

# Financial Report

Year Ended March 31, 2009

TAKASAGO THERMAL ENGINEERING CO., LTD.  
CONSOLIDATED BALANCE SHEETS  
March 31, 2009 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars (Note1)	
	2009	2008	2009	2008
Current assets:				
Cash and time deposits (Notes 4 and 13)	¥ 24,170	¥ 26,574	\$ 245,980	\$ 270,446
Marketable securities (Note 5)	500	1	5,089	10
Notes and accounts receivable-trade	89,421	101,793	910,045	1,035,956
Less allowance for doubtful accounts	(101)	(112)	(1,028)	(1,140)
Cost of uncompleted contracts and other inventories (Notes 3 and 6)	31,404	18,227	319,601	185,498
Deferred tax assets (Note 9)	1,016	969	10,340	9,862
Other current assets	6,038	6,872	61,449	69,937
Total current assets	152,448	154,324	1,551,476	1,570,569
Property, plant and equipment (Note 14):				
Land	2,319	2,331	23,601	23,723
Buildings and structures	7,585	7,489	77,193	76,216
Machinery	695	696	7,073	7,083
Tools, furniture and fixtures	2,801	2,841	28,506	28,913
Construction in progress	52	50	529	509
	13,452	13,407	136,902	136,444
Less accumulated depreciation	(7,026)	(6,749)	(71,504)	(68,685)
Net property, plant and equipment	6,426	6,658	65,398	67,759
Investments and other assets:				
Investment securities (Note 5)	23,801	36,420	242,225	370,649
Investments in unconsolidated subsidiaries and affiliated companies	406	565	4,132	5,750
Guarantee deposits	2,811	2,789	28,608	28,384
Long-term insurance contribution	4,191	4,467	42,652	45,461
Deferred tax assets (Note 9)	1,832	244	18,644	2,483
Other	5,376	4,036	54,712	41,074
Less allowance for doubtful accounts (Note 16)	(411)	(51)	(4,183)	(519)
Total investments and other assets	38,006	48,470	386,790	493,282
Total assets	¥ 196,880	¥ 209,452	\$ 2,003,664	\$ 2,131,610

TAKASAGO THERMAL ENGINEERING CO., LTD.  
CONSOLIDATED BALANCE SHEETS  
March 31, 2009 and 2008

<u>LIABILITIES AND NET ASSETS</u>	Millions of yen		Thousands of U.S. dollars (Note1)	
	2009	2008	2009	2008
<b>Current liabilities:</b>				
Bank loans (Note 8)	¥ 4,000	¥ 4,820	\$ 40,708	\$ 49,054
Long-term debt due within one year (Notes 3 and 8)	119	537	1,211	5,465
Notes and accounts payable	83,527	93,153	850,061	948,026
Advances received on uncompleted contracts	16,204	7,564	164,909	76,979
Income taxes payable (Note 9)	1,763	1,758	17,942	17,891
Allowance for claim expenses	470	482	4,783	4,905
Allowance for losses on construction contracts	611	690	6,218	7,022
Allowance for directors' and corporate auditors' bonuses	127	113	1,292	1,150
Other current liabilities	4,856	7,125	49,422	72,512
Total current liabilities	111,677	116,242	1,136,546	1,183,004
<b>Long-term liabilities:</b>				
Long-term debt (Notes 3 and 8)	266	111	2,707	1,130
Employees' severance and retirement benefits (Note 10)	3,080	2,807	31,345	28,567
Allowance for accrued severance indemnities to directors and corporate auditors	528	586	5,373	5,964
Deferred tax liabilities (Note 9)	-	1,523	-	15,500
Other non-current liabilities	110	105	1,121	1,068
Total long-term liabilities	3,984	5,132	40,546	52,229
<b>Contingent liabilities (Note 12)</b>				
<b>Net assets (Note 11):</b>				
<b>Common stock:</b>				
Authorized - 200,000,000 shares				
Issued - 85,765,768 shares	13,135	13,135	133,676	133,676
Capital surplus	12,854	12,854	130,816	130,816
Retained earnings	58,909	58,376	599,522	594,097
Treasury stock, at cost	(4,148)	(2,335)	(42,215)	(23,763)
Net unrealized holding gains on securities, net of taxes	519	5,541	5,282	56,391
Foreign currency translation adjustments	(283)	186	(2,880)	1,893
Minority interests	233	321	2,371	3,267
Total net assets	81,219	88,078	826,572	896,377
Total liabilities and net assets	¥ 196,880	¥ 209,452	\$ 2,003,664	\$ 2,131,610

