

**Consolidated Financial Statements**

**TSUBAKIMOTO CHAIN CO. and  
Consolidated Subsidiaries**

*Years ended March 31, 2010 and 2009  
with Report of Independent Auditors*

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Financial Statements

*Years ended March 31, 2010 and 2009*

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**Consolidated Financial Statements**

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## Report of Independent Auditors

The Board of Directors  
TSUBAKIMOTO CHAIN CO.

We have audited the accompanying consolidated balance sheets of TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, 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 TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries at 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.

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 1.

Osaka, Japan  
June 29, 2010

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2010 and 2009

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
<b>Assets</b>			
Current assets:			
Cash and deposits ( <i>Notes 4 and 16</i> )	¥ 11,431	¥ 10,083	\$ 122,856
Short-term investments ( <i>Notes 4, 5 and 16</i> )	9,179	1,430	98,656
Trade notes and accounts receivable ( <i>Note 4</i> )	34,262	30,604	368,220
Inventories ( <i>Note 6</i> )	23,803	28,023	255,814
Deferred tax assets ( <i>Note 8</i> )	2,451	2,582	26,350
Other current assets ( <i>Note 21</i> )	1,246	2,794	13,393
Allowance for doubtful accounts ( <i>Note 4</i> )	(355)	(480)	(3,822)
Total current assets	<u>82,020</u>	<u>75,037</u>	<u>881,469</u>
Property, plant and equipment, at cost ( <i>Note 7</i> ):			
Land ( <i>Notes 11 and 15</i> )	36,404	36,399	391,236
Buildings and structures	48,819	47,061	524,654
Machinery, equipment and vehicles	73,287	71,419	787,614
Tools, furniture and fixtures	17,035	16,388	183,082
Construction in progress	1,736	4,025	18,660
Subtotal	<u>177,283</u>	<u>175,294</u>	<u>1,905,247</u>
Less accumulated depreciation	(96,399)	(91,125)	(1,035,998)
Property, plant and equipment, net	<u>80,883</u>	<u>84,168</u>	<u>869,249</u>
Investments and other assets:			
Investments in securities ( <i>Notes 4 and 5</i> )	12,074	11,157	129,760
Investments in unconsolidated subsidiaries and affiliates	1,522	1,215	16,360
Long-term loans receivable	77	84	830
Deferred tax assets ( <i>Note 8</i> )	1,405	1,509	15,102
Other assets	4,795	5,476	51,533
Allowance for doubtful accounts	(137)	(195)	(1,472)
Total investments and other assets	<u>19,737</u>	<u>19,248</u>	<u>212,114</u>
Total assets	<u>¥ 182,641</u>	<u>¥ 178,455</u>	<u>\$ 1,962,833</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term loans ( <i>Note 4 and 7</i> )	¥ 8,265	¥ 8,877	\$ 88,825
Current portion of long-term debt and finance lease obligations ( <i>Notes 4 and 7</i> )	9,248	8,572	99,397
Trade notes and accounts payable ( <i>Note 4</i> )	18,805	17,703	202,097
Accrued income taxes ( <i>Note 8</i> )	719	695	7,736
Accrued bonuses to employees	1,947	2,371	20,926
Accrued expenses	1,807	1,534	19,426
Provision for loss on construction contracts	93	—	1,004
Other current liabilities ( <i>Note 7</i> )	7,663	7,457	82,361
Total current liabilities	48,551	47,213	521,775
Long-term liabilities:			
Long-term debt and finance lease obligations ( <i>Notes 4 and 7</i> )	21,566	20,290	231,774
Long-term accounts payable	1,297	2,358	13,941
Accrued retirement benefits to employees ( <i>Note 9</i> )	9,694	10,059	104,190
Accrued retirement benefits to directors and corporate auditors	253	263	2,729
Deferred tax liabilities ( <i>Note 8</i> )	7,025	6,373	75,498
Deferred tax liabilities on land revaluation ( <i>Note 11</i> )	6,748	6,748	72,523
Other long-term liabilities ( <i>Note 7</i> )	666	688	7,167
Total long-term liabilities	47,253	46,782	507,825
Contingent liabilities ( <i>Note 10</i> )			
Net assets:			
Shareholders' equity ( <i>Notes 12 and 13</i> ):			
Common stock:			
Authorized – 299,000,000 shares in 2010 and 2009			
Issued – 191,406,969 shares in 2010 and 2009	17,076	17,076	183,521
Capital surplus	12,653	12,654	135,989
Retained earnings ( <i>Notes 13 and 21</i> )	66,655	64,782	716,343
Treasury stock, at cost:			
5,374,353 shares in 2010 and 5,363,483 shares in 2009	(2,544)	(2,541)	(27,348)
Total shareholders' equity	93,841	91,972	1,008,505
Valuation and translation adjustments:			
Net unrealized holding gain on securities ( <i>Note 5</i> )	3,357	2,815	36,086
Net unrealized deferred loss on derivative instruments	(9)	(55)	(102)
Net unrealized loss on land revaluation ( <i>Note 11</i> )	(12,084)	(12,084)	(129,866)
Translation adjustments	(4,257)	(4,225)	(45,758)
Total valuation and translation adjustments	(12,993)	(13,550)	(139,641)
Minority interests	5,989	6,036	64,369
Total net assets	86,837	84,458	933,233
Total liabilities and net assets	¥ 182,641	¥ 178,455	\$ 1,962,833

*See accompanying notes to consolidated financial statements.*

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2010 and 2009

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Net sales (Note 20)	¥ 112,759	¥ 141,517	\$ 1,211,816
Cost of sales (Notes 13, 14 and 20)	84,796	104,184	911,298
Gross profit	27,963	37,332	300,518
Selling, general and administrative expenses (Notes 14 and 20)	23,225	28,237	249,600
Operating income (Note 20)	4,737	9,095	50,917
Other income (expenses):			
Interest and dividend income	279	557	3,002
Interest expense	(666)	(766)	(7,163)
Equity in earnings of affiliates	79	66	857
Foreign exchange (loss) gain, net	(97)	102	(1,048)
Dividends received on liquidation of a subsidiary (Note 21)	143	–	1,541
Gain on sale of investments in securities	4	–	47
Environmental cost	(138)	–	(1,483)
Loss on impairment of fixed assets (Note 15)	–	(52)	–
Loss on sales or disposal of property, plant and equipment, net	(57)	(191)	(616)
Loss on devaluation of investments in securities (Note 5)	(92)	(827)	(996)
Other, net	855	458	9,189
Income before income taxes and minority interests	5,047	8,442	54,247
Income taxes (Note 8):			
Current	1,274	2,473	13,696
Deferred	507	(930)	5,450
	1,781	1,542	19,146
Income before minority interests	3,266	6,899	35,100
Minority interests	(90)	(711)	(977)
Net income	¥ 3,175	¥ 6,188	\$ 34,122

See accompanying notes to consolidated financial statements.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2010 and 2009

