ANNUAL REPORT 2012

Year ended March 31, 2012

ShinMaywa
Brighten Your Future

ShinMaywa Industries, Ltd.

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Report of Independent Auditors

GrantThornton

Report of Independent Auditors

Grant Thornton Taiyo ASG LLC

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The Board of Directors of
ShinMaywa Industries, Ltd.

We have audited the accompanying consolidated balance sheets of ShinMaywa Industries, Ltd. and consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ShinMaywa Industries, Ltd. and consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements are presented solely for convenience. Our audits also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translations have been made on the basis described in Note 2 to the consolidated financial statements.

Grant Thornton Taiyo ASG LLC

Osaka, Japan
June 26, 2012

Consolidated Balance Sheets

ShinMaywa Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2012	2011	2012	2011
Assets				
Current assets:				
Cash and deposits (Notes 3 and 22)	¥ 19,855	¥ 17,150	$ 242,134	$ 209,146
Trade notes and accounts receivable (Notes 4 and 22)	50,325	46,370	613,720	565,488
Allowance for doubtful receivables	(82)	(45)	(1,000)	(549)
Inventories (Note 5)	30,195	31,237	368,232	380,939
Deferred income taxes (Note 10)	3,419	2,997	41,695	36,549
Prepaid expenses and other current assets	966	896	11,780	10,927
Total current assets	104,679	98,606	1,276,573	1,202,512
Property, plant and equipment (Note 6):				
Land (Note 12)	4,634	4,554	56,512	55,537
Buildings and structures	35,695	35,414	435,305	431,878
Machinery, equipment and vehicles	35,500	35,325	432,927	430,793
Construction in progress	784	163	9,561	1,988
	76,615	75,458	934,329	920,220
Less accumulated depreciation and impairment loss	(55,825)	(54,489)	(680,793)	(664,500)
Property, plant and equipment, net	20,789	20,968	253,524	255,707
Investments and long-term loans receivable:				
Investments in an unconsolidated subsidiary and affiliates	625	476	7,622	5,805
Investment securities (Notes 7 and 22)	2,947	2,722	35,939	33,195
Long-term loans receivable	283	225	3,451	2,744
Total investments and long-term loans receivable	3,856	3,424	47,024	41,756
Deferred income taxes (Note 10)	2,136	3,163	26,049	38,573
Other assets	4,675	4,111	57,012	50,134
Total assets	¥136,138	¥130,273	$1,660,220	$1,588,695

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2012	2011	2012	2011
Liabilities and net assets				
Current liabilities:				
Trade notes and accounts payable (Note 22)	¥ 19,824	¥ 16,795	$ 241,756	$ 204,817
Short-term bank loans (Notes 8 and 22)	–	6,000	–	73,171
Current portion of long-term debt (Notes 8 and 22)	2,000	2,000	24,390	24,390
Accrued expenses	5,827	5,885	71,061	71,768
Accrued income taxes (Note 10)	770	453	9,390	5,524
Accrued bonuses for directors	27	23	329	280
Provision for product warranty	10	15	122	183
Provision for losses on construction contracts (Note 15)	1,910	1,362	23,293	16,610
Other current liabilities	5,803	2,702	70,768	32,951
Total current liabilities	36,174	35,238	441,146	429,732
Long-term liabilities:				
Long-term debt (Notes 8 and 22)	8,690	524	105,976	6,390
Accrued retirement benefits for employees (Note 9)	8,072	7,970	98,439	97,195
Accrued retirement benefits for directors and corporate auditors	477	484	5,817	5,902
Deferred income taxes (Note 10)	9	72	110	878
Deferred income taxes on land revaluation reserve (Note 12)	54	62	659	756
Negative goodwill	93	239	1,134	2,915
Other long-term liabilities	3,240	4,847	39,512	59,110
Total long-term liabilities	20,639	14,201	251,695	173,183
Total liabilities	56,813	49,440	692,841	602,927
Contingent liabilities (Note 11)				
Net assets:				
Shareholders' equity (Note 13):				
Common stock				
Authorized – 300,000,000 shares				
Issued – 119,727,565 shares at March 31, 2012 and 2011 (Note 25)	15,981	15,981	194,890	194,890
Capital surplus	15,737	15,737	191,915	191,915
Retained earnings (Note 25)	54,632	55,897	666,244	681,671
Less treasury common stock, at cost; 19,964,250 shares at March 31, 2012 and 19,958,438 shares at March 31, 2011 (Note 25)	(8,203)	(8,202)	(100,037)	(100,024)
Total shareholders' equity	78,148	79,414	953,024	968,463
Accumulated other comprehensive income (loss):				
Unrealized gain on securities (Note 7)	624	451	7,610	5,500
Land revaluation reserve (Note 12)	(383)	(389)	(4,671)	(4,744)
Translation adjustments	(365)	(324)	(4,451)	(3,951)
Total accumulated other comprehensive loss	(124)	(261)	(1,512)	(3,183)
Minority interests	1,301	1,680	15,866	20,488
Total net assets	79,324	80,833	967,366	985,768
Total liabilities and net assets	¥136,138	¥130,273	$1,660,220	$1,588,695

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

ShinMaywa Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2012	2011	2012	2011
Net sales	¥108,974	¥107,229	$1,328,951	$1,307,671
Cost of sales (Notes 5, 15 and 16)	91,872	91,313	1,120,390	1,113,573
Gross profit	17,102	15,916	208,561	194,098
Selling, general and administrative expenses (Notes 14 and 16)	14,832	14,269	180,878	174,012
Operating income	2,269	1,647	27,671	20,085
Other income (expenses):				
Interest and dividend income	74	64	902	780
Interest expense	(65)	(84)	(793)	(1,024)
Amortization of negative goodwill	146	146	1,780	1,780
Equity in earnings of an unconsolidated subsidiary and affiliates	149	116	1,817	1,415
Foreign exchange losses, net	(543)	(648)	(6,622)	(7,902)
Loss on disaster (Note 17)	(151)	(326)	(1,841)	(3,976)
Loss on litigation (Note 18)	(794)	–	(9,683)	–
Other, net	(18)	(798)	(220)	(9,732)
	(1,204)	(1,530)	(14,683)	(18,659)
Income before income taxes and minority interests	1,065	116	12,988	1,415
Income taxes (Note 10):				
Current	1,192	753	14,537	9,183
Deferred	491	1,124	5,988	13,707
Loss before minority interests	(618)	(1,762)	(7,537)	(21,488)
Minority interests in loss	(351)	(12)	(4,280)	(146)
Net loss	¥ (266)	¥ (1,749)	$ (3,244)	$ (21,329)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

ShinMaywa Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2012	2011	2012	2011
Loss before minority interests	¥(618)	¥(1,762)	$(7,537)	$(21,488)
Other comprehensive income (loss):				
Unrealized gain on securities	173	12	2,110	146
Land revaluation reserve	7	–	85	–
Translation adjustments	(48)	(70)	(585)	(854)
Share of other comprehensive loss of associates accounted for using equity method	(0)	(31)	(0)	(378)
Total other comprehensive income (loss)	131	(88)	1,598	(1,073)
Comprehensive loss	¥(487)	¥(1,850)	$(5,939)	$(22,561)
Comprehensive loss attributable to:				
Owners of the parent company	(129)	(1,833)	(1,573)	(22,354)
Minority interests	(357)	(16)	(4,354)	(195)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

