225 million (US$260,341 thousand) in the fiscal year under review, down 8.2% from the previous year, and operating income was ¥2,440 million (US$26,226 thousand), up 18.4%. Orders received totaled ¥20,448 million (US$220,187 thousand), down 40.8%.

**Material Handling Systems Business**

Here, we actively implemented the priority measures identified in our medium-term business plan, and benefited from this by receiving orders that included picking systems for consumer cooperatives, which are engaged in restructuring of their logistics facilities, baggage conveyor facilities and air freight logistics systems for airports, and sorting systems for retailers. Net sales were lifted by the major projects for consumer cooperatives, airports, and the retail trade, while priority measures including cost reductions and increased operational efficiency were steadily implemented. The result was a substantial increase in both sales and profits.

As a result, net sales for this business were ¥20,897 million (US$224,574 thousand) in the fiscal year under review, up 74.7% from the previous year, and operating income was ¥1,064 million (US$11,430 thousand), contrasting with an operating loss of ¥499 million in the previous period. Orders received totaled ¥16,414 million (US$176,404 thousand), up 23.2%.

**Building Construction Business**

As the construction market remained sluggish, we continued to face challenges in securing orders for the leased apartment construction and steel pipe pile construction projects that are the mainstay of the sector. As a result, net sales for this business were ¥2,633 million (US$28,298 thousand) in the fiscal year under review, down 47.5% from the previous year, and operating income was ¥65 million (US$694 thousand) down 58.5%. Orders received totaled ¥2,159 million (US$23,207 thousand), down 46.3%.

**Real Estate Utilizing Business and Other Businesses**

Sales in the Real Estate Leasing Business totaled ¥539 million (US$5,795 thousand), an 8.9% decrease from the previous year, while operating income came to ¥292 million (US$3,136 thousand), a 20.0% decrease. The Other Businesses sector, which includes Group companies not covered in the above, posted sales of ¥2,153 million (US$23,137 thousand), a fall of 41.8% from the previous year, and operating income of ¥271 million (US$2,917 thousand), an increase of 89.1%.

# Business Risks

The following risks may affect the business results, stock price and financial position of the TKK Group.

**Potential risks associated with international activities and overseas advance**

The TKK Group conducts some operations in overseas markets, primarily those of the Plant & Machinery Business. Further, its subsidiary manufactures tank materials in Indonesia. These overseas operations carry inherent risks as stated below, and the TKK Group's business results and financial position may be adversely affected by such risks.

1) Unexpected changes in laws and regulations
2) Political and economic instability
3) Difficulties in securing human resources
4) Tax system revisions that could be unfavorable to the TKK Group
5) Social confusion arising from acts of terror, war or any other factors

**Exchange rate fluctuations**

The TKK Group's business activities include manufacturing products, selling materials and implementing construction operations overseas. Foreign-currency-denominated accounting items such as sales, expenses and assets are translated into Japanese yen for the purpose of preparing consolidated financial statements. The exchange rates used in currency conversion may affect the yen-denominated value. As most of our payments and receipts are denominated in US dollars or euros, a stronger yen will adversely affect the TKK Group's business while a weaker yen will favorably affect the TKK Group's business.

The TKK Group makes an effort to minimize the adverse effects of such exchange rate fluctuations by flexibly entering into forward exchange contracts or option contracts, and by implementing structural solutions such as using overseas manufacturing bases and internationally procuring raw materials. However, an unexpected change in exchange rates may adversely affect the TKK Group's business results and financial position.

**Project risk**

The business results of the TKK Group may be affected by situations where, for customer reasons, projects are suspended or postponed or the project content is otherwise altered.

Further, as our projects take the form of inclusive contracts, deterioration in project profitability may impact on business results in the event of a sudden change in the economic situation leading to unforeseen rises in equipment and material prices, transportation costs, construction costs, or other expenses, or in the event of natural disaster, outbreak of disease, serious accident, or other eventualities.

**Competition for winning orders**

All of the major businesses of the TKK Group are being operated under the make-to-order type system and the TKK Group is facing severe competition to win orders. Depending on the circumstances, we recognize the possibility that a competitor may disregard profitability and enter into price competition with the TKK Group. Although the TKK Group strives to reduce all kinds of costs and reinforce its price competitiveness, such unreasonable downward pressure on the TKK Group's earnings may adversely affect the TKK Group's business results and financial position.

**Dependence on business results of specific customers in the Building Construction Business**

The TKK Group's building construction business depends on obtaining construction work contracted with specific customers and supplying building materials to such customers. Consequently, the TKK Group's sales generated from this business may be significantly affected by the business results of such customers or other factors that are beyond the TKK Group's control. Further, any price reductions that we make in response to customers' requests may shrink the TKK Group's profit margins.

# Financial Section

*For the years ended March 31, 2010 and 2009*

Toyo Kanetsu K.K. and Consolidated Subsidiaries

# Consolidated Balance Sheets

*For the years ended March 31, 2010 and 2009*

| ASSETS | Millions of yen | | *Thousands of U.S. dollars (Note 3)* |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| **Current Assets:** | | | |
| Cash on hand and at bank | **¥8,956** | ¥6,978 | ***$96,253*** |
| Notes and accounts receivable | **13,511** | 12,674 | ***145,209*** |
| Marketable securities | **1,000** | - | ***10,744*** |
| Investments in leases | **3,208** | 4,011 | ***34,477*** |
| Inventories (Note 4) | **8,882** | 8,741 | ***95,451*** |
| Deferred tax assets (Note 9) | **509** | 812 | ***5,467*** |
| Other current assets | **1,840** | 805 | ***19,773*** |
| Less: Allowance for doubtful accounts | **(158)** | (316) | ***(1,701)*** |
| Total current assets | **37,748** | 33,705 | ***405,673*** |
| **Property, Plant and Equipment:** | | | |
| Buildings and structures (Note 6) | **9,898** | 10,214 | ***106,378*** |
| Machinery and equipment (Note 6) | **5,278** | 4,830 | ***56,723*** |
| Land (Note 7) | **8,735** | 9,041 | ***93,870*** |
| Construction in progress | **88** | 225 | ***944*** |
| Less: Accumulated depreciation | **(11,509)** | (11,264) | ***(123,687)*** |
| Total property, plant and equipment | **12,490** | 13,046 | ***134,228*** |
| **Investments and Advances:** | | | |
| Investments in securities (Notes 5 and 6) | **6,617** | 6,421 | ***71,114*** |
| Long-term loans receivable | **344** | 476 | ***3,694*** |
| Other investments | **1,189** | 1,398 | ***12,782*** |
| Less: Allowance for doubtful accounts | **(358)** | (375) | ***(3,853)*** |
| Total investments and advances | **7,792** | 7,920 | ***83,737*** |
| **Intangibles:** | | | |
| Intangible fixed assets | **338** | 274 | ***3,637*** |
| Total intangibles | **338** | 274 | ***3,637*** |
| **Total assets** | **¥58,368** | ¥54,945 | ***$627,275*** |

The accompanying notes are an integral part of the consolidated financial statements.

## LIABILITIES and NET ASSETS

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| **Current Liabilities:** | | | |
| Short-term debt and current portion of long-term debt (Note 6) | **¥4,280** | ¥8,815 | ***$46,002*** |
| Notes and accounts payable | **2,757** | 3,082 | ***29,627*** |
| Accrued income taxes | **195** | 105 | ***2,098*** |
| Accrued liabilities | **4,270** | 4,418 | ***45,893*** |
| Advances from customers | **7,357** | 3,304 | ***79,066*** |
| Lease obligations (Note 6) | **157** | 194 | ***1,687*** |
| Accrued bonuses | **249** | 198 | ***2,679*** |
| Reserve for losses on work in progress | **717** | 1,070 | ***7,708*** |
| Reserve for warranty costs for completed works | **478** | 119 | ***5,135*** |
| Other current liabilities | **382** | 250 | ***4,092*** |
| Total current liabilities | **20,842** | 21,555 | ***223,987*** |
| | | | |
| **Long-Term Liabilities:** | | | |
| Long-term debt (Note 6) | **3,961** | 1,340 | ***42,574*** |
| Lease obligations (Note 6) | **365** | 522 | ***3,919*** |
| Deferred tax liabilities on revaluation of land (Notes 7 and 9) | **2,174** | 2,189 | ***23,364*** |
| Deferred tax liabilities (Note 9) | **280** | 210 | ***3,014*** |
| Accrued retirement benefits for employees (Note 8) | **379** | 966 | ***4,071*** |
| Other long-term liabilities | **91** | 148 | ***968*** |
| Total long-term liabilities | **7,250** | 5,375 | ***77,910*** |
| | | | |
| **Commitments and Contingent Liabilities** (Note 10) | | | |
| | | | |
| **Net Assets** | | | |
| **Shareholders' Equity:** | | | |
| Common stock: | | | |
| Authorized: 297,000,000 shares | | | |
| Issued: 138,730,741 shares | **18,580** | 18,580 | ***199,678*** |
| Additional paid-in capital | **1,104** | 1,104 | ***11,865*** |
| Accumulated earnings | **13,608** | 10,953 | ***146,248*** |
| Less: Treasury stock, at cost | **(3,743)** | (2,813) | ***(40,230)*** |
| Total shareholders' equity | **29,549** | 27,824 | ***317,561*** |
| **Valuation and Translation Adjustments:** | | | |
| Net unrealized holding gains on investments in securities | **350** | 338 | ***3,767*** |
| Deferred gains or losses on hedges | **(5)** | 40 | ***(61)*** |
| Unrealized gains on revaluation of land (Note 7) | **792** | 376 | ***8,514*** |
| Foreign currency translation adjustments | **(519)** | (652) | ***(5,579)*** |
| Total valuation and translation adjustments | **618** | 102 | ***6,641*** |
| **Minority Interests** | **109** | 89 | ***1,176*** |
| **Total Net Assets** | **30,276** | 28,015 | ***325,378*** |
| **Total Liabilities and Net Assets** | **¥58,368** | ¥54,945 | ***$627,275*** |