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized deferred loss on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008	¥ 17,076	¥ 12,657	¥ 60,317	¥(2,528)	¥ 7,339	¥ 268	¥(12,047)	¥ (1,479)	¥ 5,897	¥ 87,502
Cash dividends paid	-	-	(1,674)	-	-	-	-	-	-	(1,674)
Net income	-	-	6,188	-	-	-	-	-	-	6,188
Purchases of treasury stock	-	-	-	(24)	-	-	-	-	-	(24)
Sales of treasury stock	-	(3)	-	11	-	-	-	-	-	8
Decrease in retained earnings resulting from changes in accounting policies applied to foreign subsidiaries	-	-	(84)	-	-	-	-	-	-	(84)
Reversal of net unrealized loss on land revaluation	-	-	36	-	-	-	-	-	-	36
Other net changes during the year	-	-	-	-	(4,524)	(324)	(36)	(2,746)	138	(7,493)
Balance at March 31, 2009	¥ 17,076	¥ 12,654	¥ 64,782	¥(2,541)	¥ 2,815	¥ (55)	¥(12,084)	¥ (4,225)	¥ 6,036	¥ 84,458
Cash dividends paid	-	-	(1,302)	-	-	-	-	-	-	(1,302)
Net income	-	-	3,175	-	-	-	-	-	-	3,175
Purchases of treasury stock	-	-	-	(5)	-	-	-	-	-	(5)
Sales of treasury stock	-	(0)	-	1	-	-	-	-	-	1
Other net changes during the year	-	-	-	-	542	46	-	(31)	(46)	510
Balance at March 31, 2010	¥ 17,076	¥ 12,653	¥ 66,655	¥(2,544)	¥ 3,357	¥ (9)	¥(12,084)	¥ (4,257)	¥ 5,989	¥ 86,837

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets (continued)

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized deferred loss on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2009	\$ 183,521	\$ 135,994	\$ 696,216	\$ (27,309)	\$ 30,253	\$ (600)	\$ (129,866)	\$ (45,415)	\$ 64,873	\$ 907,668
Cash dividends paid	–	–	(13,995)	–	–	–	–	–	–	(13,995)
Net income	–	–	34,122	–	–	–	–	–	–	34,122
Purchases of treasury stock	–	–	–	(57)	–	–	–	–	–	(57)
Sales of treasury stock	–	(5)	–	17	–	–	–	–	–	12
Other net changes during the year	–	–	–	–	5,833	497	–	(343)	(504)	5,482
Balance at March 31, 2010	<u>\$ 183,521</u>	<u>\$ 135,989</u>	<u>\$ 716,343</u>	<u>\$ (27,348)</u>	<u>\$ 36,086</u>	<u>\$ (102)</u>	<u>\$ (129,866)</u>	<u>\$ (45,758)</u>	<u>\$ 64,369</u>	<u>\$ 933,233</u>

See accompanying notes to consolidated financial statements.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2010 and 2009

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,047	¥ 8,442	\$ 54,247
Adjustments for:			
Depreciation and amortization	7,390	7,344	79,429
Loss on impairment of fixed assets	–	52	–
Loss on sales or disposal of property, plant and equipment, net	57	129	616
Gain on sale of investments in securities	(4)	–	(47)
Loss on valuation of investments in securities	92	827	996
(Decrease) increase in allowance for doubtful accounts	(175)	127	(1,889)
Decrease in accrued retirement benefits to employees	(364)	(341)	(3,921)
Decrease in obligation on transfer to defined contribution pension plans included in other current liabilities and other long-term liabilities	(760)	(801)	(8,172)
(Increase) decrease in trade notes and accounts receivable	(3,679)	11,529	(39,538)
Decrease (increase) in inventories	4,122	(4,270)	44,299
Increase (decrease) in trade notes and accounts payable	1,625	(8,159)	17,466
Other, net	1,692	(1,338)	18,184
Subtotal	<u>15,043</u>	<u>13,541</u>	<u>161,672</u>
Interest and dividends received	275	558	2,957
Interest paid	(633)	(748)	(6,803)
Income taxes paid	(177)	(6,087)	(1,907)
Net cash provided by operating activities	<u>¥ 14,508</u>	<u>¥ 7,263</u>	<u>\$ 155,919</u>

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (continued)

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Cash flows from investing activities:			
Increase in time deposits	¥ (0)	¥ (49)	\$ (0)
Decrease in time deposits	12	61	129
Purchases of investments in securities	(116)	(13)	(1,255)
Proceeds from sales of investments in securities	34	1	365
Payment for investment in affiliate companies	(222)	(280)	(2,395)
Increase in long-term loans receivable	(55)	(50)	(597)
Collection of long-term loans receivable	62	73	672
Purchases of property, plant and equipment	(5,282)	(9,702)	(56,772)
Proceeds from sales of property, plant and equipment	48	236	524
Proceeds from collection of guarantee deposits for leased properties	500	–	5,373
Net cash used in investing activities	(5,020)	(9,723)	(53,955)
Cash flows from financing activities:			
(Decrease) increase in short-term loans, net	(609)	1,001	(6,550)
Proceeds from long-term loans	10,000	150	107,469
Repayment of long-term loans	(7,911)	(2,420)	(85,026)
Redemption of bonds	(30)	(50)	(322)
Repayment of finance lease obligations	(37)	(19)	(400)
Payments of installment payables	(323)	(337)	(3,471)
Cash dividends paid	(1,302)	(1,674)	(13,995)
Cash dividends paid to minority interests	(155)	(173)	(1,671)
Purchases of treasury stock	(5)	(24)	(57)
Proceeds from sales of treasury stock	1	8	12
Net cash used in financing activities	(373)	(3,540)	(4,015)
Effect of exchange rate changes on cash and cash equivalents	(4)	(474)	(44)
Net increase (decrease) in cash and cash equivalents	9,109	(6,474)	97,903
Cash and cash equivalents at beginning of the year	11,269	17,744	121,115
Cash and cash equivalents at end of the year	¥ 20,379	¥ 11,269	\$ 219,019

See accompanying notes to consolidated financial statements.

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements

March 31, 2010

### **1. Basis of Preparation of Consolidated Financial Statements**

The accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. (the “Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥93.05 = U.S.\$1.00, the exchange rate prevailing on March 31, 2010. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2009 to the 2010 presentation.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen for the years ended March 31, 2010 and 2009 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2010 and 2009 (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies

#### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries which it controls directly or indirectly. 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 material intercompany balances and transactions have been eliminated in consolidation.

The assets and liabilities of the consolidated subsidiaries are revalued at fair value by the full value method as of their respective dates of acquisition.

The balance sheet dates of certain consolidated subsidiaries are December 31 or January 31. Any significant differences in their intercompany accounts and transactions arising from intervening intercompany transactions during the periods from January 1 through March 31 or February 1 through March 31 have been adjusted, if necessary.

The number of consolidated subsidiaries and affiliates accounted for by the equity method for the years ended March 31, 2010 and 2009 is summarized below:

	<u>2010</u>	<u>2009</u>
Domestic subsidiaries	11	11
Overseas subsidiaries	12	13
Overseas affiliates	2	2

#### (b) Cash and cash equivalents

For the preparation of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

#### (c) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

## TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### (d) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

All securities held by the Company and its consolidated subsidiaries are classified as “other securities” and have been accounted for as outlined above.

##### (e) Derivatives

Derivatives are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally applied to the underlying debt. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are accounted for by the allocation method. Under the allocation method, such receivables or payables denominated in foreign currencies are translated at the corresponding contract rates.

##### (f) Inventories

Inventories are mainly stated at the lower of cost or net selling value, cost being determined by the first-in, first-out method, the individual identification method or the moving average method, except for goods held by certain overseas subsidiaries which are valued at the lower of cost or market.

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (g) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. Depreciation is calculated by the declining-balance method over the estimated useful lives of the respective assets, except for the depreciation of buildings (other than structures attached to the buildings). Depreciation of buildings is calculated by the straight-line method.