ShinMaywa Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

Millions of yen

		Shareholders' Equity				Accumulated other comprehensive income (loss)				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury common stock, at cost	Unrealized gain on securities	Land revaluation reserve	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2010	119,727,565	¥15,981	¥15,737	¥58,645	¥(8,196)	¥435	¥(389)	¥(224)	¥1,585	¥83,574
Acquisition of treasury stock	–	–	–	–	(5)	–	–	–	–	(5)
Dividends paid	–	–	–	(997)	–	–	–	–	–	(997)
Net loss for the year	–	–	–	(1,749)	–	–	–	–	–	(1,749)
Net changes in items other than those in shareholders' equity	–	–	–	–	–	15	–	(99)	95	11
Balance at March 31, 2011	119,727,565	15,981	15,737	55,897	(8,202)	451	(389)	(324)	1,680	80,833
Acquisition of treasury stock	–	–	–	–	(1)	–	–	–	–	(1)
Dividends paid	–	–	–	(997)	–	–	–	–	–	(997)
Net loss for the year	–	–	–	(266)	–	–	–	–	–	(266)
Net changes in items other than those in shareholders' equity	–	–	–	–	–	172	5	(41)	(379)	(242)
Balance at March 31, 2012	119,727,565	¥15,981	¥15,737	¥54,632	¥(8,203)	¥624	¥(383)	¥(365)	¥1,301	¥79,324

Thousands of U.S. dollars (Note 2)

	Shareholders' Equity				Accumulated other comprehensive income (loss)				
	Common stock	Capital surplus	Retained earnings	Treasury common stock, at cost	Unrealized gain on securities	Land revaluation reserve	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2010	$194,890	$191,915	$715,183	$ (99,951)	$5,305	$(4,744)	$(2,732)	$19,329	$1,019,195
Acquisition of treasury stock	–	–	–	(61)	–	–	–	–	(61)
Dividends paid	–	–	(12,159)	–	–	–	–	–	(12,159)
Net loss for the year	–	–	(21,329)	–	–	–	–	–	(21,329)
Net changes in items other than those in shareholders' equity	–	–	–	–	183	–	(1,207)	1,159	134
Balance at March 31, 2011	194,890	191,915	681,671	(100,024)	5,500	(4,744)	(3,951)	20,488	985,768
Acquisition of treasury stock	–	–	–	(12)	–	–	–	–	(12)
Dividends paid	–	–	(12,159)	–	–	–	–	–	(12,159)
Net loss for the year			(3,244)						(3,244)
Net changes in items other than those in shareholders' equity	–	–	–	–	2,098	61	(500)	(4,622)	(2,951)
Balance at March 31, 2012	$194,890	$191,915	$666,244	$(100,037)	$7,610	$(4,671)	$(4,451)	$15,866	$ 967,366

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

ShinMaywa Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2012	2011	2012	2011
Operating activities				
Income before income taxes and minority interests	¥ 1,065	¥ 116	$ 12,988	$ 1,415
Depreciation and amortization	3,135	3,236	38,232	39,463
Equity in earnings of an unconsolidated subsidiary and affiliates	(149)	(116)	(1,817)	(1,415)
Increase in accrued retirement benefits for employees, directors and corporate auditors	95	74	1,159	902
Interest and dividend income	(74)	(64)	(902)	(780)
Interest expense	65	84	793	1,024
Increase in trade notes and accounts receivable	(3,981)	(3,793)	(48,549)	(46,256)
Decrease in inventories	1,089	4,739	13,280	57,793
Increase in trade notes and accounts payable	2,992	1,871	36,488	22,817
Other, net	718	(1,047)	8,756	(12,768)
	4,955	5,101	60,427	62,207
Interest and dividends received	80	63	976	768
Interest paid	(65)	(83)	(793)	(1,012)
Income taxes paid	(839)	(938)	(10,232)	(11,439)
Net cash provided by operating activities	4,131	4,142	50,378	50,512
Investing activities				
Purchases of property, plant and equipment	(1,734)	(1,575)	(21,146)	(19,207)
Purchases of intangible assets	(245)	(192)	(2,988)	(2,341)
Proceeds from sales of property, plant and equipment	101	537	1,232	6,549
Other, net	(253)	(116)	(3,085)	(1,415)
Net cash used in investing activities	(2,130)	(1,347)	(25,976)	(16,427)
Financing activities				
Decrease in short-term loans payable	(6,000)	–	(73,171)	–
Proceeds from long-term loans payable	10,000	12	121,951	146
Repayment of long-term loans payable	(2,000)	(2,000)	(24,390)	(24,390)
Acquisition of treasury stock, net	(1)	(5)	(12)	(61)
Dividends paid	(997)	(997)	(12,159)	(12,159)
Dividends paid to minority shareholders	(21)	(21)	(256)	(256)
Repayments of finance lease obligations	(196)	(145)	(2,390)	(1,768)
Other, net	–	134	–	1,634
Net cash provided by (used in) financing activities	782	(3,022)	9,537	(36,854)
Effect of exchange rate changes on cash and cash equivalents	(78)	(70)	(951)	(854)
Net increase (decrease) in cash and cash equivalents	2,705	(298)	32,988	(3,634)
Cash and cash equivalents at beginning of the year	17,150	17,448	209,146	212,780
Cash and cash equivalents at end of the year (Note 3)	¥19,855	¥17,150	$242,134	$209,146

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

ShinMaywa Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

1. Summary of Significant Accounting Policies

(a) Basis of presentation

ShinMaywa Industries, Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Financial Instruments and Exchange Act of Japan and, therefore, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Act, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(b) Scope of Consolidation

The consolidated financial statements included the accounts of the Company and its 19 subsidiaries for the years ended March 31, 2012 and 2011. Investments in 1 subsidiary and 2 affiliates are accounted for by the equity method for the years ended March 31, 2012 and 2011.

(c) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The balance sheet date of certain consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary.

(d) Foreign currency translation

All monetary assets and liabilities, regardless of whether they are short-term or long-term, denominated in foreign currencies are translated into yen at the exchange rates prevailing as of the fiscal year end, and the resulting gain and loss are included in income.

Balance sheet accounts and revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the exchange rates prevailing as of the fiscal year end, except for the components of net assets excluding minority interests which are translated at their historical exchange rates. Translation adjustments are presented as a component of valuation and translation adjustments and minority interests.

(e) Cash equivalents

For the purpose of the consolidated statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(f) Securities

Securities are generally classified into three categories: trading, held-to-maturity or other securities. Securities held by the Company and its consolidated subsidiaries are all classified as other securities. Marketable securities classified as other securities are carried at fair value with any changes in unrealized gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(g) Inventories

Inventories are stated principally at the lower of cost, cost being determined by the moving average method, or net selling value.

(h) Property, plant and equipment

Depreciation of property, plant and equipment is computed by the declining-balance method, except that certain foreign subsidiaries apply the straight-line method. The Company and its principal domestic consolidated subsidiaries apply useful lives and residual value of the respective assets as prescribed by the Corporation Tax Law for accounting purposes.