TAKASAGO THERMAL ENGINEERING CO., LTD.  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Net sales (Note 17)	¥ 214,216	¥ 243,377	\$ 2,180,094	\$ 2,476,867
Costs and expenses (Note 17):				
Cost of sales	189,420	221,084	1,927,743	2,249,990
Selling, general and administrative expenses	17,115	16,446	174,181	167,372
	<u>206,535</u>	<u>237,530</u>	<u>2,101,924</u>	<u>2,417,362</u>
Operating income	7,681	5,847	78,170	59,505
Other income (expenses):				
Interest and dividend income	693	781	7,053	7,948
Insurance benefits and dividend	210	236	2,137	2,402
Interest expense	(114)	(171)	(1,160)	(1,740)
Foreign currency exchange gain or loss, net	(150)	(172)	(1,527)	(1,750)
Gain or loss on sale of securities, net (Note 5)	452	227	4,600	2,310
Write-down of investment securities	(2,421)	(349)	(24,639)	(3,552)
Gain or loss on sale of property, plant and equipment, net	(5)	6	(51)	61
Loss on disposal of property, plant and equipment	(135)	(179)	(1,374)	(1,822)
Unrealized loss on evaluation of financial instruments with embedded derivatives (Notes 5 and 7)	(171)	(360)	(1,740)	(3,664)
Allowance for doubtful accounts (Note 16)	(324)	-	(3,297)	-
Loss on impairment of fixed assets (Note 14)	-	(19)	-	(193)
Loss on liquidation of a subsidiary (Note 15)	-	(237)	-	(2,412)
Other-net	6	2	61	21
	<u>(1,959)</u>	<u>(235)</u>	<u>(19,937)</u>	<u>(2,391)</u>
Income before income taxes and minority interests	5,722	5,612	58,233	57,114
Income taxes (Note 9) :				
Current	2,565	2,284	26,104	23,244
Deferred	138	305	1,404	3,104
Prior year adjustment	191	-	1,944	-
	<u>2,894</u>	<u>2,589</u>	<u>29,452</u>	<u>26,348</u>
Minority interests in net income	23	45	234	459
Net income	<u>¥ 2,805</u>	<u>¥ 2,978</u>	<u>\$ 28,547</u>	<u>\$ 30,307</u>

	Yen		U.S. dollars (Note 1)	
	2009	2008	2009	2008
Amounts per share of common stock :				
Net income	¥ 34.27	¥ 36.03	\$ 0.35	\$ 0.37
Cash dividends applicable to the year	25.00	25.00	0.25	0.25

TAKASAGO THERMAL ENGINEERING CO., LTD  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
Years ended March 31, 2009 and 2008

	Millions of yen									
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007	85,765,768	¥ 13,135	¥ 12,854	¥ 56,789	¥ (2,297)	¥ 13,500	¥ (1)	¥ 147	-	¥ 94,127
Net income	-	-	-	2,978	-	-	-	-	-	2,978
Changes in retained earnings for newly consolidated subsidiaries	-	-	-	262	-	-	-	-	-	262
Purchases of treasury stock	-	-	-	-	(38)	-	-	-	-	(38)
Cash dividends paid (¥20.00 per share)	-	-	-	(1,653)	-	-	-	-	-	(1,653)
Net changes during the year	-	-	-	-	-	(7,959)	1	39	321	(7,598)
Balance at March 31, 2008	85,765,768	¥ 13,135	¥ 12,854	¥ 58,376	¥ (2,335)	¥ 5,541	-	¥ 186	¥ 321	¥ 88,078
Net income	-	-	-	2,805	-	-	-	-	-	2,805
Changes in retained earnings for newly consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	-	-	(1,814)	-	-	-	-	(1,814)
Disposal of treasury stock	-	-	-	-	1	-	-	-	-	1
Cash dividends paid (¥27.50 per share)	-	-	-	(2,272)	-	-	-	-	-	(2,272)
Net changes during the year	-	-	-	-	-	(5,022)	-	(469)	(88)	(5,579)
Balance at March 31, 2009	85,765,768	¥ 13,135	¥ 12,854	¥ 58,909	¥ (4,148)	¥ 519	-	¥ (283)	¥ 233	¥ 81,219

Thousands of U.S. dollars (Note 1)