The principal estimated useful lives are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 13 years

#### *Supplementary information*

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their useful lives for depreciation of tangible fixed assets, primarily machinery and equipment. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income and income before income taxes and minority interests increased by ¥425 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous useful lives. The impact on segment information is outlined in Note 20.

#### (h) Leases

For lease transactions involving the transfer of ownership, leased assets are depreciated by the same depreciation method applied to fixed assets owned by the lessee.

For lease transactions not involving the transfer of ownership, leased assets are depreciated over their useful lives using the straight-line method with a residual value of zero.

The Company and its domestic consolidated subsidiaries continue to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating leases.

#### (i) Income taxes

Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

## TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### (j) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which are charged to income in the current year.

##### (k) Accrued retirement benefits to employees

Accrued retirement benefits to employees are provided at the retirement benefit obligation less the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss. 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.

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a period which is shorter than the average estimated remaining years of service of the eligible employees (10 years).

##### (l) Accrued retirement benefits to directors and corporate auditors

Directors and corporate auditors of domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. The provision for retirement benefits to directors and corporate auditors has been made at an estimated amount based on the internal rules.

##### *Supplementary information*

Up until the date of the annual shareholder meeting of the Company held on June 27, 2008, the Company had retirement benefit plans for payments to directors and corporate auditors (collectively “officers”) which were stated at 100% of the estimated amount calculated in accordance with the Company’s internal rules. However, the Company abolished the retirement benefit plans for these officers at the annual general meeting referred to above. As a result, the outstanding balance of accrued retirement benefits to officers in the amount of ¥274 million at June 27, 2008 has been reclassified as “Other long-term liabilities” in the accompanying consolidated balance sheet at March 31, 2009.

##### (m) Provision for loss on construction contracts

Provision for loss on construction contracts is made in case that future loss on construction projects is anticipated at the year end and its loss amount can be reasonably estimated.

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (n) Recognition of contract revenue and cost

The Company and its consolidated subsidiaries recognize revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company and its consolidated subsidiaries measure the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

#### (o) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives (5 years).

#### (p) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

The assets, liabilities and minority interests of overseas subsidiaries and affiliates are translated into yen at the exchange rates in effect at the balance sheet date, and the components of net assets excluding minority interests are translated at their respective historical rates. Revenues and expenses are translated at the average rates of exchange for the respective years. Differences arising from translation are reflected in net assets (presented as "Translation adjustments" and "Minority interests") in the accompanying consolidated balance sheets.

#### (q) Distribution of retained earnings

Under the Corporation Law of Japan (the "Law"), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such distributions. (Refer to Note 22.)

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 3. Changes in Method of Accounting

#### (a) Application of Accounting Standard for Construction Contracts

Up to the year ended March 31, 2009, the completed-contract method has been applied for revenue recognition of long-term construction contracts, except for transactions by certain overseas subsidiaries in the Material Handling Systems business segment. However, effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Construction Contracts” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 15 issued on December 27, 2007) and “Implementation Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18 issued on December 27, 2007).

Under the new accounting standard and guidance, revenue from, and related costs of, construction contracts that commenced on or after April 1, 2009, are mainly recognized by the percentage-of-completion method.

As a result of this change, net sales increased by ¥1,473 million (\$15,840 thousand) and operating income and income before income taxes and minority interests increased by ¥43 million (\$464 thousand) for the year ended March 31, 2010 from the corresponding amounts which would have been recorded under the method applied in the previous year. The impact on segment information is outlined in Note 20.

#### (b) Application of Accounting Standard for Measurement of Inventories

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 issued on July 5, 2006). This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. As a result of application of this standard, operating income and income before income taxes and minority interests decreased by ¥427 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year. The impact on segment information is outlined in Note 20.

#### (c) Accounting Policies Applied to Overseas Consolidated Subsidiaries

Effective the year ended March 31, 2009, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force No. 18, May 17, 2006), has been applied by the Company and its overseas subsidiaries. The impact of this change on operating income and income before income taxes and minority interests was immaterial.

## TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 3. Changes in Method of Accounting (continued)

##### (d) Application of Accounting Standards for Lease Transactions

Up to April 1, 2008, finance lease transactions not involving the transfer of ownership were accounted for in a manner similar to the accounting treatment for operating lease transactions. However, effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised on March 30, 2007). Such transactions are accounted for as ordinary sale and purchase transactions.

The Company and its domestic consolidated subsidiaries continue to account for finance lease transactions not involving the transfer of ownership that were entered into prior to April 1, 2008 as operating lease transactions.

The impact of this change on operating income and income before income taxes and minority interests for the year ended March 31, 2009 was immaterial.

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 4. Financial Instruments

#### (1) Overview

##### (a) Policies for financial instruments

The Company and its consolidated subsidiaries obtain necessary funding principally by bank borrowings and bond issuance under the business plan for the main business, the production and sales of power transmission products and material handling products. Short-term operating funds are obtained by bank borrowings. Temporary surplus funds are managed through low-risk financial assets. Derivatives are utilized for mitigating fluctuation risks of foreign currency exchange rates or interest rates, but not utilized for speculative purposes.

##### (b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivable, are exposed to the credit risk of customers. The Company and its consolidated subsidiaries conduct their business globally and the trade receivables denominated in foreign currencies incurred from export transactions are exposed to the fluctuation risk of foreign currencies. This risk is mitigated by utilizing forward foreign exchange contracts.

Securities are mainly composed of stocks of the companies with which the Group has business relationships or business alliances and they are exposed to fluctuation risk of market prices.

Almost all trade payables, notes and accounts payable, are due within one year. Certain trade payables resulting from import transactions are denominated in foreign currencies and the Company and its consolidated subsidiaries utilize forward foreign exchange contracts, as with trade receivables. Loans and bonds are utilized principally for necessary financing. Certain portions of loans and bonds are exposed to the fluctuation risk of interest rates because of floating interest rates and these risks are hedged by utilizing derivative transactions (interest-rate swap agreements).

Derivative transactions are entered into to hedge the foreign currency fluctuation risk of trade receivables and trade payables denominated in foreign currencies by utilizing forward foreign exchange contracts and to hedge the interest rate fluctuation risk of loans by utilizing interest-rate swap agreements. Refer to “Derivatives” in Note 2 “Summary of Significant Accounting Policies” and Note 17 “Derivatives and Hedging Activities” for the information of hedge accounting such as hedging instruments, hedged items, hedging policy, assessment of hedge effectiveness and so forth.

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 4. Financial Instruments (continued)

#### (1) Overview (continued)

##### (c) Risk management for financial instruments

- (i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with internal rules of credit management of the Company, each business department manages collection due dates and balances of each customer, periodically monitors the financial conditions of customers and tries to identify credit risk of customers with worsening financial conditions at the early stage to mitigate any risk. Consolidated subsidiaries perform similar credit management.

The Company and certain consolidated subsidiaries enter into derivative transactions with financial institutions with high credit ratings to mitigate the risk of credit loss in the event of nonperformance by the counterparties.

- (ii) Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates and interest rates)

The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts for hedging of currency fluctuation risk. The Company also utilizes interest rate swap agreements to mitigate fluctuation risk of interest rates.

The Company and its consolidated subsidiaries continuously reviews securities holdings by monitoring periodically the market value and financial condition of the securities' issuers (companies with business relationships with the Company and its consolidated subsidiaries) and by evaluating those relationships.

Each business department determines the amount of each forward foreign exchange contract within the actual underlying transaction amount, and the responsible finance department enters into and manages these forward foreign exchange contracts. The finance department enters into and manages interest-rate swap agreements in the course of undertaking borrowing contracts.