Leased assets under lease transactions that do not transfer ownership of the leased assets to the lessee are depreciated over the respective lease periods by the straight-line method to a nil residual value. Finance leases commencing prior to April 1, 2008 that do not transfer ownership of the leased assets to the lessee are accounted for as operating lease transactions as permitted by the revised accounting standard.

Property, plant and equipment and intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset and is measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs, and (2) the present value of future cash flows arising from ongoing utilization of the asset and from disposal of the asset after use.

Business assets of the Company and its consolidated subsidiaries are grouped at its management accounting units for impairment testing. However, the Company and its consolidated subsidiaries determine whether an asset is impaired on an individual asset basis for leased assets and when a business asset is deemed to be idle or it is scheduled to be disposed of.

(i) Allowance for doubtful receivables

An allowance for doubtful receivables is provided at an amount calculated based on historical experience, while specific allowances for doubtful receivables are provided for the estimated amounts considered to be uncollectible after reviewing individual collectibility.

(j) Accrued bonuses for directors

Accrued bonuses for directors are provided for payments of bonuses to directors based on estimated amounts.

(k) Provision for product warranty

For payments of the after-sales service expense of the product and the repair cost of the completed work, provision for product warranty is provided based on past experience.

(l) Provision for losses on construction contracts

With regard to construction contracts that have not yet been delivered and are with high probability of generating losses at the end of the fiscal year, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred is provided as provision for losses on construction contracts.

(m) Retirement benefits

Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 13 years which falls within the average remaining years of service of the eligible employees.

Prior service cost is amortized as incurred by the straight-line method over a period of 13 years which falls within the average remaining years of service of the eligible employees.

Certain domestic consolidated subsidiaries have adopted a simplified method for calculating their retirement benefit obligation which is permitted under the accounting standard for retirement benefits.

In addition, subject to the shareholders' approval, directors and corporate auditors of the Company and its consolidated subsidiaries are customarily entitled to lump-sum payments of retirement benefits. Provision for retirement benefits for those officers has been made at estimated amounts under the internal rules of the Company and its consolidated subsidiaries.

(n) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(o) Significant revenue recognition

The Company applies the percentage-of-completion method to the construction contracts (estimated percentage of completion is calculated using the cost-to-cost method) for which the outcome of their activities at the end of the fiscal year is deemed certain, and the completed contract method to other construction contracts.

(p) Research and development costs

Research and development costs are charged to income as incurred and are included in cost of sales and selling, general and administrative expenses.

(q) Amounts per share

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

(r) Derivative financial instruments

Derivatives are stated at fair value.

(s) Goodwill and negative goodwill

Goodwill or negative goodwill, the differences between the cost and the underlying equity in net assets at the respective dates of acquisition of the consolidated subsidiaries, is amortized on a straight-line method over the period of 5 years.

(t) Consumption taxes

All amounts in the accompanying financial statements are stated exclusive of consumption tax. Non-deductible consumption taxes paid by a domestic consolidated subsidiary which can not be reduced from consumption taxes received in accordance with the Consumption Tax Law of Japan are charged to income as incurred.

(Additional Information)
Effective from the year ended March 31, 2012, the Company and its domestic consolidated subsidiaries has applied “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24 issued on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24 issued on December 4, 2009) with reference to accounting changes and corrections of prior period errors made on or after April 1, 2011.

2. U.S. Dollar Amounts

The translations of yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made for both 2012 and 2011, as a matter of arithmetic computation only, at the rate of ¥82 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2012. The translations should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Supplementary Cash Flow Information

Information related to cash and cash equivalents as of March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	**2012**	2011
Cash and deposits	**¥19,855**	¥17,150	**$242,134**	$209,146
Time deposits with deposit terms of more than three months	**–**	–	**–**	–
Cash and cash equivalents at end of the year	**¥19,855**	¥17,150	**$242,134**	$209,146

4. Trade Notes

Notes with maturity dates as of the fiscal year end date are accounted for as being settled on the maturity date. As the current fiscal year end date was a holiday for financial institutions, the following notes with maturity dates as of the fiscal year end date are accounted for as being settled on the maturity date.

	Millions of yen	Thousands of U.S. dollars
	2012	
Trade notes	**¥1,013**	**$12,354**

5. Inventories

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	**2012**	2011
Finished goods	**¥ 2,067**	¥ 1,884	**$ 25,207**	$ 22,976
Work in process	**19,025**	19,960	**232,012**	243,415
Raw materials and supplies	**9,102**	9,298	**111,000**	113,390
Real estate for sale	**–**	93	**–**	1,134
	¥30,195	¥31,237	**$368,232**	$380,939

A loss on devaluation of inventories in the amount of ¥548 million ($6,683 thousand) and ¥33 million ($402 thousand) is recorded under cost of sales for the year ended March 31, 2012 and 2011, respectively.

Inventories and provision for contract losses are not offset. The amount of provision for contract losses against the inventories (work in process) is ¥570 million ($6,951 thousand) and ¥132 million ($1,610 thousand) for the years ended March 31, 2012 and 2011, respectively.

6. Fair Value of Investment and Rental Properties

The Company and part of its consolidated subsidiaries own rental apartments in Hyogo and other areas. Rent income from such real estate was ¥154 million ($1,878 thousand) and ¥137 million ($1,671 thousand) for the years ended March 31, 2012 and 2011, respectively. Impairment loss was ¥29 million ($354 thousand) for the years ended March 31, 2011. Gain on sales was ¥64 million ($780 thousand) for the year ended March 31, 2012. Loss on sales was ¥1 million ($12 thousand) and ¥214 million ($2,610 thousand) for the year ended March 31, 2012 and 2011, respectively.

The carrying amount and fair value of investment and rental properties at the end of the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Carrying amount	¥1,694	¥1,797	$20,659	$21,915
Fair Value	3,458	3,780	42,171	46,098

Among the increases and decreases during the year ended March 31, 2011, the major decrease comprised the disposal of idle properties of ¥735 million ($8,963 thousand).

7. Securities

a) Information with respect to marketable securities classified as other securities as of March 31, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2012					
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 650	¥1,689	¥1,038	$ 7,927	$20,598	$12,659
Bonds and debentures	–	–	–	–	–	–
Other securities	–	–	–	–	–	–
	¥ 650	¥1,689	¥1,038	$ 7,927	$20,598	$12,659
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 754	¥ 637	¥ (116)	$ 9,195	$ 7,768	$(1,415)
Bonds and debentures	–	–	–	–	–	–
Other securities	–	–	–	–	–	–
	¥ 754	¥ 637	¥ (116)	$ 9,195	$ 7,768	$(1,415)
	¥1,405	¥2,326	¥ 921	$17,134	$28,366	$11,232