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

# Consolidated Statements of Operations

*For the years ended March 31, 2010 and 2009*

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| **Net Sales** | **¥50,446** | ¥47,661 | ***$542,144*** |
| **Cost of Sales** (Note 12) | **42,600** | 41,514 | ***457,822*** |
| Gross profit | **7,846** | 6,147 | ***84,322*** |
| **Selling, General and Administrative Expenses** (Notes 11 and 12) | **3,983** | 4,280 | ***42,804*** |
| Operating Income | **3,863** | 1,867 | ***41,518*** |
| **Other Income (Expenses):** | | | |
| Interest and dividend income | **159** | 384 | ***1,708*** |
| Interest expense | **(81)** | (87) | ***(875)*** |
| Foreign currency exchange gain (loss) | **(260)** | (586) | ***(2,792)*** |
| Equity in income (loss) of affiliates | **68** | 422 | ***729*** |
| Other, net | **33** | 58 | ***361*** |
| | **(81)** | 191 | ***(869)*** |
| Income before extraordinary items | **3,782** | 2,058 | ***40,649*** |
| **Extraordinary Profit (Loss):** | | | |
| Gain on sale or disposal of property, plant and equipment, net | **241** | 15 | ***2,595*** |
| Loss on sale of investments in securities, net | **-** | (25) | ***-*** |
| Loss on write-down of investments in securities, net | **0** | (49) | ***0*** |
| Provision for bad debts | **(5)** | (37) | ***(58)*** |
| Reversal of provision for bad debts | **165** | 146 | ***1,778*** |
| Reversal of provision for contingent loss | **-** | 542 | ***-*** |
| Impairment loss | **-** | (55) | ***-*** |
| Gain on forgiveness of debts | **-** | 133 | ***-*** |
| Gain on adjustment for changes of accounting standard for lease transaction | **-** | 292 | ***-*** |
| Other, net | **57** | 100 | ***609*** |
| | **458** | 1,062 | ***4,924*** |
| Income before income taxes and minority interests | **4,240** | 3,120 | ***45,573*** |
| **Income Taxes** (Note 9)**:** | | | |
| Current | **211** | 151 | ***2,269*** |
| Deferred | **453** | (39) | ***4,873*** |
| | **664** | 112 | ***7,142*** |
| **Minority Interests in Net Income (Loss) of Consolidated Subsidiaries** | **16** | 3 | ***170*** |
| **Net Income** | **¥3,560** | ¥3,005 | ***$38,261*** |

| | Yen | | U.S. dollars (Note 3) |
|---|---|---|---|
| **Per Share** (Note 21) | **2010** | 2009 | ***2010*** |
| Net income | **¥28.75** | ¥22.99 | ***$0.31*** |

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

# Consolidated Statements of Changes in Net Assets

*For the years ended March 31, 2008, 2009 and 2010*

| | Number of shares of common stock | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | | Common stock | Additional paid-in capital | Accumulated earnings (deficit) | Treasury stock | Total Shareholders' Equity |
| Balance at March 31, 2008 | 138,730,741 | ¥18,580 | ¥1,104 | ¥8,481 | ¥(1,601) | ¥26,564 |
| Cash dividends paid | - | - | - | (533) | - | (533) |
| Net income for the year | - | - | - | 3,005 | - | 3,005 |
| Purchase of treasury stock | - | - | - | - | (1,212) | (1,212) |
| Net unrealized holding gains on investments | - | - | - | - | - | - |
| Deferred gains or losses on hedges | - | - | - | - | - | - |
| Unrealized gains on revaluation of land | - | - | - | - | - | - |
| Foreign currency translation adjustments | - | - | - | - | - | - |
| Minority interests | - | - | - | - | - | - |
| Balance at March 31, 2009 | 138,730,741 | ¥18,580 | ¥1,104 | ¥10,953 | ¥(2,813) | ¥27,824 |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Net unrealized holding (gains) losses on investment securities | Deferred gains or losses on hedges | Unrealized gains on revaluation of land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests | Total Net Assets |
| Balance at March 31, 2008 | ¥2,576 | ¥(94) | ¥391 | ¥(638) | ¥2,235 | ¥ - | ¥28,799 |
| Cash dividends paid | - | - | - | - | - | - | (533) |
| Net income for the year | - | - | - | - | - | - | 3,005 |
| Purchase of treasury stock | - | - | - | - | - | - | (1,212) |
| Net unrealized holding gains on investments | (2,238) | - | - | - | (2,238) | - | (2,238) |
| Deferred gains or losses on hedges | - | 134 | - | - | 134 | - | 134 |
| Unrealized gains on revaluation of land | - | - | (15) | - | (15) | - | (15) |
| Foreign currency translation adjustments | - | - | - | (14) | (14) | - | (14) |
| Minority interests | - | - | - | - | - | 89 | 89 |
| Balance at March 31, 2009 | ¥338 | ¥40 | ¥376 | ¥(652) | ¥102 | ¥89 | ¥28,015 |

| | Number of shares of common stock | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | | Common stock | Additional paid-in capital | Accumulated earnings (deficit) | Treasury stock | Total Shareholders' Equity |
| Balance at March 31, 2009 | 138,730,741 | ¥18,580 | ¥1,104 | ¥10,953 | ¥(2,813) | ¥27,824 |
| Cash dividends paid | - | - | - | (504) | - | (504) |
| Net income for the year | - | - | - | 3,560 | - | 3,560 |
| Purchase of treasury stock | - | - | - | - | (930) | (930) |
| Reversal of revaluation reserve for land | - | - | - | (401) | - | (401) |
| Net unrealized holding gains on investments | - | - | - | - | - | - |
| Deferred gains or losses on hedges | - | - | - | - | - | - |
| Unrealized gains on revaluation of land | - | - | - | - | - | - |
| Foreign currency translation adjustments | - | - | - | - | - | - |
| Minority interests | - | - | - | - | - | - |
| **Balance at March 31, 2010** | **138,730,741** | **¥18,580** | **¥1,104** | **¥13,608** | **¥(3,743)** | **¥29,549** |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Net unrealized holding (gains) losses on investment securities | Deferred gains or losses on hedges | Unrealized gains on revaluation of land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests | Total Net Assets |
| Balance at March 31, 2009 | ¥338 | ¥40 | ¥376 | ¥(652) | ¥102 | ¥89 | ¥28,015 |
| Cash dividends paid | - | - | - | - | - | - | (504) |
| Net income for the year | - | - | - | - | - | - | 3,560 |
| Purchase of treasury stock | - | - | - | - | - | - | (930) |
| Reversal of revaluation reserve for land | - | - | - | - | - | - | (401) |
| Net unrealized holding gains on investments | 12 | - | - | - | 12 | - | 12 |
| Deferred gains or losses on hedges | - | (45) | - | - | (45) | - | (45) |
| Unrealized gains on revaluation of land | - | - | 416 | - | 416 | - | 416 |
| Foreign currency translation adjustments | - | - | - | 133 | 133 | - | 133 |
| Minority interests | - | - | - | - | - | 20 | 20 |
| **Balance at March 31, 2010** | **¥350** | **¥(5)** | **¥792** | **¥(519)** | **¥618** | **¥109** | **¥30,276** |

| | Number of shares of common stock | Thousands of U.S. dollars (Note 3) Common stock | Additional paid-in capital | Accumulated earnings (deficit) | Treasury stock | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| *Balance at March 31, 2009* | *138,730,741* | *$199,678* | *$11,865* | *$117,707* | *$(30,231)* | *$299,019* |
| Cash dividends paid | - | - | - | *(5,413)* | - | *(5,413)* |
| Net income for the year | - | - | - | *38,261* | - | *38,261* |
| Purchase of treasury stock | - | - | - | - | *(9,999)* | *(9,999)* |
| Reversal of revaluation reserve for land | - | - | - | *(4,307)* | - | *(4,307)* |
| Net unrealized holding gains on investments | - | - | - | - | - | - |
| Deferred gains or losses on hedges | - | - | - | - | - | - |
| Unrealized gains on revaluation of land | - | - | - | - | - | - |
| Foreign currency translation adjustments | - | - | - | - | - | - |
| Minority interests | - | - | - | - | - | - |
| ***Balance at March 31, 2010*** | ***138,730,741*** | ***$199,678*** | ***$11,865*** | ***$146,248*** | ***$(40,230)*** | ***$317,561*** |

| | Thousands of U.S. dollars (Note 3) Net unrealized holding (gains) losses on investment securities | Deferred gains or losses on hedges | Unrealized gains on revaluation of land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests | Total Net Assets |
|---|---|---|---|---|---|---|---|
| *Balance at March 31, 2009* | *$3,635* | *$425* | *$4,041* | *$(7,009)* | *$1,092* | *$962* | *$301,073* |
| Cash dividends paid | - | - | - | - | - | - | *(5,413)* |
| Net income for the year | - | - | - | - | - | - | *38,261* |
| Purchase of treasury stock | - | - | - | - | - | - | *(9,999)* |
| Reversal of revaluation reserve for land | - | - | - | - | - | - | *(4,307)* |
| Net unrealized holding gains on investments | *132* | - | - | - | *132* | - | *132* |
| Deferred gains or losses on hedges | - | *(486)* | - | - | *(486)* | - | *(486)* |
| Unrealized gains on revaluation of land | - | - | *4,473* | - | *4,473* | - | *4,473* |
| Foreign currency translation adjustments | - | - | - | *1,430* | *1,430* | - | *1,430* |
| Minority interests | - | - | - | - | - | *214* | *214* |
| ***Balance at March 31, 2010*** | ***$3,767*** | ***$(61)*** | ***$8,514*** | ***$(5,579)*** | ***$6,641*** | ***$1,176*** | ***$325,378*** |