- (iii) Monitoring of liquidity risk (the risk that the Company and its consolidated subsidiaries may not be able to meet its obligations on scheduled due dates)

The Company and its consolidated subsidiaries manage liquidity risk by preparing cash flow plans on a timely basis and set so forth.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Financial Instruments (continued)

(1) Overview (continued)

(c) Risk management for financial instruments (continued)

(iv) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 18 do not necessarily indicate the market risk of the derivative transactions.

(2) Fair value of financial instruments

Carrying value, fair value, and the difference related to financial instruments at March 31, 2010 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	<b>2010</b>					
<b>Assets:</b>						
Cash and deposits	¥ 11,431	¥ 11,431	¥ –	\$ 122,856	\$ 122,856	\$ –
Trade notes and accounts receivable	34,262	34,262	–	368,220	368,220	–
Allowance for doubtful accounts	(355)	(355)	–	(3,822)	(3,822)	–
	<u>33,907</u>	<u>33,907</u>	<u>–</u>	<u>364,398</u>	<u>364,398</u>	<u>–</u>
Short-term investments and investments in securities	20,612	20,612	–	221,521	221,521	–
<b>Total assets</b>	<u>¥ 65,951</u>	<u>¥ 65,951</u>	<u>¥ –</u>	<u>\$ 708,775</u>	<u>\$ 708,775</u>	<u>\$ –</u>
<b>Liabilities:</b>						
Trade notes and accounts payable	¥ 18,805	¥ 18,805	¥ –	\$ 202,097	\$ 202,097	\$ –
Short-term loans	8,265	8,265	–	88,825	88,825	–
Current portion of long-term debt	2,199	2,200	1	23,636	23,653	17
Current portion of bonds	7,010	7,010	–	75,335	75,335	–
Long-term debt	21,436	21,835	399	230,373	234,668	4,295
<b>Total liabilities</b>	<u>¥ 57,716</u>	<u>¥ 58,117</u>	<u>¥ 401</u>	<u>\$ 620,268</u>	<u>\$ 624,581</u>	<u>\$ 4,312</u>
Derivatives, net	¥ (113)	¥ (113)	–	\$ (1,216)	\$ (1,216)	–

# TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 4. Financial Instruments (continued)

#### (2) Fair value of financial instruments (continued)

Methods to determine the fair value of financial instruments, investments in securities and derivative transactions

##### *Assets*

Cash, deposits and trade notes and accounts receivable

Since these items are settled in a short time period, their carrying value approximates fair value.

Short-term investments and investments in securities

Since equity securities are valued at their quoted market price and money management funds and others are settled in a short time period, their carrying value approximates fair value.

##### *Liabilities*

Trade notes and accounts payable, short-term loans and current portion of long-term bonds

Since these items are settled in a short time period, their carrying value approximates fair value.

Current portion of long-term debt and long-term debt

The fair value of the current portion of long-term debt and long-term debt is based on the present value of the total of principal and interest discounted by the estimated interest rates to be applied if similar new loans are made. Long-term debt with floating interest is hedged by interest rate swap agreements and accounted for as loans with fixed interest rates. The fair value of this long-term debt is based on the present value of the total of principal, the interest and cash flows of interest rate swap agreements discounted by the reasonably estimated interest rates to be applied if similar new loans are made.

##### *Derivative transactions*

Please refer to Note 18 “Derivatives and Hedging Activities.”

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Financial Instruments (continued)**

Financial instruments for which it is extremely difficult to determine the fair value are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2010</b>	
Unlisted securities	¥1,196	\$12,860
Unlisted foreign debt securities	267	2,875

Because no quoted market price is available and it is extremely difficult to determine the fair value, these amounts are not included in the preceding table related to carrying value and fair value of financial instruments.

The redemption schedule for monetary assets and securities with maturities subsequent to March 31, 2010 is as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	<b>2010</b>			
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Cash and deposits	¥ 11,403	¥ –	\$ 122,547	\$ –
Trade notes and accounts receivable	34,262	–	368,220	–
Short-term investments and investments in securities: Held-to-maturity debt securities	7,900	–	84,900	–
	<u>¥ 53,565</u>	<u>¥ –</u>	<u>\$ 575,668</u>	<u>\$ –</u>

For the redemption schedule for bonds, long-term debt and other interest bearing liabilities subsequent to March 31, 2010, please refer to Note 7, “Short-term Loans, Long-term Debt and Finance Lease Obligations.”

*Supplementary information*

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 issued on March 10, 2008) and “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 issued on March 10, 2008).

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Short-Term Investments and Investments in Securities

(a) Short-term investments and investments in securities with determinable market value classified as other securities at March 31, 2010 and 2009 are summarized as follows:

	<i>Millions of yen</i>					
	<b>2010</b>			<b>2009</b>		
	<u>Carrying value</u>	<u>Acquisition costs</u>	<u>Unrealized gain (loss)</u>	<u>Carrying value</u>	<u>Acquisition costs</u>	<u>Unrealized gain (loss)</u>
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 11,449	¥ 6,010	¥ 5,438	¥ 9,874	¥ 5,297	¥ 4,577
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	233	253	(19)	865	942	(76)
Other	8,929	8,932	(3)	43	49	(5)
Subtotal	9,163	9,186	(23)	908	991	(82)
Total	<u>¥ 20,612</u>	<u>¥ 15,197</u>	<u>¥ 5,415</u>	<u>¥ 10,783</u>	<u>¥ 6,289</u>	<u>¥ 4,494</u>

	<i>Thousands of U.S. dollars</i>		
	<b>2010</b>		
	<u>Carrying value</u>	<u>Acquisition costs</u>	<u>Unrealized gain (loss)</u>
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 123,047	\$ 64,599	\$ 58,447
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	2,513	2,728	(214)
Other	95,960	95,995	(35)
Subtotal	98,474	98,723	(249)
Total	<u>\$ 221,521</u>	<u>\$ 163,323</u>	<u>\$ 58,197</u>

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Short-Term Investments and Investments in Securities (continued)**

- (b) Sales of other securities for the years ended March 31, 2010 and 2009 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>2010</b>	<b>2009</b>	<i>U.S. dollars</i>
Sales	¥34	¥1	\$ 365
Gross realized gain	4	0	47

The carrying value of securities without determinable market value at March 31, 2009 is summarized as follows:

	<i>Millions of yen</i>
	<b>2009</b>
Money management fund	¥1,010
Unlisted foreign debt securities	419
Unlisted equity securities	374

- (c) The Company recorded a loss on impairment of marketable other securities of ¥92 million (\$996 thousand) and ¥827 million for the years ended March 31, 2010 and 2009, respectively. The recording of a loss on impairment of investments in securities is based on internal rules such as if the fair value at balance sheet date has fallen more than 50% from its book value or if fair value at the balance sheet date has been continually falling more than 30% and less than 50% from its book value over the past 2 years.

**6. Inventories**

Inventories at March 31, 2010 and 2009 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>2010</b>	<b>2009</b>	<i>U.S. dollars</i>
Finished goods	¥ 10,880	¥ 12,548	\$ 116,926
Raw materials	3,196	4,190	34,353
Work in process	9,025	10,543	96,994
Supplies	701	742	7,539
	<u>¥ 23,803</u>	<u>¥ 28,023</u>	<u>\$ 255,814</u>

Inventories and provision for loss on construction contracts are presented on a gross amount basis. The amount of work in process corresponding to provision for loss on construction contracts was ¥66 million (\$710 thousand) at March 31, 2010.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Short-Term Loans, Long-Term Debt and Finance Lease Obligations**

Short-term loans consisted principally of loans from banks and insurance companies at weighted average interest rates of 0.9% and 1.4% at March 31, 2010 and 2009, respectively.