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2011					
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Securities whose fair value exceeds their acquisition cost:						
Equity securities	¥ 642	¥1,532	¥ 890	$ 7,829	$18,683	$10,854
Bonds and debentures	–	–	–	–	–	–
Other securities	–	–	–	–	–	–
	¥ 642	¥1,532	¥ 890	$ 7,829	$18,683	$10,854
Securities whose acquisition cost exceeds their fair value:						
Equity securities	¥ 761	¥ 569	¥(192)	$ 9,280	$ 6,939	$(2,341)
Bonds and debentures	–	–	–	–	–	–
Other securities	–	–	–	–	–	–
	¥ 761	¥ 569	¥(192)	$ 9,280	$ 6,939	$(2,341)
	¥1,403	¥2,101	¥ 697	$17,110	$25,622	$ 8,500

b) The aggregate book value of securities with no available fair value as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Unlisted stocks	¥620	¥620	$7,561	$7,561

8. Short-Term Bank Loans and Long-Term Debt

The weighted average interest rate on short-term bank loan as of March 31, 2011 was 0.73%.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Unsecured loans due through 2017 with weighted-average interest rates of 0.54% at March 31, 2012 and 0.83% at March 31, 2011	¥10,012	¥ 2,012	$122,098	$ 24,537
Lease obligations due through 2017	678	512	8,268	6,244
	10,690	2,524	130,366	30,780
Less current portion	(2,000)	(2,000)	(24,390)	(24,390)
	¥ 8,690	¥ 524	$105,976	$ 6,390

The aggregate annual maturities of long-term debt subsequent to March 31, 2012 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥ 2,234	$ 27,244
2014	2,185	26,646
2015	2,127	25,939
2016	2,097	25,573
2017	2,045	24,939
Total	¥10,690	$130,366

Lease obligations of ¥234 million ($2,854 thousand) as of March 31, 2012 whose maturity dates are in the year ending March 31, 2013 are included in the long-term debt of ¥8,690 million ($105,976 thousand) presented in the consolidated balance sheet as of March 31, 2012.

9. Retirement Benefit Plans for Employees

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., corporate pension plans and lump-sum payment plans, covering substantially all their employees. Eligible employees, upon termination of employment, are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. The certain consolidated subsidiaries participate in the multi-employer welfare pension fund plan.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2012 and 2011 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Retirement benefit obligation	¥(23,792)	¥(24,146)	$(290,146)	$(294,463)
Plan assets at fair value	15,115	14,256	184,329	173,854
Unfunded retirement benefit obligation	(8,676)	(9,889)	(105,805)	(120,598)
Unrecognized actuarial loss	2,736	3,390	33,366	41,341
Unrecognized prior service cost	(203)	(105)	(2,476)	(1,280)
Net retirement benefit obligation	(6,143)	(6,605)	(74,915)	(80,549)
Prepaid pension cost	1,928	1,365	23,512	16,646
Accrued retirement benefits	¥ (8,072)	¥ (7,970)	$ (98,439)	$ (97,195)

Certain domestic consolidated subsidiaries have adopted a simplified method for calculating their retirement benefit obligation which is permitted under the accounting standard for retirement benefits.

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Service cost	¥1,099	¥1,077	$13,402	$13,134
Interest cost	456	456	5,561	5,561
Expected return on plan assets	(82)	(104)	(1,000)	(1,268)
Amortization of actuarial loss	556	503	6,780	6,134
Amortization of prior service cost	(0)	6	(0)	73
Total	¥2,028	¥1,940	$24,732	$23,659

Retirement benefit expenses of certain domestic consolidated subsidiaries, which have been calculated by a simplified method, are included in service cost in the above table.

The assumptions used in the accounting for the above plans were as follows:

	2012	2011
Discount rate	2.0%	2.0%
Expected rates of return on plan assets	0.6%	0.8%

Certain subsidiaries contributed ¥41 million ($500 thousand) and ¥40 million ($488 thousand) to the multi-employer welfare pension fund plan for the years ended March 31, 2012 and 2011, which was not included in the table of retirement benefit expenses above. The funded status of the multi-employer welfare pension fund plan as of March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Plan assets	¥ 67,497	¥ 71,359	$ 823,134	$ 870,232
Projected benefit obligation recorded by pension fund	(94,726)	(95,550)	(1,155,195)	(1,165,244)
Unfunded status	¥(27,229)	¥(24,191)	$ (332,061)	$ (295,012)

The Company's contribution percentage for the multi-employer welfare pension fund plan was 1.0% and 0.9% for the years March 31, 2012 and 2011, respectively. This percentage does not agree with the actual share percentage of the consolidated subsidiaries to the pension plan.

The unfunded status of the multi-employer welfare plan mainly represented past service liabilities of ¥15,339 million ($187,061 thousand), added amount of asset valuation adjustments of ¥4,759 million ($58,037 thousand) and unfunded amounts of ¥7,131 million ($86,963 thousand) as of March 31, 2012. The unfunded status of the multi-employer welfare plan mainly represented past service liabilities of ¥14,242 million ($173,683 thousand), added amount of asset valuation adjustments of ¥10,900 million ($132,927 thousand) and surplus funds of ¥951 million ($11,598 thousand) as of March 31, 2011. Past service liabilities are amortized with interest by the straight-line method over a period of 20 years. Special retirement benefit expenses of ¥13 million ($159 thousand) were charged to consolidated income for the years ended March 31, 2012 and 2011.

10. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for both 2012 and 2011. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Deferred tax assets:				
Net operating loss carryforwards	¥1,322	¥2,029	$ 16,122	$ 24,744
Accrued retirement benefits for employees	2,145	2,611	26,159	31,841
Accrued bonuses	823	832	10,037	10,146
Accrued retirement benefits for directors and corporate auditors	174	197	2,122	2,402
Depreciation and amortization	252	274	3,073	3,341
Provision for losses on construction contracts	718	551	8,756	6,720
Other	2,825	2,577	34,451	31,427
	8,261	9,073	100,744	110,646
Valuation allowance	(2,372)	(2,426)	(28,927)	(29,585)
	5,889	6,647	71,817	81,061
Deferred tax liabilities:				
Deferred gain on sales of property, plant and equipment	–	182	–	2,220
Unrealized gain on securities	295	245	3,598	2,988
Negative goodwill	41	121	500	1,476
Other	4	9	49	110
	342	558	4,171	6,805
Net deferred tax assets	¥5,546	¥6,088	$ 67,634	$ 74,244

The effective tax rate reflected in the consolidated statements of operations for the years ended March 31, 2012 and 2011 differs from the statutory tax rate for the following reasons:

	2012	2011
Statutory tax rate	40.6 %	40.6 %
Expenses not deductible for tax purposes	14.5	68.4
Revenues not taxable for tax purposes	(0.8)	(6.7)
Per capital portion of inhabitants' taxes	11.2	107.0
Changes in valuation allowance	28.0	1,549.4
Amortization of negative goodwill	(5.0)	(46.2)
Tax credit	(2.0)	(19.0)
Deferred income taxes on unrealized intercompany profits	3.3	(72.5)
Decrease in deferred tax assets at fiscal year end due to changes in the statutory tax rate	58.3	–
Other	10.0	(9.3)
Effective tax rate	158.1 %	1,611.7 %

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from 40.6% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015 and to 35.6% afterwards.

As a result, deferred tax assets (amount after deduction of deferred tax liabilities) decreased by ¥578 million ($7,049 thousand), while income taxes-deferred and unrealized gain on securities increased by ¥621 million ($7,573 thousand) and ¥42 million ($512 thousand), respectively. Deferred income taxes on land revaluation reserve decreased by ¥7 million ($85 thousand) while land revaluation reserve increased by the same amount.