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Cash Flows

*For the years ended March 31, 2010 and 2009*

| | Millions of yen | | *Thousands of U.S. dollars (Note 3)* |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| **Cash Flows from Operating Activities:** | | | |
| Income before income taxes and minority interests | **¥4,240** | ¥3,120 | ***$45,573*** |
| Adjustments for: | | | |
| Depreciation and amortization | **739** | 680 | ***7,937*** |
| Amortization of long-term prepaid expenses | **134** | 402 | ***1,443*** |
| Impairment loss | **-** | 55 | ***-*** |
| Increase (decrease) in provision for allowance for doubtful accounts | **(174)** | (5) | ***(1,872)*** |
| Increase (decrease) in provision for employees' retirement benefits | **(588)** | (666) | ***(6,316)*** |
| Increase (decrease) in provision for retirement benefit for directors and corporate auditors | **-** | (193) | ***-*** |
| Increase (decrease) in provision for losses on work in progress | **(353)** | 167 | ***(3,791)*** |
| Increase (decrease) in provision for warranty costs for completed works | **359** | (144) | ***3,855*** |
| Increase (decrease) in provision for contingent loss | **-** | (542) | ***-*** |
| Interest and dividend income | **(159)** | (384) | ***(1,708)*** |
| Interest expense | **81** | 87 | ***875*** |
| Exchange loss (gain) | **(23)** | 441 | ***(242)*** |
| Equity in loss (income) of affiliates | **(68)** | (422) | ***(729)*** |
| Loss (gain) on sale of investments in securities | **-** | 25 | ***-*** |
| Loss (gain) on write-down of investments in securities | **0** | 49 | ***0*** |
| Loss (gain) on sale of property, plant and equipment | **(283)** | (46) | ***(3,042)*** |
| Loss on disposal of property, plant and equipment | **39** | 21 | ***422*** |
| Decrease (increase) in notes and accounts receivables | **(568)** | (578) | ***(6,106)*** |
| Decrease (increase) in investments in leases | **580** | 105 | ***6,227*** |
| Decrease (increase) in inventories | **(140)** | 257 | ***(1,509)*** |
| Decrease (increase) in advance payments | **(1,153)** | - | ***(12,392)*** |
| Decrease (increase) in accrued income | **39** | (166) | ***421*** |
| Increase (decrease) in notes and accounts payable | **(545)** | 987 | ***(5,859)*** |
| Increase (decrease) in advances from customers | **4,054** | (3,855) | ***43,567*** |
| Other | **149** | (47) | ***1,599*** |
| Sub total | **6,360** | (652) | ***68,353*** |
| Interest and dividend income received | **181** | 392 | ***1,950*** |
| Interest expense paid | **(76)** | (93) | ***(822)*** |
| Income taxes paid | **(86)** | (169) | ***(924)*** |
| Net cash provided by (used in) operating activities | **6,379** | (522) | ***68,557*** |
| **Cash Flows from Investing Activities:** | | | |
| Payments into time deposits (over 3-month term) | **(76)** | (36) | ***(817)*** |
| Proceeds from withdrawal of time deposits | **36** | 176 | ***387*** |
| Payments for purchase of property, plant and equipment | **(632)** | (737) | ***(6,792)*** |
| Proceeds from sales of property, plant and equipment | **522** | 68 | ***5,614*** |
| Payments for purchase of investments in securities | **(215)** | (199) | ***(2,310)*** |
| Proceeds from sales of investments in securities | **0** | 27 | ***0*** |
| Payments of loans receivable | **(30)** | (168) | ***(323)*** |
| Collection of loans receivable | **161** | 690 | ***1,729*** |
| Other | **35** | (155) | ***376*** |
| Net cash used in investing activities | **(199)** | (334) | ***(2,136)*** |
| **Cash Flows from Financing Activities:** | | | |
| Increase (decrease) in short-term debt, net | **(3,653)** | 3,979 | ***(39,260)*** |
| Proceeds from long-term debt | **3,650** | - | ***39,226*** |
| Repayment of long-term debt | **(1,864)** | (1,553) | ***(20,031)*** |
| Purchase of treasury stock | **(930)** | (1,212) | ***(9,999)*** |
| Capital dividend paid | **(501)** | (530) | ***(5,379)*** |
| Net cash provided by (used in) financing activities | ***(3,298)*** | 684 | ***(35,443)*** |
| **Effect of Exchange Rate Changes on Cash and Cash Equivalents** | **56** | (325) | ***596*** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **2,938** | (497) | ***31,574*** |
| **Cash and Cash Equivalents at Beginning of Year** | **6,865** | 7,326 | ***73,776*** |
| **Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries** | **-** | 36 | ***-*** |
| **Cash and Cash Equivalents at End of Year** (Note 14) | **¥9,803** | ¥6,865 | ***$105,350*** |

The accompanying notes are an integral part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

*For the years ended March 31, 2010 and 2009*

## 1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Toyo Kanetsu Kabushiki Kaisha (hereinafter the "Company") and its domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. The accounts of overseas-consolidated subsidiaries are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

## 2. Summary of Significant Accounting Policies

***(1) Principles of Consolidation and Investments in Affiliated Companies***

The consolidated financial statements include the accounts of the Company and those of its subsidiaries in which it has control. The consolidated financial statements include the accounts of its nine subsidiaries (ten subsidiaries in 2009). All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

The consolidated subsidiary, Global Eight Corporation has been excluded from consolidated subsidiaries for the year ended March 31, 2010, according to liquidation. The affiliated company, Toyo Kanetsu (Malaysia) Sdn. Bhd. has been included in consolidated subsidiaries for the year ended March 31, 2009, because of the increased significance of business transaction with the Company and certain consolidated subsidiaries.

Investments in affiliated companies in which the Company has significant influence are accounted for under the equity method. These affiliated companies to which the equity method is applied total three at March 31, 2010 and 2009. Consolidated net income includes the Company's equity in the current earnings of those companies after elimination of unrealized inter-company profits.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries as well as companies accounted for on an equity basis, is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

Five overseas subsidiaries were consolidated on the basis of their fiscal years ended at December 31, 2009 for the current year consolidation and at December 31, 2008 for the previous year consolidation, respectively. Material differences in inter-company transactions and accounts arising from the use of the different fiscal year ends are appropriately adjusted for on consolidation.

(Changes in accounting method)
The Company applied to "Standard Accounting Treatments to the Accounting of Overseas Subsidiaries in the Consolidated Financial Statements" (Statement No.18 corresponding business reporting issued by the Accounting Standards Board of Japan (hereinafter the "ASBJ") on May 17, 2006) for the year ended March 31, 2009. The standards require the Company to make necessary adjustments to conform the accounts of foreign subsidiaries with the accounting principles and practices generally accepted in Japan.

***(2) Revaluation of Assets and Liabilities of the Subsidiaries***

All assets and liabilities of the subsidiaries are fair valued as of the date of acquisition of control.

***(3) Cash and Cash Equivalents***

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

***(4) Allowance for Doubtful Accounts***

The allowance for doubtful accounts is provided at an amount for losses which are expected to occur but cannot be determined on an item-by-item or group basis. This general allowance is calculated using historical write-off experience from prior periods. In addition, an amount for expected losses on individual uncollectible receivables is calculated based on management's estimate.

***(5) Inventories***

Inventories are valued at cost as determined by the following methods:

Raw materials……………………….Moving-average method (a carrying amounts on the balance sheet is written down if the profitability decreases)

Work in process and supplies ………Specific identification method (a carrying amounts on the balance sheet is written down if the profitability decreases)

(Changes in accounting method)

"Accounting Standards for Revaluation of Inventories (Statement No. 9 issued by ASBJ on July 5, 2006)" were effective for the year ended March 31, 2009.

Accordingly, the Company and its consolidated subsidiaries have determined costs of inventory mainly based on specific identification method and have written off carrying amounts to reflect the lower profitability for the year ended March 31, 2009.

***(6) Financial Instruments***

(a) Derivatives

All derivatives are stated at fair value except for certain derivatives that are designated as "hedging instruments" (see 17. Derivative and Hedging Activities below).

(b) Investments in Securities

Securities held by the Company and its subsidiaries are classified into two categories:

"Investments of the Company in equity securities issued by the affiliated companies" are accounted for by the equity method.

Other investments in debt and equity securities are classified as "Other securities". "Other securities" with market quotations are stated at fair value with any unrealized holding gains and losses, net of tax, being reported in separate component of net assets. The cost of sold is determined by the moving-average method.

"Other securities" without market quotations are stated at cost determined by the moving-average method.

***(7) Hedge Accounting***

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net assets in the same period during which the gains and losses on the hedged items or transactions are recognized. However, in cases where forward exchange contracts used as hedges meet certain hedging criteria, the existing foreign currency receivables or payables are translated at their contract rates. In addition, if interest rate swaps contracts meet certain exceptional criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the related hedged liabilities.

Derivatives designated as hedging instruments by the Company are principally forward exchange contracts and interest swaps. The related hedged items are expected account receivables or payables in foreign currency, and long-term bank loans.

In accordance with the Company's regulations on the handling of derivative transactions, the Company does not make active use of individual transactions for speculative purposes but uses them exclusively to reduce exposure to risk from foreign exchange and interest rate fluctuations.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items beginning from the commencement of the hedges. The Company, however, skips to evaluate the effectiveness of interest swaps because of exceptional accounting treatment.