Long-term debt and finance lease obligations at March 31, 2010 and 2009 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Loans, principally from banks and insurance companies, due through 2014 at an average annual interest rate of 1.8%:			
Secured	¥ 153	¥ 4,779	\$ 1,649
Unsecured	23,482	16,902	252,360
0.88% secured bonds due 2009	—	10	—
0.56% secured bonds due 2010	10	30	107
0.83% unsecured bonds due 2010	7,000	7,000	75,228
Lease obligations due through 2016	169	140	1,826
	<u>30,815</u>	<u>28,863</u>	<u>331,172</u>
Less current portion	9,248	8,572	99,397
Total	<u>¥ 21,566</u>	<u>¥ 20,290</u>	<u>\$ 231,774</u>

Other interest-bearing liabilities included in other current liabilities and other long-term liabilities represented installment payables at an average annual interest rate for the years ended March 31, 2010 and 2009 of 3.3%.

The aggregate annual maturities of long-term debt subsequent to March 31, 2010 are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Thousands of</i>
		<i>U.S. dollars</i>
2011	¥ 9,248	\$ 99,397
2012	7,009	75,327
2013	1,331	14,310
2014	3,194	34,334
2015	10,018	107,667
2016 and thereafter	12	135
Total	<u>¥ 30,815</u>	<u>\$ 331,172</u>

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Short-Term Loans, Long-Term Debt and Finance Lease Obligations (continued)**

The aggregate annual maturities of other interest-bearing liabilities subsequent to March 31, 2010 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2011	¥ 333	\$ 3,584
2012	174	1,875
Total	¥ 508	\$ 5,460

Assets pledged as collateral for short-term bank loans of ¥138 million (\$1,483 thousand), the current portion of long-term debt of ¥99 million (\$1,072 thousand), the current portion of secured bonds of ¥10 million (\$107 thousand) and long-term debt of ¥53 million (\$576 thousand) at March 31, 2010 were composed of the following:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2010</b>	<b>2010</b>
Buildings and structures	¥ 91	\$ 981
Land	1,297	13,948
	¥1,389	\$ 14,930

The Company has concluded line-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit at March 31, 2010 and 2009 was as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Lines of credit	¥14,000	¥ 15,000	\$150,456
Credit utilized	2,000	2,000	21,493
Available credit	¥12,000	¥ 13,000	\$128,962

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Income Taxes**

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2010 and 2009.

A reconciliation of the statutory and effective tax rates for the years ended March 31, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Statutory tax rate	40.6%	40.6%
Valuation allowance	2.2	-
Per capita portion of inhabitants' taxes	1.2	0.7
Permanent differences such as entertainment expenses	0.8	0.9
Equity in earnings of affiliates	(0.4)	(0.2)
Permanently non-taxable dividends received	(0.6)	(0.8)
Tax exemption on investment	(0.7)	-
Tax credits such as research and development costs and other	(1.3)	(0.8)
Difference between statutory tax rate in Japan and income tax rates applied at overseas consolidated subsidiaries	(3.7)	-
Effect of change in tax regulations related to dividends from overseas subsidiaries	-	(18.7)
Other	(2.8)	(3.4)
Effective tax rates	<u>35.3%</u>	<u>18.3%</u>

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2010 and 2009 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Deferred tax assets:			
Accrued retirement benefits	¥ 3,939	¥ 3,975	\$ 42,341
Obligation on transfer to defined contribution pension plans	554	866	5,954
Accrued bonuses	750	883	8,066
Unrealized gain and losses on inventories	300	528	3,234
Accrued enterprise taxes	66	7	710
Other	2,308	2,006	24,809
Gross deferred tax assets	<u>7,920</u>	<u>8,266</u>	<u>85,117</u>
Less: valuation allowance	(1,078)	(966)	(11,594)
Total deferred tax assets	6,841	7,300	73,523
Deferred tax liabilities:			
Deferred gain on replacement of property	(5,374)	(5,389)	(57,761)
Undistributed earnings of overseas subsidiaries	(703)	(662)	(7,561)
Net unrealized gain on revaluation of assets and liabilities of subsidiaries	(734)	(734)	(7,895)
Unrealized holding gain on securities	(2,052)	(1,680)	(22,058)
Other	(1,143)	(1,115)	(12,292)
Total deferred tax liabilities	<u>(10,009)</u>	<u>(9,582)</u>	<u>(107,568)</u>
Net deferred tax liabilities	<u>¥ (3,167)</u>	<u>¥ (2,282)</u>	<u>\$ (34,045)</u>

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Retirement Benefits**

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries pay additional retirement benefits under certain conditions. Certain overseas subsidiaries also have defined benefit pension plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2009 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Retirement benefit obligation	¥ (12,674)	¥ (13,065)	\$ (136,207)
Plan assets at fair value	1,060	1,190	11,393
Unfunded retirement benefit obligation	(11,613)	(11,874)	(124,814)
Unrecognized actuarial loss	1,918	1,814	20,623
Accrued retirement benefits	¥ (9,694)	¥ (10,059)	\$ (104,190)

As permitted under the accounting standard for retirement benefits, certain domestic subsidiaries calculate their retirement benefit obligation for their employees by simplified method. Under the simplified method, the retirement benefit obligation for employees is stated at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Retirement Benefits (continued)**

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Service cost	¥ 666	¥ 716	\$ 7,163
Interest cost	227	224	2,442
Expected return on plan assets	(17)	(32)	(189)
Contributions to defined contribution pension plans	514	510	5,534
Amortization of unrecognized actuarial loss	303	209	3,256
Retirement benefit expenses	<u>¥ 1,694</u>	<u>¥ 1,629</u>	<u>\$ 18,207</u>

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2010 and 2009 were as follows:

	<b>2010</b>	<b>2009</b>
Discount rate	Principally 2.0%	Principally 2.0%
Expected rates of return on plan assets	Principally 2.0%	Principally 2.5%

**10. Contingent Liabilities**

At March 31, 2010 the Company and its consolidated subsidiaries were contingently liable for the following items:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2010</b>	<b>2010</b>
Notes receivable discounted	¥ 129	\$ 1,395
Guarantees of home mortgage loans by employees	176	1,893
Guarantees of loans made by affiliates	107	1,157

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**11. Net Unrealized Loss on Land Revaluation**

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the “Law on Land Revaluation.” Differences on land revaluation have been accounted for as “Net unrealized loss on land revaluation” under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the “Enforcement Act Concerning Land Revaluation.” The carrying value of this land exceeded its corresponding fair value by ¥10,000 million (\$107,469 thousand) and ¥9,000 million at March 31, 2010 and 2009, respectively.

**12. Shareholders’ Equity**

The Law provides that an amount equal to 10% of the amount to be disbursed 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 capital 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. The Company’s legal reserve amounted to ¥3,376 million (\$36,290 thousand) at March 31, 2010 and 2009.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2010 and 2009 are summarized as follows:

	Number of shares			March 31, 2010
	March 31, 2009	Increase	Decrease	
Issued shares of common stock	191,406,969	–	–	191,406,969
Treasury stock	5,363,483	14,382	3,512	5,374,353

- Notes: 1. Increase in the number of shares of treasury stock was due to purchases of fractional shares of less than one unit.  
 2. Decrease in the number of shares of treasury stock was due to sales of fractional shares of less than one unit.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Shareholders' Equity (continued)**

	Number of shares			March 31, 2009
	March 31, 2008	Increase	Decrease	
Issued shares of common stock	191,406,969	–	–	191,406,969
Treasury stock	5,329,914	57,092	23,523	5,363,483

- Notes: 1. Increase in the number of shares of treasury stock was due to purchases of fractional shares of less than one unit.  
 2. Decrease in the number of shares of treasury stock was due to sales of fractional shares of less than one unit.