11. Contingent Liabilities

At March 31, 2012, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantors of indebtedness, principally of customers	¥217	$2,646

12. Land Revaluation

Pursuant to the "Law Concerning the Revaluation of Land," land used for a consolidated subsidiary's business operations was revalued on March 31, 2000. The income tax effect of the difference between the book value and the revalued amounts have been presented under liabilities as "Deferred income taxes on land revaluation reserve" and the remaining balances have been presented under valuation and translation adjustments as "Land revaluation reserve" in the accompanying consolidated balance sheets.

Revaluation of the land was determined based on the property tax assessment values in accordance with Paragraph 3, Article 2 of the "Enforcement Ordinance Concerning Land Revaluation."

The carrying value of the land after revaluation exceeded its fair value by ¥202 million ($2,463 thousand) and ¥196 million ($2,390 thousand) at March 31, 2012 and 2011, respectively.

13. Shareholders' Equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

Movements in treasury stock during the years ended March 31, 2012 and 2011 are summarized as follows:

	Number of shares			
	2012			
	March 31, 2011	Increase	Decrease	March 31, 2012
Treasury stock	19,958,438	5,812	–	19,964,250

	2011			
	March 31, 2010	Increase	Decrease	March 31, 2011
Treasury stock	19,943,009	15,429	–	19,958,438

Dividends paid in the years ended March 31, 2012 and 2011 are as follows:

	Resolution			
	2012		2011	
	Annual general meeting of shareholders held on June 28, 2011	Board of directors meeting held on October 27, 2011	Annual general meeting of shareholders held on June 28, 2010	Board of directors meeting held on October 28, 2010
Class of shares	Common stock	Common stock	Common stock	Common stock
Total cash dividends				
(Millions of yen)	¥ 498	¥ 498	¥ 498	¥ 498
(Thousands of U.S. dollars)	$6,073	$6,073	$6,073	$6,073
Cash dividends per share				
(Yen)	¥ 5	¥ 5	¥ 5	¥ 5
(U.S. dollars)	$ 0.06	$ 0.06	$ 0.06	$ 0.06
Record date	March 31, 2011	September 30, 2011	March 31, 2010	September 30, 2010
Effective date	June 29, 2011	December 1, 2011	June 29, 2010	December 1, 2010

Dividends whose record date falls in the years ended March 31, 2012 or 2011, but whose effective date falls in the following year are as follows:

	Resolution	
	2012	2011
	Annual general meeting of shareholders to be held on June 26, 2012	Annual general meeting of shareholders to be held on June 28, 2011
Class of shares	Common stock	Common stock
Total cash dividends		
(Millions of yen)	¥ 498	¥ 498
(Thousands of U.S. dollars)	$6,073	$6,073
Cash dividends per share		
(Yen)	¥ 5	¥ 5
(U.S. dollars)	$ 0.06	$ 0.06
Record date	March 31, 2012	March 31, 2011
Effective date	June 27, 2012	June 29, 2011

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of the following for the years ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars	
	2012	2011	2012	2011
Employees salaries and allowances	¥5,651	¥5,406	$68,915	$65,927
Provision of allowance for doubtful receivable	35	1	427	12
Accrued bonuses for directors	27	23	329	280
Retirement benefit expenses	556	532	6,780	6,488
Provision for directors' and corporate auditors' retirement benefits	114	107	1,390	1,305

15. Provision for Losses on Construction Contracts

Provision for losses on construction contracts included in cost of sales for the years ended March 31, 2012 and 2011 amounted to ¥1,910 million ($23,293 thousand) and ¥1,362 million ($16,610 thousand), respectively.

16. Research and Development Expenses

Research and development expenses included in manufacturing cost and selling, general and administrative expenses for the years ended March 31, 2012 and 2011 amounted to ¥2,019 million ($24,622 thousand) and ¥1,678 million ($20,463 thousand), respectively.

17. Loss on Disaster

Loss on disaster reported for the year ended March 31, 2011 consists of ¥326 million ($3,976 thousand) for loss associated with the Great East Japan Earthquake. The major components were inspection costs for parking facilities that had already been delivered and expenses associated with the dismantlement and repair of property, plant and equipment that had been damaged by the earthquake.

Loss on disaster reported for the year ended March 31, 2012 consists of ¥62 million ($756 thousand) for loss associated with the Great East Japan Earthquake and ¥89 million ($1,085 thousand) for loss associated with the flooding in Thailand. The major components of loss from the Great East Japan Earthquake are inspection costs for parking facilities that had already been delivered and expenses associated with the dismantlement and repair of property, plant and equipment that had been damaged by the earthquake. The major component of loss from the flooding in Thailand is the expenses associated with restoring the plants damaged by the flooding.

18. Loss on Litigation

Nagashima Resort Co., Ltd. in May 2007 filed a lawsuit against JFE SHOJI TRADE CORPORATION seeking compensation for damages of over ¥5.1 billion resulting from shutdown of an attraction facility, etc., which it claims that it had incurred on account of an accident (a roller coaster car derailed and its wheels detached) that had occurred in August 2003 at the attraction facility in an amusement park which it operated. JFE SHOJI TRADE CORPORATION had received the order to oversee the entire process from determination of roller coaster type, selection of roller coaster manufacturer, to import and installation of the roller coaster. (Lawsuit 1)

In response to the Lawsuit 1, JFE SHOJI TRADE CORPORATION in October 2007 filed a lawsuit against Maywa Komuten, Ltd., the Company's consolidated subsidiary, which had been contracted to conduct annual overhauls of the roller coaster cars, charging Maywa Komuten, Ltd. with responsibility for defaults and/or responsibility for torts on account of alleged flaws in the subcontract concerning the overhaul of the cars and nonperformance of a special contract. (Lawsuit 2)

As the rights to be tried and the related laws of the two lawsuits mutually overlapped in many aspects, they had been tried as a consolidated trial at the Yokkaichi branch of the Tsu District Court. However, on March 21, 2012, a settlement was reached in which Maywa Komuten, Ltd. and JFE SHOJI TRADE CORPORATION would pay Nagashima Resort Co., Ltd. for damages.

In terms of this litigation, ¥794 million ($9,683 thousand) in settlements of damages and expenses associated with litigation has been reported under loss on litigation for the year ended March 31, 2012.

19. Amounts per Share

Amounts per share are summarized as follows:

	Yen		U.S. dollars	
Years ended March 31,	2012	2011	2012	2011
Net loss	¥ (2.68)	¥(17.54)	$(0.03)	$(0.21)
Net assets:				
Basic	782.09	793.36	9.54	9.68
Diluted	–	–	–	–

Diluted net income per share has not been presented because there were no potentially dilutive shares and the Company recorded net loss for the year ended March 31, 2012 and 2011.