***(8) Property, Plant and Equipment***

Property, plant and equipment are stated at cost. The cost of maintenance, repairs and minor renewals is charged to current operations; major renewals and enhancements are capitalized. Depreciation is mainly computed using the declining-balance method, except for buildings acquired after April 1, 1998, to which the straight-line method is applied for the Company and its domestic subsidiaries. The principal estimated the range of useful lives from 3 to 50 years for buildings and from 6 to 13 years for machinery and equipment. Depreciation of overseas subsidiaries is computed using the straight-line method.

(Changes in accounting method)

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries has changed the useful lives for the machinery and equipment in connection with the amendments of Corporation Tax Law in Japan.

***(9) Intangible Assets***

Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized over its expected useful life (5 years), on a straight-line basis.

***(10) Reserve for Losses on Work in Progress***
A reserve for losses on work in progress is provided based on an estimate of the total losses which can be anticipated for the next fiscal year and beyond in respect of construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

Work in progress on construction contracts in which losses are envisaged and the reserve for losses on work in progress are not mutually offset but are both presented.

Of the total amount of work in progress on construction contracts in which losses are envisaged, the amount corresponding to the reserve for losses on work in progress is ¥123 million ($1,318 thousand).

***(11) Reserve for Warranty Costs for Completed Works***
A reserve for warranty costs for completed works is provided based on the past experience rates for warranty costs and after-sales service costs for completed works on an item-by-item or group basis.

***(12) Reserve for Contingent Loss***
A reserve for contingent loss is provided at the amount which can be reasonably estimated according to the occurrence of contingency and considering the risks of each contingency.

***(13) Income Taxes***
The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.
Income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base of assets and liabilities and those as reported in the consolidated financial statements.

***(14) Accrued Bonuses***
Accrued bonuses to employees are provided for at the estimated amounts which the Company and its consolidated subsidiaries are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

***(15) Accrued Retirement Benefits for Employees***
Accrued retirement benefits to employees of the Company and its major consolidated subsidiaries are provided based on the estimated present value of projected benefit obligations and fair value of funded plan assets. For other insignificant consolidated subsidiaries, accrued retirement benefits to employees are calculated using the simplified method. The amount of actuarial gains (losses) is amortized on a straight-line basis over five years and recognized as deductions from expenses or included in expenses, respectively, in the next fiscal year. Prior service cost is recognized as deductions from expenses or included in expenses, respectively, in the year of occurrence.

(Changes in accounting method)
Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted the partial amendment of the Financial Accounting Standard for Retirement Benefits (Part 3) (Statement No. 19 issued by ASBJ on July 31, 2008).
The application of the standard had no effect on operating income or net income before income taxes.

***(16) Leases***
(Changes in accounting method)
Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions (Statement No. 13 issued by the ASBJ on March 30, 2007)" and "Guidance on Accounting Standard for Lease Transactions (Guidance No. 16 issued by the ASBJ on March 30, 2007)".

Lessee;
In accordance with the above standards, finance leases, prior to April 1, 2008 without transferring ownership of the lease assets to the lessee have been accounted for as sales-type transactions while they were previously accounted for as operating leases.
In addition, depreciation of assets on finance leases without transferring ownership of the lease assets to the lessee is computed using the straight-line with no residual value over lease period as useful lives. In this regard, however, all leases transacted on or before March 31, 2008 are accounted for as operating leases.

Lessor;
In accordance with the above standards, finance leases, prior to April 1, 2008 without transferring ownership of the lease assets to the lessee have been accounted for as sales-type transactions while they were previously accounted for as operating leases.

***(17) Accounting for Consumption Tax***
The Company and its domestic consolidated subsidiaries account for consumption tax by the tax-exclusion method.

***(18) Significant Accounting Policies for Earnings and Expenses***

(a) Accounting policy for net sales of completed construction contracts and cost of sales of completed construction contracts
For work in progress up to March 31, 2010, the Company accounted for projects with an outcome deemed certain on the percentage-of-completion basis (with the estimated stage of completion calculated on the cost-to-cost basis) and other projects on the completed-contract basis.

(Changes in accounting method)
Regarding the accounting policy for earnings from construction contracts, previously, the Company and some consolidated subsidiaries accounted for contracts of which period from the beginning of construction work to the date of delivery is one year or longer on the percentage-of-completion basis and other contracts on the completed-contract basis or upon delivery. Effective from the fiscal year ended March 31, 2010, the Company and some consolidated subsidiaries adopted the Accounting Standard for Construction Contracts (Statement No. 15 issued by ASBJ on December 27, 2007) and the Guidance on Accounting Standard for Construction Contracts (Guidance No. 18 issued by ASBJ on December 27, 2007). Accordingly, starting with construction contracts begun in the year ended March 31, 2010, for work in progress up to March 31, 2010, the Company and some consolidated subsidiaries accounted for contracts, of which percentage of completion can be reliably estimated on the percentage-of-completion basis (with the estimated stage of completion calculated on the cost-to-cost basis) and other projects on the completed-contract basis.
The effect of the application of the standard in the fiscal year ended March 31, 2010, was to increase “Net sales” by ¥1,488 million ($15,991 thousand) and each of “Operating income”, “Income before extraordinary items”, and “Net income before income taxes” by ¥59 million ($638 thousand).
The effect on segmental information is presented at the relevant section.

(b) Regarding finance lease transactions, sales and cost of sales were recorded when lease receivables from customers are paid.

(c) One consolidated subsidiary recognizes revenue on the installment basis.

## 3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥93.05=U.S. $1.00, the approximate rate of exchange prevailing at March 31, 2010, has been used in translation. The inclusion of such amounts are not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

## 4. Inventories

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

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Merchandise | **¥3** | ¥29 | ***$32*** |
| Raw materials and supplies | **640** | 621 | ***6,882*** |
| Work in process | **8,239** | 8,091 | ***88,537*** |
| Total | **¥8,882** | ¥8,741 | ***$95,451*** |

## 5. Investments in Securities

The aggregate acquisition cost and carrying amounts of other securities with market quotations at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | | | | | *Thousands of U.S. dollars* | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | | ***2010*** | | |
| March 31 | Acquisition Cost | Carrying Amount | Difference | Acquisition Cost | Carrying Amount | Difference | *Acquisition Cost* | *Carrying Amount* | *Difference* |
| Equity securities | **¥3,370** | **¥3,957** | **¥587** | ¥3,193 | ¥3,803 | ¥610 | ***$36,212*** | ***$42,525*** | ***$6,313*** |
| Bonds | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| Total | **¥3,370** | **¥3,957** | **¥587** | ¥3,193 | ¥3,803 | ¥610 | ***$36,212*** | ***$42,525*** | ***$6,313*** |

The Company writes down the book value of other securities when the market value declines by more than 50%, or the market value declines by more than 30% but less than 50% and the Company management determines the decline to be other than temporary.

Proceeds from sale of other securities were nothing and ¥26 million for the years ended March 31, 2010 and 2009, respectively. On those sales, gross realized gains were nothing and ¥0 million for the years ended March 31, 2010 and 2009, respectively. Gross realized losses were nothing and ¥25 million for the years ended March 31, 2010 and 2009, respectively.
Non-listed stocks whose fair value was not determinable was not included in the above table. For the years ended March 31, 2010 and 2009, the carrying amounts of them in the consolidated balance sheet were respectively ¥2,442 million ($26,248 thousand) and ¥803 million.

Commercial paper was not included in the above table as the period to maturity of it was short and the fair value was close to the book value. For the years ended March 31, 2010 and 2009, the carrying amounts of them on the balance sheet were respectively ¥1,000 million ($10,744 thousand) and nothing.

Investments in affiliates included in investments in securities were ¥1,857 million ($19,957 thousand) and ¥1,815 million for the years ended March 31, 2010 and 2009, respectively.

## 6. Short-Term Debt, Long-Term Debt, and Lease Obligations

Short-term debt, long-term debt and lease obligations as at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | | | *Thousands of U.S. dollars* |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | ***2010*** |
| March 31 | | **Weighted average interest rate** | | **Weighted average interest rate** | |
| Short-term debt | **¥3,252** | **0.83%** | ¥6,951 | 1.07% | ***$34,947*** |
| Current portion of long-term debt | **1,029** | **2.27%** | 1,864 | 2.28% | ***11,055*** |
| Lease obligations (current liabilities) | **157** | - | 194 | - | ***1,687*** |
| Long-term debt | **3,961** | **1.33%** | 1,340 | 2.29% | ***42,574*** |
| Lease obligations (long-term liabilities) | **365** | - | 522 | - | ***3,919*** |
| Total | **¥8,764** | - | ¥10,871 | - | ***$94,182*** |

*The above interest rates were calculated by weighted average method based on the balance of debt at end of fiscal year.

Secured debt as at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Short-term debt secured by buildings, machinery and land | **¥470** | ¥2,520 | ***$5,051*** |
| Long-term debt secured by buildings, machinery and land | **1,850** | 100 | ***19,882*** |
| Total | **¥2,320** | ¥2,620 | ***$24,933*** |
| | | | |
| Short-term debt secured by investments in securities | **¥124** | ¥230 | ***$1,335*** |
| Long-term debt secured by investments in securities | **214** | 100 | ***2,297*** |
| Total | **¥338** | ¥330 | ***$3,632*** |

Assets pledged as collateral for the short-term debt and the long-term debt as at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Buildings (at net book value) | **¥535** | ¥572 | ***$5,745*** |
| Machinery (at net book value) | **9** | 14 | ***98*** |
| Land | **5,459** | 5,459 | ***58,668*** |
| Total | **¥6,003** | ¥6,045 | ***$64,511*** |
| | | | |
| Investments in securities | **¥361** | ¥374 | ***$3,883*** |

Annual maturities of long-term debt and lease obligations as at March 31, 2010 were as follows:

| | Long-term debt | | Lease obligations | |
|---|---|---|---|---|
| Year ending on March 31, | Millions of yen | *Thousands of U.S. dollars* | Millions of yen | *Thousands of U.S. dollars* |
| 2012 | **¥3,311** | ***$35,589*** | **¥160** | ***$1,720*** |
| 2013 | **650** | ***6,985*** | **74** | ***793*** |
| 2014 | **-** | ***-*** | **78** | ***840*** |
| 2015 | **-** | ***-*** | **53** | ***566*** |

## 7. Revaluation of Land

In accordance with the “Law on Land Revaluation” issued on March 31, 1998 and the “Law Related to the Revision of the Law of Land Revaluation” issued on March 31, 2001, the Company revalued its business-purpose land. Of the revaluation difference, the amount related to tax is recognized as a deferred tax liability and the revaluation difference, net of tax, is recognized as a component of net assets.
The revaluation was performed on March 31, 2002 based on the fixed asset tax revaluation amount set in the “Law on Land Revaluation” No. 2 article 3, and is calculated based on land prices set in the “Law on Land Revaluation” No. 2 article 4, with certain reasonable adjustments.
The excess of the book value over the current market value of such revalued land held at March 31, 2010 and 2009 amounted to ¥3,118 million ($33,506 thousand) and ¥3,612 million, respectively.