**13. Provision for Loss on Construction Contracts**

Provision for loss on construction contracts included in cost of sales for the year ended March 31, 2010 amounted to ¥93 million (\$1,004 thousand).

**14. Research and Development Costs**

Research and development costs included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2010 and 2009 amounted to ¥3,543 million (\$38,085 thousand) and ¥3,847 million, respectively.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**15. Loss on Impairment of Fixed Assets**

The Company and its consolidated subsidiaries group their fixed assets relating to power transmission products, material handling systems and other businesses primarily at each business which manages receipts and payments separately. They also group their fixed assets which they have determined to dispose of and idle assets primarily at each asset.

A certain domestic consolidated subsidiary wrote down the following item to its respective recoverable amount which had been used for employee training but deemed as an idle property as it was no longer being utilized and recorded the related loss on impairment of fixed assets of ¥52 million in the consolidated statement of income for the year ended March 31, 2009.

Classification	Location	Use	<i>Millions of yen</i>
			<b>2009</b>
Land	Kadoma city Osaka prefecture	Idle property	¥ 52

The carrying amount of the above fixed asset was written down to its respective recoverable amount and was measured using its respective net selling price principally based on valuations by third-party appraisals.

**16. Cash and cash equivalents**

Reconciliations of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2010 and 2009 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Cash and deposits	¥ 11,431	¥ 10,083	\$ 122,856
Deposits with maturities of exceeding these months	(231)	(244)	(2,493)
Short-term investments	9,179	1,430	98,656
Cash and cash equivalents	<u>¥ 20,379</u>	<u>¥ 11,269</u>	<u>\$ 219,019</u>

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**17. Leases**

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of the leased assets as of March 31, 2010 and 2009, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased assets to the Company and its domestic consolidated subsidiaries that started on or before March 31, 2008 (currently accounted for as operating leases) had been capitalized:

	<i>Millions of yen</i>		
	<b>2010</b>		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 214	¥ 147	¥ 67
Tools, furniture and fixtures	470	317	152
Other assets	212	134	78
<b>Total</b>	<b>¥ 897</b>	<b>¥ 599</b>	<b>¥ 298</b>

	<i>Millions of yen</i>		
	<b>2009</b>		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 275	¥ 162	¥ 112
Tools, furniture and fixtures	586	325	261
Other assets	253	129	124
<b>Total</b>	<b>¥ 1,115</b>	<b>¥ 616</b>	<b>¥ 498</b>

	<i>Thousands of U.S. dollars</i>		
	<b>2010</b>		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	\$ 2,303	\$ 1,580	\$ 722
Tools, furniture and fixtures	5,056	3,415	1,640
Other assets	2,285	1,444	841
<b>Total</b>	<b>\$ 9,645</b>	<b>\$ 6,441</b>	<b>\$ 3,204</b>

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥194 million (\$2,087 thousand) and ¥255 million for the years ended March 31, 2010 and 2009, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥194 million (\$2,087 thousand) and ¥255 million for the years ended March 31, 2010 and 2009, respectively.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**17. Leases (continued)**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 under finance leases, other than those which transfer the ownership of the leased assets to the Company and its domestic consolidated subsidiaries, that started on or before March 31, 2008 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2011	¥ 156	\$ 1,686
2012 and thereafter	141	1,518
	¥ 298	\$ 3,204

The acquisition cost and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

Future minimum lease payments subsequent to March 31, 2010 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2011	¥ 135	\$ 1,452
2012 and thereafter	171	1,838
	¥ 306	\$ 3,290

**18. Derivatives and Hedging Activities**

The Company and certain consolidated subsidiaries utilize derivative financial instruments to reduce foreign exchange rate and interest-rate risk. The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts to ensure stable profit by hedging the risk of exchange rate fluctuation which impacts their assets and liabilities denominated in foreign currencies. In addition, the Company and certain consolidated subsidiaries utilize interest-rate swaps to hedge the effect of any fluctuation in interest rates on their borrowings. The Company and these consolidated subsidiaries do not enter into derivatives contracts for speculative or trading purposes.

The Company and certain consolidated subsidiaries are exposed to certain market risks arising from their forward foreign exchange contracts and interest-rate swap agreements. They are also exposed to the risk of credit loss in the event of nonperformance by the counterparties with respect to such forward foreign exchange contracts and interest-rate swap agreements; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**18. Derivatives and Hedging Activities (continued)**

Each business department determines the appropriate amount of forward foreign exchange contracts within predetermined limits and the responsible financial section of each department executes and manages these positions. In addition, the responsible Finance and Accounting Department of the Company enters into and manages interest-rate swap positions as an integral part of the process of entering into loan agreements.

The Company and certain consolidated subsidiaries assess hedge effectiveness based on a comparison of the hedged item and the hedging instrument in terms of market fluctuations or the cumulative fluctuation of cash flows from the inception of the hedge transaction to the assessment date. Assessments of hedge effectiveness are omitted for certain forward foreign exchange contracts that meet the criteria for the allocation method and certain interest-swap agreements accounted for as if the interest rates applied to the interest rate swaps had originally applied to the underlying debt.

**(1) Derivative transactions to which hedge accounting is not applied**

The notional amounts of forward foreign exchange contracts to which hedge accounting has not been applied, the estimated fair value of the outstanding derivatives positions and unrealized gain or loss at March 31, 2010 are summarized as follows:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>		
	Notional amount	Estimated fair value*	Unrealized gain (loss)	Notional amount	Estimated fair value	Unrealized gain (loss)
	<b>2010</b>					
Forward foreign exchange contracts:						
Sell:						
U.S. dollars	¥ 2,618	¥ (94)	¥ (94)	\$ 28,136	\$ (1,015)	\$ (1,015)
Euros	314	11	11	3,377	127	127
Australian dollars	100	(9)	(9)	1,075	(101)	(101)
Canadian dollars	67	(6)	(6)	724	(70)	(70)
Buy:						
Japanese yen	253	1	1	2,723	14	14
U.S. dollars	25	(0)	(0)	277	(5)	(5)
Total	<u>¥ 3,379</u>	<u>¥ (97)</u>	<u>¥ (97)</u>	<u>\$ 36,315</u>	<u>\$ (1,050)</u>	<u>\$ (1,050)</u>

\* Estimated fair value is determined based on the prices quoted by financial institutions.