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007	\$ 133,676	\$ 130,816	\$ 577,946	\$ (23,377)	\$ 137,391	\$ (10)	\$ 1,496	-	\$ 957,938
Net income	-	-	30,307	-	-	-	-	-	30,307
Changes in retained earnings for newly consolidated subsidiaries	-	-	2,666	-	-	-	-	-	2,666
Purchases of treasury stock	-	-	-	(386)	-	-	-	-	(386)
Cash dividends paid (\$0.20 per share)	-	-	(16,822)	-	-	-	-	-	(16,822)
Net changes during the year	-	-	-	-	(81,000)	10	397	3,267	(77,326)
Balance at March 31, 2008	133,676	130,816	594,097	(23,763)	56,391	-	1,893	3,267	896,377
Net income	-	-	28,547	-	-	-	-	-	28,547
Changes in retained earnings for newly consolidated subsidiaries	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	-	(18,461)	-	-	-	-	(18,461)
Disposal of treasury stock	-	-	-	9	-	-	-	-	9
Cash dividends paid (\$0.28 per share)	-	-	(23,122)	-	-	-	-	-	(23,122)
Net changes during the year	-	-	-	-	(51,109)	-	(4,773)	(896)	(56,778)
Balance at March 31, 2009	\$ 133,676	\$ 130,816	\$ 599,522	\$ (42,215)	\$ 5,282	-	\$ (2,880)	\$ 2,371	\$ 826,572

TAKASAGO THERMAL ENGINEERING CO., LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
	¥	¥	\$	\$
Cash flows from operating activities:				
Income before income taxes and minority interests	5,722	5,612	58,233	57,114
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:				
Depreciation and amortization	696	539	7,083	5,485
Goodwill amortization	20	-	204	-
Loss on impairment	-	19	-	193
Increase in allowance for doubtful accounts	349	58	3,552	590
Gain on sale of marketable and investment securities	(452)	(227)	(4,600)	(2,310)
Loss on evaluation of marketable and investment securities	2,421	349	24,639	3,552
Unrealized loss on evaluation of financial instruments with embedded derivatives	171	360	1,740	3,664
Increase (Decrease) in allowance for losses on construction contracts	(79)	(490)	(804)	(4,987)
Increase (Decrease) in liabilities for retirement benefits for employees and directors	(81)	(924)	(824)	(9,404)
Decrease (Increase) in trade receivables	12,230	876	124,466	8,915
Decrease (Increase) in cost of uncompleted contracts	(13,054)	4,662	(132,852)	47,446
Increase (Decrease) in trade payables	(9,024)	(3,309)	(91,838)	(33,676)
Increase (Decrease) in advances received on uncompleted contracts	8,645	(3,349)	87,981	(34,083)
Other-net	(2,976)	926	(30,287)	9,424
Subtotal	4,588	5,102	46,693	51,923
Interest and dividends received	713	828	7,256	8,427
Interest paid	(124)	(195)	(1,262)	(1,985)
Income taxes paid	(2,971)	(2,605)	(30,236)	(26,511)
Income taxes refund	224	-	2,280	-
Net cash provided by (used in) operating activities	2,430	3,130	24,731	31,854
Cash flows from investing activities:				
Increase in time deposits	(1,968)	(1,771)	(20,028)	(18,024)
Decrease in time deposits	2,358	3,176	23,998	32,322
Purchase of marketable and investment securities	(269)	(2,003)	(2,738)	(20,385)
Proceeds from sale of marketable and investment securities	929	1,388	9,455	14,126
Proceeds from redemption of marketable and investment securities	1,009	2,350	10,269	23,916
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(140)	-	(1,425)	-
Purchase of property, plant, equipment and intangible assets	(901)	(1,134)	(9,170)	(11,541)
Proceeds from sale of property, plant and equipment	12	46	122	468
Payments of long-term insurance contribution	(645)	(657)	(6,564)	(6,686)
Proceeds from long-term insurance contribution	921	1,338	9,373	13,617
Other-net	(45)	123	(459)	1,253
Net cash provided by (used in) investing activities	1,261	2,856	12,833	29,066
Cash flows from financing activities :				
Net decrease in bank loans	(920)	(388)	(9,363)	(3,949)
Proceeds from long-term debt	290	-	2,951	-
Repayments of long-term debt	(567)	(976)	(5,770)	(9,933)
Purchases of treasury stock	(1,814)	(38)	(18,461)	(387)
Cash dividends paid	(2,272)	(1,653)	(23,122)	(16,823)
Other-net	(7)	(7)	(72)	(70)
Net cash provided by (used in) financing activities	(5,290)	(3,062)	(53,837)	(31,162)
Effect of exchange rate change on cash and cash equivalents	(416)	17	(4,234)	172
Net increase (decrease) in cash and cash equivalents	(2,015)	2,941	(20,507)	29,930
Cash and cash equivalents at beginning of year	24,774	21,547	252,127	219,286
Increase in cash and cash equivalents due to change in scope of consolidation	-	286	-	2,911
Cash and cash equivalents at end of year (Note 4)	¥ 22,759	¥ 24,774	\$ 231,620	\$ 252,127