## 8. Retirement Benefits Plan

The Company and some consolidated subsidiaries have defined benefits pension plans and employee’s pension funds by multi-employer plan as the system of defined benefits. The other consolidated subsidiaries have tax-qualified pension plans and termination allowance plans.
The Company and certain consolidated subsidiaries also have the defined contribution pension plans.

The accrued retirement benefits as of March 31, 2010 and 2009 were as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Projected benefit obligations | **¥(2,815)** | ¥(3,012) | ***$(30,252)*** |
| Plan assets | **2,634** | 1,888 | ***28,310*** |
| Net unreserved projected benefit obligations | **(181)** | (1,124) | ***(1,942)*** |
| Unrecognized actuarial differences | **(168)** | 158 | ***(1,806)*** |
| Net retirement benefit obligations | **(349)** | (966) | ***(3,748)*** |
| Less: Pension costs paid in advance | **30** | - | ***323*** |
| Accrued retirement benefits for employees | **¥(379)** | ¥(966) | ***$(4,071)*** |

Net pension and severance costs related to the retirement benefit plans for the years ended March 31, 2010 and 2009 were as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Service costs | **¥147** | ¥159 | ***$1,576*** |
| Interest cost | **46** | 51 | ***498*** |
| Expected return on plan assets | **(19)** | (16) | ***(203)*** |
| Net amortization | **33** | 16 | ***357*** |
| Amortization of prior service costs | - | - | - |
| Transfer to defined contribution pension plans | **43** | 45 | ***459*** |
| Net pension and severance costs | **¥250** | ¥255 | ***$2,687*** |

Assumptions used in calculation of the above information were as follows:

| March 31 | **2010** | 2009 |
|---|---|---|
| Discount rate | **1.5%** | 1.5% |
| Expected rate of return on plan assets | **1.0%** | 1.0% |
| Method of attributing the projected benefit obligations to periods of service | **Straight-line basis** | Straight-line basis |
| Amortization of prior service costs | **Expensed in the year of occurrence** | Expensed in the year of occurrence |
| Amortization of unrecognized actuarial differences | **5 years** | 5 years |

## 9. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in the statutory income tax rate of approximately 40.7% for the years ended March 31, 2010 and 2009. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

At March 31, 2010 and 2009, significant components of deferred tax assets and liabilities were as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Deferred tax assets | | | |
| Tax losses carried forward | **¥708** | ¥2,000 | ***$7,608*** |
| Accrued enterprise tax | **23** | 15 | ***242*** |
| Accrued retirement benefits for employees | **116** | 239 | ***1,242*** |
| Accrued bonuses | **101** | 81 | ***1,090*** |
| Allowance for doubtful accounts | **172** | 274 | ***1,845*** |
| Reserve for losses on work in progress | **292** | 438 | ***3,136*** |
| Loss on write-down of investments in securities | **337** | 348 | ***3,625*** |
| Loss on write-down of investments | **85** | 92 | ***917*** |
| Impairment losses on fixed assets | **581** | 424 | ***6,247*** |
| Depreciation and amortization | **62** | 96 | ***668*** |
| Other | **444** | 189 | ***4,771*** |
| | **2,921** | 4,196 | ***31,391*** |
| Less: valuation allowance | **(2,377)** | (3,359) | ***(25,547)*** |
| Gross deferred tax assets | **544** | 837 | ***5,844*** |
| Deferred tax liabilities | | | |
| Deferred tax liabilities on revaluation of land | **2,174** | 2,189 | ***23,364*** |
| Net unrealized holding gains on investments in securities | **206** | 109 | ***2,214*** |
| Special item for lease | **77** | 100 | ***830*** |
| Other | **27** | 1 | ***285*** |
| Gross deferred tax liabilities | **¥2,484** | ¥2,399 | ***$26,693*** |

Deferred tax assets and liabilities as at March 31, 2010 and 2009 were recorded in the consolidated balance sheet as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| Deferred tax assets (current assets) | **¥509** | ¥812 | ***$5,467*** |
| Deferred tax assets (other assets in investments and advances) | **35** | 25 | ***378*** |
| Deferred tax liabilities (other current liabilities in current liabilities) | **30** | - | ***315*** |
| Deferred tax liabilities (long-term liabilities) | **280** | 210 | ***3,014*** |
| Deferred tax liabilities on revaluation of land (long-term liabilities) | **¥2,174** | ¥2,189 | ***$23,364*** |

The reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2010 and 2009 were as follows:

| | **2010** | 2009 |
|---|---|---|
| Statutory income tax rate | **40.7%** | 40.7% |
| Increase (decrease) in tax rate due to; | | |
| Increase and decrease of valuation allowance | **(26.5)** | (32.5) |
| Permanently non-deductible expenses | **1.5** | 2.5 |
| Permanently non-taxable dividends received | **(0.7)** | (2.6) |
| Local inhabitant's tax | **0.6** | 0.9 |
| Difference in tax rates for foreign subsidiaries | **(0.2)** | (0.3) |
| Equity in income of affiliates | **(0.6)** | (5.5) |
| Adjustment for unrealized gains and losses | **0.6** | 0.2 |
| Other | **0.3** | 0.2 |
| Effective income tax rate | **15.7%** | 3.6% |

## 10. Commitments and Contingent Liabilities

As at March 31, 2010, the Company was contingently liable for the affiliated company as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Trade liabilities | **¥500** | ¥1,600 | ***$5,373*** |

## 11. Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| Year ended on March 31 | **2010** | 2009 | ***2010*** |
| Salaries and benefits | **¥1,318** | ¥1,347 | ***$14,161*** |
| Accrued bonuses | **97** | 70 | ***1,047*** |
| Pension and severance costs | **172** | 184 | ***1,845*** |
| Accrued retirement benefits for directors and corporate auditors | **-** | 15 | *-* |
| Allowance for doubtful accounts | **4** | 127 | ***45*** |

## 12. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were ¥344 million ($3,700 thousand) and ¥496 million, respectively.

## 13. Supplements for Consolidated Statements of Changes in Net Assets

Type and number of shares as at March 31, 2010 and 2009 were as follows:

| | Thousands of shares | |
|---|---|---|
| Year ended on March 31 | **2010** | 2009 |
| Issued stock | | |
| Common stock | | |
| Number of issued stock at the beginning of the fiscal year | **138,731** | 138,731 |
| Increase in number of stock | - | - |
| Decrease in number of stock | - | - |
| Number of issued stock at the end of the fiscal year | **138,731** | 138,731 |
| Treasury stock | | |
| Common stock | | |
| Number of treasury stock at the beginning of the fiscal year | **12,990** | 5,433 |
| Increase in number of stock | **5,260** | 7,557 |
| Decrease in number of stock | - | - |
| Number of treasury stock at the end of the fiscal year | **18,250** | 12,990 |

For the year ended March 31, 2010, treasury stock increased by 5,260 thousand shares resulting from purchasing treasury stock 5,088 thousand shares based on decision in the board of director's meeting and purchasing 172 thousand shares less than one unit.

For the year ended March 31, 2009, treasury stock increased by 7,557 thousand shares resulting from purchasing treasury stock 7,491 thousand shares based on decision in the board of director's meeting and purchasing 66 thousand shares less than one unit.

Cash dividends paid to shareholders from the beginning of the effective date were as follows:

| | **2010** | 2009 |
|---|---|---|
| Approved by annual general shareholder's meeting | | |
| Date of approval | **June 26, 2009** | June 27, 2008 |
| Type of shares | **Common stock** | Common stock |
| Date of record | **March 31, 2009** | March 31, 2008 |
| Effective date | **June 29, 2009** | June 30, 2008 |
| Dividends per share | **¥4.00 *($0.04)*** | ¥4.00 |
| Amount cash dividends | **¥504 million *($5,413 thousands)*** | ¥533 million |

Cash dividends for the year ended March 31, 2010 as a date of record but an effective date subsequent to the current fiscal year were as follows:

| | | | | | | Amount cash dividends | |
|---|---|---|---|---|---|---|---|
| Resolution approved by | Type of shares | Date of record | Effective date | Paid from | Per share (Yen) | Millions of Yen | *Thousands of U.S. dollars* |
| Annual general shareholder's meeting held on June 29, 2010 | Common stock | March 31, 2010 | June 30, 2010 | Accumulated earnings | **¥4.00** | **¥483** | ***$5,186*** |

## 14. Cash and Cash Equivalents

Cash and cash equivalents as at March 31, 2010 and 2009 for the purpose of statement of cash flows consisted of:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Cash on hand and at bank | **¥8,956** | ¥6,978 | ***$96,253*** |
| Less: Time deposits, over 3-month term | **(152)** | (112) | ***(1,634)*** |
| Less: Other | **(1)** | (1) | ***(13)*** |
| Commercial paper | **1,000** | - | ***10,744*** |
| Cash and cash equivalents | **¥9,803** | ¥6,865 | ***$105,350*** |