20. Other Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Years ended March 31,	2012	
Unrealized gain on securities:		
Amount arising during the year	¥223	$2,720
Before tax effect	223	2,720
Tax effect	(50)	(610)
Total unrealized gain on securities	173	2,110
Land revaluation reserve:		
Tax effect	7	85
Total land revaluation reserve	7	85
Translation adjustments:		
Amount arising during the year	(48)	(585)
Share of other comprehensive loss of associates accounted for using equity method:		
Amount arising during the year	(0)	(0)
Total other comprehensive income	¥131	$1,598

The above information for the year ended March 31, 2011 is not required to be presented under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting the standard.

21. Leases

a) Finance leases which commencing on or before March 31, 2008 that do not transfer ownership of the leased assets to lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2012 and 2011, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2012					
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥618	¥583	¥35	$7,537	$7,110	$427
Other assets	2	2	0	24	24	0
Total	¥621	¥585	¥35	$7,573	$7,134	$427

	Millions of yen			Thousands of U.S. dollars		
	March 31, 2011					
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥1,243	¥1,036	¥207	$15,159	$12,634	$2,524
Other assets	23	21	1	280	256	12
Total	¥1,266	¥1,058	¥208	$15,439	$12,902	$2,537

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥198 million ($2,415 thousand) and ¥310 million ($3,780 thousand) for the years ended March 31, 2012 and 2011, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms and the interest portion included in the lease payments amounted to ¥170 million ($2,073 thousand) and ¥3 million ($37 thousand), respectively, for the year ended March 31, 2012, and ¥264 million ($3,220 thousand) and ¥7 million ($85 thousand), respectively, for the year ended March 31, 2011.

Future minimum lease payments subsequent to March 31, 2012 for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
2013	¥35	$427
2014 and thereafter	6	73
Total	¥41	$500

Future minimum lease payments subsequent to March 31, 2012 for operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,		
2013	¥5	$61
2014 and thereafter	3	37
Total	¥8	$98

b) Finance leases that do not transfer ownership of the leased assets to the lessee

With respect to the contents of the leased assets, these are mainly production facilities for aircraft business and vehicles for operational use as tangible fixed assets.

Depreciation method of the leased assets are described in Note 1 (h).

22. Financial Instruments

a) Policy for financial instruments

The Group raises its necessary funds mainly through bank loans, according to its capital expenditure plan especially for the manufacture and sales of special purpose trucks and aircraft. Temporary idle funds are invested in low risk financial assets and the Group finances its short-term operating funds through bank loans. Derivatives contracts are used for the purpose of avoiding risks as described later, not for speculative purposes, limited to transactions associated with commercial needs.

b) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and accounts receivable are exposed to customer credit risk. Trade receivables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risk.

Investment securities are shares in the companies with which the Group has business relationships. These shares are exposed to the risk associated with fluctuation in market prices.

The payment terms of trade notes and accounts payable, which are trade liabilities, are mostly within one year. Also, part of these liabilities are related to imported raw materials, denominated in foreign currencies; therefore they are exposed to foreign currency exchange fluctuation risk but their amounts are constantly less than those of accounts receivable balances quoted in the same currencies.

Of the Group's debts, short-term bank loans provide the funds to finance its operating activities, while long-term debt is used primarily for capital investment. All the debts carry floating interest rates, thus they are exposed to the risk of interest rate fluctuations.

Derivative transactions mainly include forward foreign currency contracts, for the purpose of hedging the foreign currency exchange fluctuation risk to the Company's operating receivables denominated in foreign currencies. Forward foreign currency transactions are exposed to market price risk associated with the future fluctuation in exchange rates. They also pose risk arising from the possibility of counterparty financial institutions' default on their contracts.

c) Risk management for financial instruments

1. Credit risk management (customers' default risk)

With regard to trade notes and accounts receivable, which are operating receivables, the sales and accounting departments of the Company aim to identify and mitigate the default risk of customers due to deterioration of their financial conditions or other factors in the early stage, by regularly monitoring customers' financial conditions and managing the payment dates and outstanding balances of each customer's liabilities in accordance with internally defined procedures. The Company's consolidated subsidiaries conduct the same procedures according the Company's rules.

The Group enters into derivative contracts only with high credit rated financial institutions, in order to reduce the risk of counterparty default on these contracts.

2. Market risk management (foreign currency exchange and interest rate fluctuation risks)

In principle, the Company uses forward foreign exchange contracts to hedge against the monthly recognized foreign currency exchange fluctuation risk of each currency, associated with operating receivables denominated in foreign currencies. In addition, the amount of operating receivables denominated in foreign currencies that is certainly expected to be generated from projected export transactions, after deduction of the amount of foreign currency denominated payments which regularly occur monthly, is hedged by forward foreign exchange contracts under the limited maximum contract term of one year.

With respect to investment securities, the Company periodically monitors the movement of their fair values and financial condition of related issuers (trading counterparties), continuously reviewing its holdings.

Each derivative transaction needs to be approved by authorized persons and conducted by the finance department, in accordance with accounting regulations. The department books transactions and checks balances with counterparties. Monthly transaction results are reported to the director of the finance department. Meanwhile, the Company's consolidated subsidiaries do not conduct derivative transactions.

3. Liquidity risk management on fund raising (risk for delinquency)

The Company manages its liquidity risk through its finance department's compilation and upgrading of cash flow projections, based on the reports submitted by each business unit.

4. Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in Note 22 do not indicate the amounts of market risk exposed to derivative transactions.

The carrying amount on the consolidated balance sheets and fair value of financial instruments as of March 31, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012					
	Carrying amount	Fair value	Unrealized loss	Carrying amount	Fair value	Unrealized loss
Cash and deposits	¥19,855	¥19,855	¥ –	$242,134	$242,134	$ –
Trade notes and accounts receivable	50,325			613,720		
Allowance for doubtful receivables	(47)			(573)		
Subtotal	50,278	50,274	(3)	613,146	613,098	(37)
Investment securities:						
Available-for-sale securities	2,326	2,326	–	28,366	28,366	–
Total	¥72,460	¥72,457	¥(3)	$883,659	$883,622	$(37)
Trade notes and accounts payable	19,824	19,824	–	241,756	241,756	–
Long-term debt	10,012	10,012	–	122,098	122,098	–
Total	¥29,836	¥29,836	¥ –	$363,854	$363,854	$ –
Derivative transactions	(450)	(450)	–	(5,488)	(5,488)	–

	Millions of yen			Thousands of U.S. dollars		
	2011					
	Carrying amount	Fair value	Unrealized loss	Carrying amount	Fair value	Unrealized loss
Cash and deposits	¥17,150	¥17,150	¥ –	$209,146	$209,146	$ –
Trade notes and accounts receivable	46,370			565,488		
Allowance for doubtful receivables	(10)			(122)		
Subtotal	46,359	46,336	(22)	565,354	565,073	(268)
Investment securities:						
Available-for-sale securities	2,101	2,101	–	25,622	25,622	–
Total	¥65,612	¥65,589	¥(22)	$800,146	$799,866	$(268)
Trade notes and accounts payable	16,795	16,795	–	204,817	204,817	–
Short-term bank loans	6,000	6,000	–	73,171	73,171	–
Long-term debt	2,012	2,012	–	24,537	24,537	–
Total	¥24,807	¥24,807	¥ –	$302,524	$302,524	$ –
Derivative transactions	(23)	(23)	–	(280)	(280)	–

Receivables and payables incurred by derivative transactions are presented in net. Net payables are presented in parenthesis.