There were no derivative transactions relevant to interest rate hedging to which hedge accounting has not been applied as of March 31, 2010.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**18. Derivatives and Hedging Activities (continued)**

**(2) Derivative transactions to which hedge accounting is applied**

The notional amounts of forward foreign exchange contracts to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2010 are summarized as follows:

	Hedged items	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
		Notional amount	Estimated fair value* <sup>2</sup>	<b>2010</b>	
				Notional amount	Estimated fair value
Forward foreign exchange contracts:					
Sell:					
U.S. dollars	Forecast	¥2,827	¥ (15)	\$ 30,384	\$(168)
Euros	sales	383	6	4,120	73
Australian dollars	transaction	96	(1)	1,039	(19)
Canadian dollars	(Accounts receivable)	78	(1)	843	(17)
Euros	Accounts receivable	1	*1	11	*1
<b>Total</b>		<u>3,387</u>	<u>(12)</u>	<u>36,400</u>	<u>(132)</u>
Buy:					
U.S. dollars	Forecast	73	(2)	790	(29)
Japanese yen	purchase	20	(0)	215	(3)
Euros	transaction	1	(0)	16	(0)
Canadian dollars	(Accounts payable)	9	(0)	101	(0)
U.S. dollars	Accounts payable	4	*1	52	*1
Euros	payable	3	*1	39	*1
<b>Total</b>		<u>¥ 113</u>	<u>¥ (3)</u>	<u>\$ 1,216</u>	<u>\$ (33)</u>

\*1 Since the forward foreign exchange contracts, other than those related to derivative transactions for forecast transactions, were accounted for by the allocation method (refer to 2(e)), their fair value is included in that of the accounts receivable or payable and disclosed in Note 4 "Financial Instruments."

\*2 Estimated fair value is determined based on the prices quoted by financial institutions.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**18. Derivatives and Hedging Activities (continued)**

**(2) Derivative transactions to which hedge accounting is applied (continued)**

The notional amounts of interest-rate swap agreements to which hedge accounting has been applied, the estimated fair value of the outstanding derivatives positions at March 31, 2010 are summarized as follows:

	Hedged items	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>		
		Notional amount	Due within one year	Estimated fair value	<b>2010</b>		
					Notional amount	Due within one year	Estimated fair value
Interest-rate swap agreements:							
Fixed paid/floating received	Long-term debt	¥11,900	¥9,900	*	\$127,888	\$106,394	*

\* Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (refer to Note 2 (e)), their fair value is included in that of the long-term debt disclosed in Note 4 “Financial Instruments.”

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**18. Derivatives and Hedging Activities (continued)**

**(3) Fair value of derivative transactions**

The notional amounts of forward foreign exchange contracts to which hedge accounting has not been applied, the estimated fair value of the outstanding derivatives positions and unrealized gain or loss at March 31, 2009 are summarized as follows:

	<i>Millions of yen</i>		
	<b>2009</b>		
	<u>Notional amount</u>	<u>Estimated fair value</u>	<u>Unrealized gain (loss)</u>
Forward foreign exchange contracts:			
Sell:			
U.S. dollars	¥ 1,911	¥ 1,800	¥ 111
Euros	628	578	49
Australian dollars	93	103	(10)
Canadian dollars	151	120	31
Buy:			
Japanese yen	217	209	(7)
U.S. dollars	6	6	(0)
Canadian dollars	7	7	(0)
Interest-rate swap agreements:			
Floating paid/fixed received	150	(3)	<u>(3)</u>
Total			<u><u>¥ 169</u></u>

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**19. Amounts per Share**

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

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Net assets	¥434.59	¥ 421.53	\$ 4.67
Net income	17.07	33.26	0.18
Cash dividends	6.00	8.00	0.06

The amounts per share of net assets are computed based on the number of shares of common stock outstanding at each year end.

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.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

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.

Information used in the calculation of basic net income per share is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
Net income	¥ 3,175	¥ 6,188	\$ 34,122
Net income not available for distribution to shareholders of common stock	—	—	—
Net income on which basic net income per share is calculated	<u>¥ 3,175</u>	<u>¥ 6,188</u>	<u>\$ 34,122</u>

	<i>Thousands of shares</i>	
	<b>2010</b>	<b>2009</b>
Weighted-average number of shares of common stock on which net income per share is calculated	186,039	186,058

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**20. Segment Information**

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of power transmission products and material handling systems. The Company and its consolidated subsidiaries also engage in certain other activities such as building maintenance, insurance brokerage, sales of health care equipment, and so forth.

***Business Segments***

The business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 are outlined as follows:

	<i>Millions of yen</i>					
	<b>2010</b>					
	Power transmission products	Material handling systems	Other	Total	Elimina- tions and general corporate assets	Consoli- dated
I. Sales and operating income						
Sales to third parties	¥ 91,858	¥ 20,434	¥ 465	¥ 112,759	¥ –	¥ 112,759
Intragroup sales and transfers	1,353	50	875	2,280	(2,280)	–
Net sales	93,212	20,485	1,341	115,039	(2,280)	112,759
Operating expenses	85,921	20,285	1,208	107,415	606	108,021
Operating income	<u>¥ 7,291</u>	<u>¥ 200</u>	<u>¥ 132</u>	<u>¥ 7,624</u>	<u>¥ (2,886)</u>	<u>¥ 4,737</u>
II. Total assets, depreciation and amortization and capital expenditures						
Total assets	¥ 116,758	¥ 23,066	¥ 2,570	¥ 142,394	¥ 40,246	¥ 182,641
Depreciation and amortization	6,578	248	3	6,830	560	7,390
Capital expenditures	3,598	135	0	3,734	253	3,988

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Segment Information (continued)

*Business Segments (continued)*

<i>Millions of yen</i>						
<b>2009</b>						
	Power transmission products	Material handling systems	Other	Total	Elimina- tions and general corporate assets	Consoli- dated
I. Sales and operating income						
Sales to third parties	¥ 113,286	¥ 27,695	¥ 535	¥ 141,517	¥ –	¥ 141,517
Intragroup sales and transfers	1,715	68	1,600	3,384	(3,384)	–
Net sales	115,001	27,764	2,135	144,901	(3,384)	141,517
Operating expenses	103,830	26,026	1,925	131,783	638	132,421
Operating income	¥ 11,171	¥ 1,737	¥ 209	¥ 13,118	¥ (4,022)	¥ 9,095
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures						
Total assets	¥ 117,670	¥ 22,536	¥ 2,755	¥ 142,962	¥ 35,492	¥ 178,455
Depreciation and amortization	6,560	237	4	6,802	541	7,344
Loss on impairment of fixed assets	–	–	52	52	–	52
Capital expenditures	9,105	304	0	9,410	631	10,041
<i>Thousands of U.S. dollars</i>						
<b>2010</b>						
	Power transmission products	Material handling systems	Other	Total	Elimina- tions and general corporate assets	Consoli- dated
I. Sales and operating income						
Sales to third parties	\$ 987,200	\$ 219,611	\$ 5,004	\$ 1,211,816	\$ –	\$ 1,211,816
Intragroup sales and transfers	14,549	546	9,411	24,506	(24,506)	–
Net sales	1,001,749	220,157	14,416	1,236,323	(24,506)	1,211,816
Operating expenses	923,392	218,001	12,991	1,154,385	6,513	1,160,898
Operating income	\$ 78,356	\$ 2,155	\$ 1,424	\$ 81,937	\$ (31,019)	\$ 50,917
II. Total assets, depreciation and amortization and capital expenditures						
Total assets	\$ 1,254,789	\$ 247,895	\$ 27,621	\$ 1,530,305	\$ 432,527	\$ 1,962,833
Depreciation and amortization	70,701	2,667	39	73,408	6,021	79,429
Capital expenditures	38,672	1,456	4	40,133	2,728	42,862

## TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 20. Segment Information (continued)

##### *Business Segments (continued)*

As mentioned in Note 3(a), up to the year ended March 31, 2009, the completed-contract method has been applied for revenue recognition of long-term construction contracts, except for transactions by certain overseas subsidiaries in the Material Handling Systems business segment. However, effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Construction Contracts” (ASBJ Statement No. 15 issued on December 27, 2007) and “Implementation Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18 issued on December 27, 2007). Under the new accounting standard and guidance, revenue from, and related costs of, construction contracts that commenced on or after April 1, 2009, are mainly recognized by the percentage-of-completion method. As a result of this change, net sales increased by ¥1,473 million (\$15,840 thousand) and operating income and income before income taxes and minority interests increased by ¥43 million (\$464 thousand) in the Material Handling Systems business segment for the year ended March 31, 2010 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As mentioned in Note 3(b), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their method of accounting for inventory. As a result of this change, operating income decreased in the Power Transmission Products business segment and in the Material Handling Systems business segment by ¥308 million and ¥119 million, respectively, for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

As mentioned in Note 2(g), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the useful lives for depreciation of machinery and equipment. As a result of this change, operating income increased by ¥430 million in the Power Transmission Products business segment and decreased by ¥5 million in the Material Handling Systems business segment for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous useful lives.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Segment Information (continued)

*Geographic Segment Information*

Segment information by geographic area for the years ended March 31, 2010 and 2009 is summarized as follows:

<i>Millions of yen</i>								
<b>2010</b>								
	Japan	North America	Europe	Asia and Oceania	Other	Total	Eliminations and general corporate assets	Consolidated
Sales to third parties	¥ 78,213	¥ 19,761	¥ 5,389	¥ 9,365	¥ 28	¥ 112,759	¥ —	¥ 112,759
Intragroup sales and transfers	11,650	280	74	453	—	12,459	(12,459)	—
Net sales	89,863	20,042	5,464	9,819	28	125,219	(12,459)	112,759
Operating expenses	84,359	19,707	5,263	8,774	83	118,188	(10,167)	108,021
Operating income (loss)	¥ 5,504	¥ 334	¥ 201	¥ 1,044	¥ (54)	¥ 7,030	¥ (2,292)	¥ 4,737
Total assets	¥ 113,976	¥ 17,295	¥ 5,107	¥ 10,370	¥ 40	¥ 146,791	¥ 35,850	¥ 182,641

<i>Millions of yen</i>								
<b>2009</b>								
	Japan	North America	Europe	Asia and Oceania	Other	Total	Eliminations and general corporate assets	Consolidated
Sales to third parties	¥ 98,779	¥ 23,578	¥ 7,362	¥ 11,653	¥ 143	¥ 141,517	¥ —	¥ 141,517
Intragroup sales and transfers	17,513	520	7	832	—	18,873	(18,873)	—
Net sales	116,292	24,098	7,370	12,485	143	160,390	(18,873)	141,517
Operating expenses	106,245	23,236	6,902	10,622	154	147,162	(14,740)	132,421
Operating income (loss)	¥ 10,047	¥ 861	¥ 467	¥ 1,862	¥ (10)	¥ 13,227	¥ (4,132)	¥ 9,095
Total assets	¥ 114,406	¥ 17,420	¥ 5,501	¥ 9,798	¥ 18	¥ 147,144	¥ 31,310	¥ 178,455

<i>Thousands of U.S. dollars</i>								
<b>2010</b>								
	Japan	North America	Europe	Asia and Oceania	Other	Total	Eliminations and general corporate assets	Consolidated
Sales to third parties	\$ 840,556	\$ 212,378	\$ 57,920	\$ 100,650	\$ 310	\$ 1,211,816	\$ —	\$ 1,211,816
Intragroup sales and transfers	125,202	3,017	805	4,876	—	133,901	(133,901)	—
Net sales	965,758	215,396	58,725	105,526	310	1,345,717	(133,901)	1,211,816
Operating expenses	906,604	211,799	56,563	94,298	897	1,270,163	(109,264)	1,160,898
Operating income (loss)	\$ 59,153	\$ 3,596	\$ 2,161	\$ 11,228	\$ (587)	\$ 75,553	\$ (24,636)	\$ 50,917
Total assets	\$ 1,224,898	\$ 185,871	\$ 54,889	\$ 111,451	\$ 440	\$ 1,577,552	\$ 385,281	\$ 1,962,833

## TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 20. Segment Information (continued)

##### *Geographic Segment Information (continued)*

The above segments principally include the following countries or regions:

North America:	U.S.A. and Canada
Europe:	The Netherlands and U.K.
Asia and Oceania:	Taiwan, People's Republic of China, Singapore, Thailand and Australia
Other:	Brazil

As mentioned in Note 3(a), up to the year ended March 31, 2009, the completed-contract method has been applied for revenue recognition of long-term construction contracts, except for transactions by certain overseas subsidiaries in the Material Handling Systems business segment. However, effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 issued on December 27, 2007) and "Implementation Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18 issued on December 27, 2007). Under the new accounting standard and guidance, revenue from, and related cost of, construction contracts that commenced on or after April 1, 2009, are mainly recognized by the percentage-of-completion method. As a result of this change, net sales increased by ¥1,473 million (\$15,840 thousand) and operating income and income before income taxes and minority interests increased by ¥43 million (\$464 thousand) in Japan segment for the year ended March 31, 2010 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As mentioned in Note 3(b), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their method of accounting for inventory. As a result of this change, operating income in the Japan segment decreased by ¥427 million for the year ended March 31, 2009 from the corresponding amount which would have been recorded under the previous method.

As mentioned in Note 2(g), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the useful lives for depreciation of machinery and equipment. As a result of this change, operating income in the Japan segment increased by ¥425 million for the year ended March 31, 2009 from the corresponding amount which would have been recorded under the previous useful lives.

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**20. Segment Information (continued)**

*Overseas Sales*

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2010 and 2009 are summarized as follows:

	<i>Millions of yen</i>				
	<b>2010</b>				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	¥19,863	¥5,554	¥12,974	¥518	¥ 38,911
Consolidated net sales					112,759
Overseas sales as a percentage of consolidated net sales	17.6%	4.9%	11.5%	0.5%	34.5%
	<i>Millions of yen</i>				
	<b>2009</b>				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	¥ 23,794	¥ 7,956	¥ 17,227	¥ 472	¥ 49,450
Consolidated net sales					141,517
Overseas sales as a percentage of consolidated net sales	16.8%	5.6%	12.2%	0.3%	34.9%
	<i>Thousands of U.S. dollars</i>				
	<b>2010</b>				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	\$ 213,475	\$ 59,692	\$ 139,431	\$ 5,574	\$ 418,174
Consolidated net sales					1,211,816

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**21. Related Party Transactions**

Principal transactions between the Company and its related parties for the year ended March 31, 2010 were summarized as follows:

	<u>2010</u> <i>(Millions of yen)</i>	<u>2010</u> <i>(Thousands of U.S. dollars)</i>
<i>T.E.E.U. Limited.:</i>		
Cash dividend	¥ 143	\$ 1,541

The above cash dividend was paid to the Company due to the liquidation of T.E.E.U. Limited.

The balance due from this related party at March 31, 2010 was as follows:

	<u>2010</u> <i>(Millions of yen)</i>	<u>2010</u> <i>(Thousands of U.S. dollars)</i>
<i>T.E.E.U. Limited.:</i>		
Other current assets	¥ 143	\$ 1,541

T.E.E.U. Limited, non-consolidated subsidiary in which the Company owned 100% of shares, was located in Derby, U.K.

**22. Subsequent Event**

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2010, was approved at the annual general meeting of the shareholders held on June 29, 2010:

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Cash dividends (¥3.0 (\$0.03) per share)	¥ 558	\$ 5,997