## 15. Leases

***Lessor***

The breakdown of investments in leases on the consolidated balance sheets was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31 | **2010** | 2009 | ***2010*** |
| Current assets | | | |
| Receivables from lease rental revenue | **¥3,491** | ¥4,435 | ***$37,514*** |
| Estimated salvage value | **156** | 179 | ***1,679*** |
| Interest income | **(439)** | (603) | ***(4,716)*** |
| Investments in leases | **¥3,208** | ¥4,011 | ***$34,477*** |

Expected amount of collection from receivables of lease rental revenue in each annual period are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Year ended on March 31 | **2010** | 2009 | ***2010*** |
| Within one year | **¥1,189** | **¥1,443** | ***$12,778*** |
| 1 to 2 years | **1,017** | **1,083** | ***10,930*** |
| 2 to 3 years | **750** | **911** | ***8,054*** |
| 3 to 4 years | **333** | **643** | ***3,575*** |
| 4 to 5 years | **164** | **225** | ***1,765*** |
| Over 5 years | **¥38** | **¥130** | ***$412*** |

## 16. Financial Instruments

***(1) Overview***

(A) Policy for financial instruments

The Company raises funds required for its operations through borrowings from banks. In the event temporary surplus of funds arise, the Company invests them in financial instruments, which are highly secured.

In accordance with the Company's policy for derivative transactions, such transactions are used to reduce exposure to the risks specified in (B) and derivative transaction is not used for speculation purpose.

(B) Description of financial instruments and related risk and risk management systems

Notes and accounts receivable and investments in leases are exposed to customer credit risk, while certain receivables denominated in foreign currency are exposed to the risk of foreign currency exchange rate fluctuation. The Company seeks to minimize risk by regularly monitoring the status of receivables using management charts and other methods in the case of customer credit risk and by making borrowings denominated in foreign currency as necessary in the case of risk from foreign currency exchange rate fluctuation.

Marketable securities are exposed to credit risk of invested entity. To mitigate such risk, the Company invests in short-term commercial papers of high credit rating and high security under the prescribed internal procedures.

Investments in securities are exposed to credit risk of invested entity and to the risk of fluctuations in market price. These consist primarily of shares in listed companies with which the Company has business relationship. The investments are held in the form of other marketable securities and are subject to regular checks of fair value.

Short-term loans receivable and long-term loans receivable consist primarily of loans to equity-method affiliates. These loans are exposed to credit risk, but business performance trends, operational developments, and other factors are subjected to constant scrutiny to keep track of the financial situation of the invested entity.

Notes and accounts payable and accrued liabilities are exposed to liquidity risk, while certain liabilities denominated in foreign currency are exposed to risk of foreign currency exchange rate fluctuation. The Company seeks to minimize liquidity risk by regularly preparing cash flow worksheet and using other methods and enters into forward exchange contracts as necessary in the case of risk of foreign currency exchange rate fluctuation.

Within Company borrowings, short-term debt consists primarily of finance relating to routine business transactions, while long-term debt consists primarily of temporary advances for major projects and finance relating to investments in leases. Borrowings at variable interest rates are exposed to risk of interest rate fluctuation. In order to fix interest rates for major long-term debt, interest rate swaps are used as a hedging instrument for individual contracts. Interest rate swaps are limited to the debt where the application of exceptional treatment is allowed under accounting principles generally adopted in Japan. Evaluation of the effectiveness of the hedge is omitted here. For the liquidity risk, efforts to minimize risk are made by regularly preparing financing charts and similar methods.

Lease obligations consist of those investments in leases involving properties for which lease transfers have been carried out and are exposed to liquidity risks. Efforts to minimize risk are however made by regularly preparing cash flow worksheet and similar methods.

The execution and management of derivative transactions is carried out in accordance with the Company's policies for derivative transactions. When using derivatives, in order to minimize credit risk, the Company enters into transactions exclusively with financial institutions with high credit rating. For information on hedge accounting, including hedging instruments, hedging policy, and the method of evaluating hedge effectiveness, refer to 2. Summary of Significant Accounting Policies (7) Hedge Accounting.

(C) Supplementary notes on fair value of financial instruments, etc.
In addition to fair value based on market price, the fair value of financial instruments may include prices calculated on a reasonable basis where a market price is not available. The calculation of the price is based on variable factors and the price is therefore subject to fluctuation depending on the different assumptions made and other factors. It should further be noted that contract value of derivative transactions referred to in the Note 17. Derivative and Hedging Activities does not represent the market risk involved in the derivative transactions.

***(2) Fair value of financial instruments, etc.***
The carrying amounts in the consolidated balance sheet and fair values and the corresponding differences at March 31, 2010 (the consolidated accounting date) are as set out below. In the case of items where estimation of the fair value is recognized to be very difficult, the relevant item is not included in the table below (see note *4 below).

| | Millions of yen | | |
|---|---|---|---|
| March 31 | Carrying amount | Fair value | Differences |
| Assets | | | |
| (a) Cash on hand and at bank | **¥8,956** | **¥8,956** | **¥ -** |
| (b) Notes and accounts receivable | **13,511** | | |
| Allowance for doubtful accounts (*1) | **(34)** | | |
| | **13,477** | **13,477** | **-** |
| (c) Marketable securities | **1,000** | **1,000** | **-** |
| (d) Investments in leases | **3,052** | | |
| Allowance for doubtful accounts (*1) | **(30)** | | |
| | **3,022** | **3,136** | **114** |
| (e) Investments in securities | **4,175** | **4,137** | **(38)** |
| (f) Short-term loans receivable | **120** | **120** | **0** |
| (g) Long-term loans receivable | **344** | | |
| Allowance for doubtful accounts (*1) | **(13)** | | |
| | **331** | **331** | **0** |
| Total assets | **¥31,081** | **¥31,157** | **¥(76)** |
| Liabilities | | | |
| (h) Notes and accounts payable | **¥2,757** | **¥2,757** | **¥ -** |
| (i) Short-term debt | **3,252** | **3,252** | **-** |
| (j) Accrued liabilities | **4,015** | **4,015** | **-** |
| (k) Long-term debt (including amount due within one year) | **4,990** | **5,012** | **22** |
| (l) Lease obligations (including amount due within one year) | **522** | **562** | **40** |
| Total liabilities | **¥15,536** | **¥15,598** | **¥62** |
| Derivative transactions (*2) | **¥(1)** | **¥(1)** | **¥ -** |

| March 31 | Thousands of U.S. dollars<br>Carrying amount | Fair value | Differences |
|---|---|---|---|
| *Assets* | | | |
| (a) Cash on hand and at bank | **$96,253** | **$96,253** | **$ -** |
| (b) Notes and accounts receivable | **145,209** | | |
| Allowance for doubtful accounts (*1) | **(374)** | | |
| | **144,835** | **144,835** | **-** |
| (c) Marketable securities | **10,744** | **10,744** | **-** |
| (d) Investments in leases | **32,798** | | |
| Allowance for doubtful accounts (*1) | **(316)** | | |
| | **32,482** | **33,705** | **1,223** |
| (e) Investments in securities | **44,866** | **44,457** | **(409)** |
| (f) Short-term loans receivable | **1,290** | **1,290** | **0** |
| (g) Long-term loans receivable | **3,694** | | |
| Allowance for doubtful accounts (*1) | **(137)** | | |
| | **3,557** | **3,558** | **1** |
| Total assets | **$334,027** | **$334,842** | **$815** |
| *Liabilities* | | | |
| (h) Notes and accounts payable | **$29,627** | **$29,627** | **$ -** |
| (i) Short-term debt | **34,947** | **34,947** | **-** |
| (j) Accrued liabilities | **43,153** | **43,153** | **-** |
| (k) Long-term debt (including amount due within one year) | **53,629** | **53,860** | **231** |
| (l) Lease obligations (including amount due within one year) | **5,606** | **6,036** | **430** |
| Total liabilities | **$166,962** | **$167,623** | **$661** |
| Derivative transactions (*2) | **$(6)** | **$(6)** | **$ -** |

*1.The allowances for doubtful accounts included in notes and accounts receivable, investments in leases, and long-term loans receivable have been deducted.

*2.Net credits and liabilities arising from derivative transactions are presented on a net basis; in the case of an overall net liability, the amount is presented in parentheses.

*3.Fair value calculation method for financial instruments and notes on marketable securities and derivative transactions

[Assets]

(a) Cash on hand and at bank and (b) Notes and accounts receivable

As these are mainly settled over short periods and the fair value is close to the book value, these are stated at the relevant book value.

(c) Marketable securities

As the period to maturity is short and the fair value is close to the book value, these are stated at the relevant book value.

(d) Investments in leases

These are presented at present value consisting of receivables from lease receivables, following elimination of estimated residual value, discounted at a rate consisting of the base rate for the period to maturity and an allowance for credit risk.

(e) Investments in securities

Fair value reflects stock exchange price. For related notes, see Notes on 5. Investments in Securities.

(f) Short-term loans receivable and (g) Long-term loans receivable

These are stated at present value, consisting of the principal at the balance sheet date and interest receivable up to the repayment date, discounted at an interest rate applicable at the balance sheet date.

[Liabilities]

(h) Notes and accounts payable (i) Short-term debt and (j) Accrued liabilities

As these are settled over short periods and the fair value is close to the book value, these are stated at the relevant book value.

(k) Long-term debt (including amount due within one year)

Fair value of long-term debt with variable interest rate is estimated based on cash flow of repayments of principal and interest determined together with the applicable interest rate swap, which is accounted for under exceptional method. The cash flow is discounted at a reasonable estimate of the interest rate that would apply if a new borrowing of the same amount for the same term were to be made.