TAKASAGO THERMAL ENGINEERING CO., LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended March 31, 2009 and 2008

**1. Basis of presenting consolidated financial statements**

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan (the "FIEL") and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of Takasago Thermal Engineering Co., Ltd. (the "Company") prepared in accordance with Japanese Generally Accepted Accounting Principles and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the FIEL. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98.26 to U.S.\$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

**2. Summary of significant accounting policies**

Consolidation – The consolidated financial statements include the accounts of the Company and its significant subsidiaries (seven subsidiaries in 2009 and six subsidiaries in 2008). Investments in Nippon Flöda Co., Ltd., (which had changed its name from Nippon Fläkt K.K. on January 1, 2009) were accounted for under the equity method until the second quarter of the year ended March 31, 2009, and then its accounts were included into the accompanying consolidated financial statements since the Company acquired shares of Nippon Flöda Co., Ltd., and made it a subsidiary on October 1, 2008.

All significant inter-company transactions and accounts have been eliminated in consolidation.

The differences between acquisition costs and underlying net assets of investments in subsidiaries are recorded as goodwill and amortized over the expected periods to be benefited. In case amounts being not significant, they are charged to income at the dates of acquisition.

The fiscal year-end date of five subsidiaries (also five subsidiaries in 2008) is different from that of the Company. From the year ended March 31, 2009, Takasago Engineering Service Co., Ltd changed its fiscal year end from the end of February to the end of March. Therefore, the results of its operations and its cash flows of the consolidated subsidiary for the 13 months to March 31, 2009 were included in the accompanying consolidated financial statements for the year ended March 31, 2009. The Company has made necessary adjustments for significant transactions in the period from the fiscal year-end date of the subsidiaries to March 31.

Equity method – Investments in a 20 to 50 percent owned company are accounted for by the equity method.

Consolidated income includes the Company's current equity in net income of affiliated companies, after elimination of inter-company profits.

Investments in unconsolidated subsidiaries and affiliated companies are stated at cost as they are insignificant companies.

TAKASAGO THERMAL ENGINEERING CO., LTD.  
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Marketable securities and investment securities – Marketable securities and investment securities are classified, depending on management's intent, as follows: (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, and (c) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with fair market values are stated at fair market values. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using the moving-average cost.

Debt securities with no fair market values are stated at amortized cost, net of the amount considered not collectible. Other securities with no fair market values are stated at moving-average cost.

Inventories – Prior to April 1, 2008, inventories of the Company and consolidated domestic subsidiaries are stated at cost determined by the weighted-average method unless market value of inventories declines significantly and is not expected to recover to cost, in such cases cost is reduced to net realizable value. As discussed in Note 3, effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted a new accounting standard for measurement of inventories and stated the inventories at the lower of weighted-average cost or net realizable value at March 31, 2009.

Inventories of consolidated foreign subsidiaries are stated at the lower of weighted-average cost or market.

Property, plant and equipment – Property, plant and equipment are stated at cost. The Company and its consolidated domestic subsidiaries compute depreciation principally using the declining-balance method at rates based on their useful lives prescribed in the Japanese tax regulations. The consolidated overseas subsidiaries compute depreciation using the straight-line method.

Intangible assets – Intangible assets are amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over five years, the useful life applicable to commercially available software.

Leased properties – Property, plant and equipment capitalized under finance lease arrangements is depreciated over the estimated useful lives or the lease term of the respective assets.

Allowance for doubtful accounts – Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful accounts and an amount calculated using the rate of actual collection losses in the past with respect to the remaining receivables.