Cash and deposits

Deposits are stated at book value, because their fair values approximate their book values due to the short maturity of these instruments.

Trade notes and accounts receivable

The fair value of these installments is stated at present value. Present value is computed by discounting periodically sectioned receivables, using a rate applied to the period to maturity adjusted by the claim's credit risk.

Investment securities

The fair value of investment securities is determined using the quoted price at the stock exchange. For the notes to each classified securities by holding purpose, see Note 7.

Trade notes and accounts payable and Short-term bank loans

These assets are recorded using book values because fair values approximate book values because of their short-term maturities.

Long-term debt

The fair value of long-term debt is stated at its book value. Its fair value approximates its book value because the debt carries variable interest rates that reflect the market rate of interest in the short term and the Company's credit standing has not changed significantly since it implemented the debt.

Derivatives

The information of the fair value for derivatives is described in Note 22.

The redemption schedule at March 31, 2012 for monetary assets after the balance sheet date is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2012			
	Due in one year or less	Due after one year	Due in one year or less	Due after one year
Cash and deposits	¥19,855	¥ –	$242,134	$ –
Trade notes and accounts receivable	48,661	1,663	593,427	20,280
Total	¥68,517	¥1,663	$835,573	$20,280

The redemption schedule at March 31, 2012 for short-term bank loans and long-term debt after the balance sheet date is described in Note 8.

23. Derivatives

The contract or notional amounts of the derivative financial instruments held at March 31, 2012 and 2011 are summarized as follows:

	March 31, 2012			
	Contracts due			
	Within one year	After one year	Fair value	(Loss)
	Millions of yen			
Forward foreign exchange contracts:				
To sell foreign currencies U.S. dollars	¥ 8,542	¥ –	¥ 8,993	¥ (450)
	Thousands of U.S. dollars			
Forward foreign exchange contracts:				
To sell foreign currencies U.S. dollars	$104,171	$ –	$109,671	$(5,488)

	March 31, 2011			
	Contracts due			
	Within one year	After one year	Fair value	(Loss)
	Millions of yen			
Forward foreign exchange contracts:				
To sell foreign currencies U.S. dollars	¥ 2,427	¥ –	¥ 2,451	¥ (23)
	Thousands of U.S. dollars			
Forward foreign exchange contracts:				
To sell foreign currencies U.S. dollars	$29,598	$ –	$29,890	$(280)

24. Segment Information

a) Outline of reportable segments

Reportable segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine distribution of management resources and evaluate their business results. The Company operates under the system whereby the organization that oversees the cross-sectional functions of the Company is defined as the headquarter structure, while the organizations responsible for production activities that are directly linked to the Company's businesses are controlled by being divided into business segments according to their product. Consequently, the Company is made up of segments based on products and services, which form the bases of its business divisions. The four reportable segments are "Aircraft Business," "Special Purpose Truck Business," "Industrial Machinery and Environmental Systems Business" and "Parking Systems Business."

The "Aircraft Business" manufactures and sells amphibian aircraft and aircraft parts to overseas aircraft manufacturers. The "Special Purpose Truck Business" manufactures and sells special purpose trucks including dump trucks, tail gate lifters and refuse collectors, as well as forestry machinery. The "Industrial Machinery and Environmental Systems Business" manufactures and sells pumps and water treatment equipment, automatic wire processors and refuse processing facilities and equipment. The "Parking Systems Business" manufactures, sells, maintains, and restores mechanical parking facilities and aircraft passenger boarding bridges.

In conjunction with the organizational changes effective April 1, 2011, manufacture and sales of aircraft passenger boarding bridges, which had previously been included in the "Industrial Machinery and Environmental Systems Business," has been included in the "Parking Systems Business" starting from the year ended March 31, 2012. Segment information for the year ended March 31, 2011 was prepared on the basis of product and service categories used in the year ended March 31, 2012.

b) Calculation method of the amount of net sales, income (loss), assets and other items by reportable segments

The accounting method applied to reportable business segments is the same as that stated in "Summary of Significant Accounting Policies." The segment profit (loss) is based on operating income. Intersegment sales or transfers are determined based on current market prices.

Information about net sales, profit (loss), assets and other items by reportable segments for the years ended March 31, 2012 and 2011 are as follows:

	Year ended March 31, 2012							
	Reportable segments							
	Aircraft	Special Purpose Trucks	Industrial Machinery and Environmental Systems	Parking Systems	Other	Total	Adjustments	Consolidated statements
	Millions of yen							
Net Sales:								
Customers	¥23,640	¥40,605	¥22,285	¥16,281	¥ 6,160	¥108,974	¥ –	¥108,974
Inter-segment	4	20	5	19	3,197	3,248	(3,248)	–
Total	23,645	40,626	22,291	16,301	9,358	112,222	(3,248)	108,974
Segment profit (loss)	78	2,285	1,504	1,555	(68)	5,355	(3,085)	2,269
Segment assets	41,724	31,935	18,713	8,733	10,914	112,022	24,116	136,138
Other:								
Depreciation	¥ 1,068	¥ 854	¥ 627	¥ 203	¥ 173	¥ 2,926	¥ 208	¥ 3,135
Increase in property, plant and equipment and intangible assets	628	837	675	150	248	2,540	(20)	2,520
	Thousands of U.S. dollars							
Net Sales:								
Customers	$288,293	$495,183	$271,768	$198,549	$ 75,122	$1,328,951	$ –	$1,328,951
Inter-segment	49	244	61	232	38,988	39,610	(39,610)	–
Total	288,354	495,439	271,841	198,793	114,122	1,368,561	(39,610)	1,328,951
Segment profit (loss)	951	27,866	18,341	18,963	(829)	65,305	(37,622)	27,671
Segment assets	508,829	389,451	228,207	106,500	133,098	1,366,122	294,098	1,660,220
Other:								
Depreciation	$ 13,024	$ 10,415	$ 7,646	$ 2,476	$ 2,110	$ 35,683	$ 2,537	$ 38,232
Increase in property, plant and equipment and intangible assets	7,659	10,207	8,232	1,829	3,024	30,976	(244)	30,732

	Year ended March 31, 2011							
	Reportable segments							
	Aircraft	Special Purpose Trucks	Industrial Machinery and Environmental Systems	Parking Systems	Other	Total	Adjustments	Consolidated statements
	Millions of yen							
Net Sales:								
Customers	¥22,513	¥35,427	¥21,746	¥17,950	¥ 9,591	¥107,229	¥ –	¥107,229
Inter-segment	2	246	4	37	1,669	1,961	(1,961)	–
Total	22,516	35,674	21,751	17,988	11,261	109,191	(1,961)	107,229
Segment profit	663	706	1,295	1,656	180	4,501	(2,854)	1,647
Segment assets	44,948	26,808	17,749	8,525	11,263	109,295	20,978	130,273
Other:								
Depreciation	¥ 1,038	¥ 939	¥ 672	¥ 175	¥ 166	¥ 2,992	¥ 244	¥ 3,236
Increase in property, plant and equipment and intangible assets	1,015	588	559	222	65	2,451	61	2,513
	Thousands of U.S. dollars							
Net Sales:								
Customers	$274,549	$432,037	$265,195	$218,902	$116,963	$1,307,671	$ –	$1,307,671
Inter-segment	24	3,000	49	451	20,354	23,915	(23,915)	–
Total	274,585	435,049	265,256	219,366	137,329	1,331,598	(23,915)	1,307,671
Segment profit	8,085	8,610	15,793	20,195	2,195	54,890	(34,805)	20,085
Segment assets	548,146	326,927	216,451	103,963	137,354	1,332,866	255,829	1,588,695
Other:								
Depreciation	$ 12,659	$ 11,451	$ 8,195	$ 2,134	$ 2,024	$ 36,488	$ 2,976	$ 39,463
Increase in property, plant and equipment and intangible assets	12,378	7,171	6,817	2,707	793	29,890	744	30,646

The "Other" consists of business not included in the reportable segments, such as construction, real estate and software development.