(l) Lease obligations (including amount due within one year)

These are treated similarly to investments in leases (Item (d) in the Assets section above), but since the credit risk is transferred to the creditor of the investment in leases that constitutes the liability, they are stated at present value discounted at the base rate without risk.

[Derivative transactions]

For related notes, see 17.Derivative and Hedging Activities.

*4.As there is no market price for non-listed stocks (carrying amount in consolidated balance sheet ¥2,442 million ($26,248 thousand)) and it is also not practicable to make estimates of future cash flow, etc., and fair value. These stocks are therefore not included in the item (e) Investments in securities in the Assets section above.

*5.The carrying amounts for (d) Investments in leases in the above table does not include residual value.

*6.Repayment schedule subsequent to end of the fiscal year of monetary debt and marketable securities with maturity dates are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| As at March 31, 2010 | Within one year | 1 to 5 years | 5 to 10 years | Over 10 years |
| Time deposit | **¥8,927** | **¥ -** | **¥ -** | **¥ -** |
| Notes and accounts receivable | **11,861** | **1,616** | **-** | **-** |
| Marketable securities | **1,000** | **-** | **-** | **-** |
| Investments in leases | **964** | **2,021** | **37** | **-** |
| Short-term loans receivable | **120** | **-** | **-** | **-** |
| Long-term loans receivable | **1** | **288** | **-** | **42** |
| Total | **¥22,873** | **¥3,925** | **¥37** | **¥42** |

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| *As at March 31, 2010* | *Within one year* | *1 to 5 years* | *5 to 10 years* | *Over 10 years* |
| *Time deposit* | ***$95,933*** | ***$ -*** | ***$ -*** | ***$ -*** |
| *Notes and accounts receivable* | ***127,473*** | ***17,362*** | ***-*** | ***-*** |
| *Marketable securities* | ***10,744*** | ***-*** | ***-*** | ***-*** |
| *Investments in leases* | ***10,365*** | ***21,723*** | ***394*** | ***-*** |
| *Short-term loans receivable* | ***1,290*** | ***-*** | ***-*** | ***-*** |
| *Long-term loans receivable* | ***13*** | ***3,090*** | ***-*** | ***454*** |
| *Total* | ***$245,818*** | ***$42,175*** | ***$394*** | ***$454*** |

*7.Repayment schedule of long-term debt and other interest-bearing debt is mentioned in 6. Short-Term Debt, Long-Term Debt, and Lease Obligations.

(Additional information)

From the fiscal year ended March 31, 2010, the Company and its consolidated subsidiaries applied the Accounting Standard for Financial Instruments (Statement No. 10 issued by ASBJ on March 10, 2008) and the Guidance on Disclosures about Fair Value of Financial Instruments (Guidance No. 19 issued by ASBJ on March 10, 2008).

## 17. Derivative and Hedging Activities

In the year ended March 31, 2010, there were no derivative transactions to which hedge accounting was not applied.

In the year ended March 31, 2010, derivative transactions covered by hedge accounting were as follows:

***(1)Currency-related***

| | Millions of yen | | | |
|---|---|---|---|---|
| | Contract value | | | |
| As at March 31, 2010 | Due within one year | Due after one year | Total | Fair value |
| Forward exchange contract | | | | |
| Buy U.S. dollar | **¥616** | **¥ -** | **¥616** | **¥619** |
| Buy Euro | **255** | **-** | **255** | **251** |
| | **¥871** | **¥ -** | **¥871** | **¥870** |

| *As at March 31, 2010* | *Thousands of U.S. dollar* | | | |
|---|---|---|---|---|
| | *Contract value* | | | *Fair value* |
| | *Due within one year* | *Due after one year* | *Total* | |
| *Forward exchange contract* | | | | |
| *Buy U.S. dollar* | ***$6,616*** | ***$ -*** | ***$6,616*** | ***$6,656*** |
| *Buy Euro* | ***2,745*** | ***-*** | ***2,745*** | ***2,699*** |
| | ***$9,361*** | ***$ -*** | ***$9,361*** | ***$9,355*** |

*1.The principal object of the hedge is accounts payable in the balance sheets.
*2.Payables hedged by the above contracts, which met certain hedging criteria for deferral hedge accounting, were translated at the relevant contract rates.
*3.The fair value of the above was based on the price quoted by the financial institution dealing with the Company.

***(2)Interest-related***

| As at March 31, 2010 | Millions of yen | | | |
|---|---|---|---|---|
| | Contract value | | | Fair value |
| | Due within one year | Due after one year | Total | |
| Interest rate swaps (receivable rate variable/payable rate fixed) | **¥380** | **¥3,790** | **¥4,170** | **(*4)** |

| *As at March 31, 2010* | *Thousands of U.S. dollar* | | | |
|---|---|---|---|---|
| | *Contract value* | | | *Fair value* |
| | *Due within one year* | *Due after one year* | *Total* | |
| *Interest rate swaps (receivable rate variable/payable rate fixed)* | ***$4,083*** | ***$40,734*** | ***$44,817*** | ***(*4)*** |

*4.As item to which exceptional treatment of interest rate swaps is applicable are treated as a single unit with the long-term debt covered by the hedge, the fair value is included in the fair value indicated for the relevant long-term debt.

## 18. Real Estate for Leasing

In the Tokyo area and other districts, the Company and certain of its subsidiaries undertake leasing of part of their business premises or of land and buildings used for residential leasing. In the period ended March 2010, the net rent income on the relevant real estate for leasing was ¥292 million ($3,136 thousand) with rent income recorded under net sales and rent expenses under cost of sales and the gain on sales of fixed assets ¥274 million ($2,945 thousand) recorded under extraordinary profit.

The carrying amounts in the consolidated balance sheet of the relevant real estate for leasing, the change during the period, and the fair value are as set out below.

| | Millions of yen | *Thousands of U.S. dollars* |
|---|---|---|
| | **2010** | ***2010*** |
| The carrying amounts in the consolidated balance sheet | | |
| Balance at the beginning of the fiscal year | **¥6,310** | ***$67,807*** |
| Change during the fiscal year | **(859)** | ***(9,230)*** |
| Balance at the end of the fiscal year | **5,451** | ***58,577*** |
| Fair value at the end of fiscal year | **¥3,989** | ***$42,871*** |

*1.The carrying amounts in the consolidated balance sheet is the acquisition cost, net of accumulated depreciation and accumulated impairment loss.
*2.Change during the period is mainly due to decrease in leased area ¥366 million ($3,932 thousand), sale of land ¥316 million ($3,400 thousand), and sale of depreciation assets ¥107 million ($1,146 thousand).
*3.Fair value of significant properties at March 31, 2010 represents a price based on appraised value determined by an external real estate appraiser. Fair value of insignificant properties is based on index considered to appropriately reflect market price.

(Additional information)
From the fiscal year ended March 31, 2010, the Company and its consolidated subsidiaries applied the Accounting Standard for Disclosures about Fair Value of Investment and Rental Property (Statement No. 20 issued by ASBJ on November 28, 2008) and the Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property (Guidance No. 23 issued November 28, 2008).

## 19. Segment Information

***(1) Industry Segment Information***

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 were summarized by product group as follows:

| Year ended March 31, 2010 | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Plant & Machinery Division | Material Handling Systems Division | Building Construction Division | Real Estate Utilizing Division | Other | Sub total | Elimination or corporate assets | Consolidated total |
| Sales | | | | | | | | |
| Sales to external customers | **¥24,224** | **¥20,897** | **¥2,633** | **¥539** | **¥2,153** | **¥50,446** | **¥ -** | **¥ 50,446** |
| Inter-segment sales | **-** | **-** | **-** | **102** | **785** | **887** | **(887)** | **-** |
| Total | **24,224** | **20,897** | **2,633** | **641** | **2,938** | **51,333** | **(887)** | **50,446** |
| Operating costs and expenses | **21,784** | **19,833** | **2,568** | **349** | **2,667** | **47,201** | **(618)** | **46,583** |
| Operating income | **2,440** | **1,064** | **65** | **292** | **271** | **4,132** | **(269)** | **3,863** |
| Assets | **20,763** | **12,530** | **3,235** | **5,425** | **6,542** | **48,495** | **9,873** | **58,368** |
| Depreciation | **250** | **248** | **13** | **92** | **115** | **718** | **21** | **739** |
| Capital expenditure | **370** | **115** | **5** | **1** | **43** | **534** | **166** | **700** |

| Year ended March 31, 2009 | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Plant & Machinery Division | Material Handling Systems Division | Building Construction Division | Real Estate Utilizing Division | Other | Sub total | Elimination or corporate assets | Consolidated total |
| Sales | | | | | | | | |
| Sales to external customers | ¥26,392 | ¥11,961 | ¥5,020 | ¥592 | ¥3,696 | ¥47,661 | ¥ - | ¥ 47,661 |
| Inter-segment sales | - | - | (1) | 124 | 825 | 948 | (948) | - |
| Total | 26,392 | 11,961 | 5,019 | 716 | 4,521 | 48,609 | (948) | 47,661 |
| Operating costs and expenses | 24,331 | 12,460 | 4,863 | 351 | 4,377 | 46,382 | (588) | 45,794 |
| Operating income (loss) | 2,061 | (499) | 156 | 365 | 144 | 2,227 | (360) | 1,867 |
| Assets | 22,112 | 10,401 | 3,946 | 4,972 | 6,656 | 48,087 | 6,858 | 54,945 |
| Depreciation | 174 | 185 | 10 | 144 | 148 | 661 | 19 | 680 |
| Impairment loss | - | - | - | - | 55 | 55 | - | 55 |
| Capital expenditure | 243 | 389 | 5 | 30 | 86 | 753 | 3 | 756 |

*1. Major products of each division are as follows:

Plant & Machinery Division……………..storage tanks for LNG, LPG, crude oil and other gas/liquid
Material Handling Systems Division……..material handling systems for delivery, sorting, control and various type of convey instruments
Building Construction Division…..............apartment house, office building, shop building and warehouse building
Real Estate Utilizing Division……………real estate rental
Other…………………………………...leasing etc.

*2.Allocated operating costs and expenses belonging to administrative department for the year ended March 31, 2010 and 2009 were respectively ¥281 million ($3,022 thousand) and ¥374 million, which was included in "Elimination or corporate assets".

*3.Corporate assets consisted of cash on hand and at bank, investments in securities and the assets belonging to the administration department of the Company. Corporate assets at March 31, 2010 and 2009 were ¥11,622 million ($124,905 thousand) and ¥8,000 million, respectively.

*4.As indicated in 2. Summary of Significant Accounting Policies (18) Significant accounting policies for earnings and expenses (a) above, from the fiscal year ended March 31, 2010, the Company and some consolidated subsidiaries applied the Accounting Standard for Construction Contracts (Statement No. 15 issued by ASBJ on December 27, 2007) and the Guidance on Financial Accounting Standard for Construction Contracts (Guidance No. 18 issued by ASBJ on December 27, 2007).
In the fiscal year ended March 31, 2010, the application of the standard increased net sales by ¥192 million ($2,057 thousand) and operating income by ¥18 million ($195 thousand) in the Plant & Machinery Business, net sales by ¥1,205 million ($12,953 thousand) and operating income by ¥38 million ($409 thousand) in the Material Handling Systems Business, and net sales by ¥91 million ($981 thousand) and operating income by ¥3 million ($34 thousand) in the Building Construction Business.

| *Year ended March 31, 2010* | *Thousands of U.S. dollars*<br>*Plant & Machinery Division* | *Material Handling Systems Division* | *Building Construction Division* | *Real Estate Utilizing Division* | *Other* | *Sub total* | *Elimination or corporate assets* | *Consolidated total* |
|---|---|---|---|---|---|---|---|---|
| *Sales* | | | | | | | | |
| *Sales to external customers* | ***$260,340*** | ***$224,574*** | ***$28,298*** | ***$5,795*** | ***$23,137*** | ***$542,144*** | ***$ -*** | ***$542,144*** |
| *Inter-segment sales* | ***-*** | ***-*** | ***-*** | ***1,090*** | ***8,438*** | ***9,528*** | ***(9,528)*** | ***-*** |
| *Total* | ***260,340*** | ***224,574*** | ***28,298*** | ***6,885*** | ***31,575*** | ***551,672*** | ***(9,528)*** | ***542,144*** |
| *Operating costs and expenses* | ***234,114*** | ***213,144*** | ***27,604*** | ***3,749*** | ***28,658*** | ***507,269*** | ***(6,643)*** | ***500,626*** |
| *Operating income* | ***26,226*** | ***11,430*** | ***694*** | ***3,136*** | ***2,917*** | ***44,403*** | ***(2,885)*** | ***41,518*** |
| *Assets* | ***223,143*** | ***134,657*** | ***34,764*** | ***58,307*** | ***70,302*** | ***521,173*** | ***106,102*** | ***627,275*** |
| *Depreciation* | ***2,684*** | ***2,668*** | ***137*** | ***993*** | ***1,232*** | ***7,714*** | ***223*** | ***7,937*** |
| *Capital expenditure* | ***3,982*** | ***1,232*** | ***49*** | ***14*** | ***462*** | ***5,739*** | ***1,779*** | ***7,518*** |

### *(2) Geographic Segment Information*

Segment information classified by geographic area is not presented because the majority of the Companies' operations are conducted in Japan.

### *(3) Export Sales and Sales by Overseas Subsidiaries*

Overseas sales of the Company and its domestic consolidated subsidiaries and sales of the overseas consolidated subsidiaries other than export to Japan for the year ended March 31, 2010 and 2009 were summarized as follows:

| Year ended March 31, 2010 | Millions of yen<br>South-east Asia | Middle East | Africa | Other | Total |
|---|---|---|---|---|---|
| Overseas sales | **¥1,206** | **¥646** | **¥6,541** | **¥28** | **¥8,421** |
| Consolidated Sales | **-** | **-** | **-** | **-** | **¥50,446** |
| Ratio | **2.4%** | **1.3%** | **13.0%** | **0.0%** | **16.7%** |

| Year ended March 31, 2009 | Millions of yen<br>South-east Asia | Middle East | Africa | Other | Total |
|---|---|---|---|---|---|
| Overseas sales | ¥4,310 | ¥1,787 | ¥5,967 | ¥593 | ¥12,657 |
| Consolidated Sales | - | - | - | - | ¥47,661 |
| Ratio | 9.0% | 3.8% | 12.5% | 1.3% | 26.6% |

* Major countries included in the above geographic areas were as follows:
South-east Asia:……Singapore, Malaysia
Middle East:………..Iran, Yemen
Africa:…….………..Angola, Algeria
Other:………………China

| *Year ended March 31, 2010* | *Thousands of U.S. dollars*<br>*South-east Asia* | *Middle East* | *Africa* | *Other* | *Total* |
|---|---|---|---|---|---|
| *Overseas sales* | ***$12,955*** | ***$6,942*** | ***$70,300*** | ***$305*** | ***$90,502*** |
| *Consolidated Sales* | ***-*** | ***-*** | ***-*** | ***-*** | ***$542,144*** |
| *Ratio* | ***2.4%*** | ***1.3%*** | ***13.0%*** | ***0.0%*** | ***16.7%*** |

## 20. Related Party Transactions

Material transactions of the Company with its related companies, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2010 and 2009 were as follows:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| Toyo Miyama Co., Ltd. | | | |
| Amounts of transaction: | | | |
| Guarantee obligation (*2) | **¥500** | ¥1,600 | ***$5,373*** |
| Guarantee commission received (*2) | **4** | - | ***43*** |
| Balance at the end of fiscal year: | | | |
| Other current liabilities | **¥1** | - | ***$16*** |
| Manavis Co., Ltd. | | | |
| Amounts of transaction: | | | |
| Sales of plant and land (*3) | | | |
| Proceeds from sales | **¥746** | - | ***$8,015*** |
| Gain on sales | **274** | - | ***2,945*** |
| Interest income received | **6** | - | ***67*** |
| Balance at the end of fiscal year: | | | |
| Other current assets | **123** | - | ***1,322*** |
| Other investments | **123** | - | ***1,322*** |
| Other current liabilities | **¥6** | - | ***$59*** |

*1. The terms and conditions of the above transactions are on an arm's-length basis.
*2. Certain of the operating liabilities are covered by debt guarantee.
*3. These are determined by negotiation with reference to the price as appraised by a real estate appraiser. The payment conditions stipulate 50% on delivery and the balance in three equal yearly payments with the interest rate set at a reasonable level with reference to market interest rates.
*4. The transaction price does not include consumption taxes.
*5. The relationships with each related company were as follows:

| Name of related company | Paid-in capital | Principal business | Equity ownership percentage by the Company | Relationship |
|---|---|---|---|---|
| Toyo Miyama Co., Ltd. | ¥100 million | Architectural business | 49.0% (direct) | Guarantee obligation |
| Manavis Co., Ltd. | ¥45 million | Cosmetic and cleaning products | 12.8% (direct)<br>3.3% (indirect) | Interlocking directorates |

(Changes in accounting method)
Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted "Accounting Standard for Related Party Disclosures (Statement No. 11 issued by the ASBJ on October 17, 2006)" and "Guidance on Accounting Standard for Related Party Disclosures (Guidance No. 13 issued by the ASBJ on October 17, 2006)".

## 21. Amount Per Share

Amounts per share at March 31, 2010 and 2009 and for the years then ended were as follows:

| | Yen | | *U.S. dollars* |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| Net assets | **¥250.39** | ¥222.09 | ***$2.69*** |
| Net income | **28.75** | 22.99 | ***0.31*** |

Diluted net income per share for the years ended March 31, 2010 and 2009 has not been presented because no potentially dilutive shares of common stock were outstanding.

Net income per share were calculated on the following basis:

| | Millions of yen | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2010** | 2009 | ***2010*** |
| Net income | **¥3,560** | ¥3,005 | ***$38,261*** |
| Net income not available to shareholders of common stock | - | - | - |
| Net income available to shareholders of common stock | **¥3,560** | ¥3,005 | ***$38,261*** |

| | Thousands of shares | |
|---|---|---|
| | **2010** | 2009 |
| Weighted-average number of outstanding shares of common stock | **123,819** | 130,724 |

ERNST & YOUNG

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## Report of Independent Auditors

The Board of Directors of Toyo Kanetsu Kabushiki Kaisha

We have audited the accompanying consolidated balance sheets of Toyo Kanetsu Kabushiki Kaisha and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Kanetsu Kabushiki Kaisha and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note2(18), effective for the year ended March 31, 2010, Toyo Kanetsu Kabushiki Kaisha and its consolidated subsidiaries adopted Accounting Standard for Construction Contracts and the Guidance on Accounting Standard for Construction Contracts.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 3.

Ernst & Young ShinNihon LLC

June 29, 2010

# Corporate Data

| | |
|---|---|
| **Date of Establishment** | May 16, 1941 |
| **Common Stock** | ¥18,580 million |
| **Authorized Shares** | 297,000,000 |
| **Capital Stock Issued** | 138,730,741 |
| **Number of Shareholders** | 14,027 |
| **Security Traded** | Tokyo Stock Exchange Market, First Section |
| **Transfer Agent and Registrar** | The Mitsubishi UFJ Trust and Banking Corporation<br>4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan |
| **Annual Meeting** | The annual meeting of shareholders is normally held in June in Tokyo, Japan |

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