Information about geographic areas for the year ended March 31, 2012 and 2011 are as follows:

	Year ended March 31, 2012				
	Japan	Asia	North America	Other areas	Total
	Millions of yen				
Net Sales to Customers	¥ 88,030	¥ 3,899	¥ 13,773	¥ 3,271	¥ 108,974
	Thousands of U.S. dollars				
Net Sales to Customers	$1,073,537	$47,549	$167,963	$39,890	$1,328,951

	Year ended March 31, 2011				
	Japan	Asia	North America	Other areas	Total
	Millions of yen				
Net Sales to Customers	¥ 87,139	¥ 5,014	¥ 11,917	¥ 3,158	¥ 107,229
	Thousands of U.S. dollars				
Net Sales to Customers	$1,062,671	$61,146	$145,329	$38,512	$1,307,671

Information about impairment loss of fixed assets in reportable segments for the year ended March 31, 2011 are as follows:

	Year ended March 31, 2011						
	Aircraft	Special purpose trucks	Industrial machinery and environmental systems	Parking systems	Other	Adjustment	Total
	Millions of yen						
Impairment Loss	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 29	¥ 29
	Thousands of U.S. dollars						
Impairment Loss	$ –	$ –	$ –	$ –	$ –	$354	$354

Information about goodwill in reportable segments for the year ended March 31, 2012 and 2011 are as follows:

	Year ended March 31, 2012						
	Aircraft	Special purpose trucks	Industrial machinery and environmental systems	Parking systems	Other	Adjustment	Total
	Millions of yen						
(Negative goodwill) Amortization	¥ –	¥84	¥ –	¥14	¥47	¥ –	¥146
Unamortized balance	¥ –	¥49	¥ –	¥12	¥31	¥ –	¥93
	Thousands of U.S. dollars						
Amortization	$ –	$1,024	$ –	$171	$573	$ –	$1,780
Unamortized balance	$ –	$ 598	$ –	$146	$378	$ –	$1,134

	Year ended March 31, 2011						
	Aircraft	Special purpose trucks	Industrial machinery and environmental systems	Parking systems	Other	Adjustment	Total
	Millions of yen						
(Negative goodwill) Amortization	¥ –	¥ 84	¥ –	¥14	¥48	¥ –	¥146
Unamortized balance	¥ –	¥133	¥ –	¥27	¥79	¥ –	¥239
	Thousands of U.S. dollars						
Amortization	$ –	$1,024	$ –	$171	$585	$ –	$1,780
Unamortized balance	$ –	$1,622	$ –	$329	$963	$ –	$2,915

25. Subsequent Events

a) Appropriations of retained earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2012, was proposed upon resolution at the meeting of the Board of Directors held on May 22, 2012 and is subject to approval at a shareholders' meeting to be held on June 26, 2012:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 = U.S.$0.06 per share)	¥498	$6,073

b) Cancellation of treasury stock

The Company resolved at a meeting of the Board of Directors held on May 22, 2012, to cancel a portion of its treasury stock pursuant to Article 178 of the Companies Act as follows:

1. Reason for the cancellation

   A portion of the Company's treasury stock was cancelled as it was unlikely that the treasury stock would be utilized.

2. Class of stock cancelled — Common stock
3. Number of shares of treasury stock cancelled — 19,727,565 shares
4. Date of cancellation — May 31, 2012

Company Profile

Company Name	ShinMaywa Industries, Ltd.
Head Office	1-1 Shinmeiwa-cho, Takarazuka-shi, Hyogo 665-8550, Japan
Paid-in Capital	15,981,967,991 yen
Founded	November 5, 1949
President	Yoshihiro Onishi
Category of Business	Transportation Equipment
Number of Employees	Consolidated 3,727 / Non-consolidated 2,617
Number of Affiliated Companies	22

Directors, Officers and Auditors (As of June 26, 2012)

President and Chief Executive Officer	Yoshihiro Onishi
Director, Member of the Board Vice President and Executive Officer	Yoshifumi Fujiwara
Director, Member of the Board Senior Executive Officer	Mikiaki Kato
Director, Member of the Board Executive Officer	Keisuke Endo Masao Mizuta Hiroichi Sano Kanji Ishimaru
Director, Member of the Board	Nobutane Yamamoto *1 Kazuo Hiramatsu *1
Executive Officer	Takeshi Ho Taku Ikeda Jitsuo Nakane
Officer	Masaharu Ishii Tatsuyuki Isogawa Takashi Kunihara
Corporate Auditor	Isao Nishimura Tomoya Teramoto Yuka Shimokobe *2 Kaoru Kawano *2 Shunsaku Yagi *2

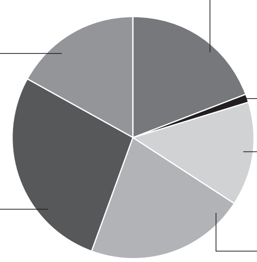
*1 Outside Director *2 Outside Auditor

Stock Information

Total Number of Shares Authorized	300,000,000 shares
Total Number of Shares Issued	119,727,565 shares
Number of Shares per Unit	1,000 shares
Number of Shareholders	10,677

Note: Figures in parentheses ( ) represent the number of respective shareholders.

Breakdown of Shareholders



* The Company retired 19,727,565 treasury stocks on May 31, 2012.

Major Shareholders

Order	Name of Shareholders	Number of Shares Held	Shareholding Ratio (%)
1	SANSHIN CO., LTD.	9,293,065	9.32
2	Japan Trustee Services Bank, Ltd. (Trust Account)	8,859,000	8.88
3	The Master Trust Bank of Japan, Ltd. (Trust Account)	4,984,000	5.00
4	Hitachi, Ltd.	4,000,337	4.01
5	ShinMaywa Employees' Stock Ownership	3,761,449	3.77
6	CBNY DFA INTL Small Cap Value Portfolio	2,777,000	2.78
7	Juniper	2,268,000	2.27
8	Credit Suisse Luxembourg SA On Behalf of Clients	1,950,000	1.95
9	Clearstream Banking SA	1,400,000	1.40
10	State Street Bank and Trust Company	1,000,000	1.00

Note: The Company holds 19,964,250 treasury stocks, but it has been excluded from the above list of major shareholders.

ShinMaywa

www.shinmaywa.co.jp

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