Allowance for directors' and corporate auditors' bonuses – Allowance for directors' and corporate auditors' bonuses is provided for the estimated amounts which the Company is obligated to pay to directors and corporate auditors subject to the resolution of the general shareholders' meeting subsequent to the fiscal year-end.

Allowance for claim expenses – Allowance for claim expenses is provided in amounts sufficient to cover probable claim expenses on completed contracts. It is provided based on the estimated amount of payments for future claims which may be filed on contracts completed during the year.

TAKASAGO THERMAL ENGINEERING CO., LTD.  
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Allowance for losses on construction contracts – Allowance for losses on construction contracts is provided in an amount sufficient to cover probable losses on construction contracts on hand when substantial losses in the future are anticipated and can be reasonably estimated.

Employees' severance and retirement benefits – The Company and its domestic consolidated subsidiaries provided allowances for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the year-end. Actuarial gains and losses are recognized as income or expense in equal amounts over 10 years commencing from the subsequent period.

Certain consolidated domestic subsidiaries of the Company have a retirement benefit plan applied the simplification method. Under the simplified method, retirement benefits have been provided at an amount calculated based on the retirement benefit obligation which would be required to be paid if all the eligible employees voluntarily terminated their employment at the consolidated balance sheet date.

Allowance for accrued severance indemnities to directors and corporate auditors – Allowance for accrued severance indemnities to directors and corporate auditors was accrued in an amount as 100% of benefit obligation based on their policy required under the assumption that all directors and corporate auditors retired at the balance sheet date.

Construction contracts – Construction contracts of the Company are accounted for by the completed-contract method. Expenditures on uncompleted contracts to be charged to cost of contracts at the time of completion are included in current assets. These expenditures are not offset against advances received on uncompleted contracts, which are instead included in current liabilities. No profits or losses, therefore, are recognized before the completion of the work.

Construction contracts which will be collected in long-term installment payments are accounted for on the installment basis in accordance with Japanese tax regulations. For the years ended March 31, 2009 and 2008, no such contracts were outstanding. Construction contracts of the overseas subsidiaries are accounted for by the percentage-of-completion method.

Income taxes – The provision for income taxes is computed based on the pretax income included in the consolidated statement of income.

Deferred income taxes are determined using the asset and liability method, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

Foreign currency translation – Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates with the resulting gain or loss included in the current statements of income.

The financial statements of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates except for net assets accounts, which are translated at the historical rates. The resulting foreign currency translation adjustments are included in "Foreign currency translation adjustments" and "Minority interests" of net assets in the consolidated balance sheets.

Amounts per share – Net income per share is calculated by dividing net income available to common shares by the weighted average number of common shares outstanding during the year.

Diluted net income per share is not presented, since the Company has never issued any dilutive securities.

Cash dividends per share shown for each year represent dividends declared as applicable to the respective years.

TAKASAGO THERMAL ENGINEERING CO., LTD.  
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Cash and cash equivalents – In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Derivatives and hedge accounting – The Company uses derivative financial instruments to manage its exposure to fluctuations in interest rates. Interest rate swaps are utilized by the Company to reduce interest rate risks. The Company does not enter into derivatives transactions for trading purposes or speculative purposes.

The Company states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in fair value of derivative financial instruments is deferred until the related losses or gains on the hedged items are recognized.

In cases where the interest rate swap contracts are used for hedging purposes and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Reclassification and restatement – Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or retained earnings.

### **3. Application of new accounting standards**

Measurement of inventories – On July 5, 2006, the Accounting Standards Board of Japan issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories”. As permitted under the superseded accounting standard, the Company and consolidated domestic subsidiaries previously stated inventories at cost unless market value of inventories declined significantly and not deemed recoverable, in such cases costs were reduced to recoverable amounts. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses. Replacement cost may be used in lieu of the net realizable value, if appropriate.

This change had no material impact on consolidated statements of income for the year ended March 31, 2009.

Accounting for lease – Prior to the year ended March 31, 2009, the Company and consolidated domestic subsidiaries accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain “as if capitalized” information in the notes to the consolidated financial statements.

On March 31, 2007, the Accounting Standards Board of Japan issued Statement No. 13, “Accounting Standard for Lease Transactions” and Guidance No. 16, “Guidance on Accounting Standard for Lease Transactions”. The new accounting standards require that all finance lease transactions be treated as capital leases.

Effective from the year ended March 31, 2009, the Company and consolidated domestic subsidiaries adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain “as if capitalized” information.

This change had no impact on consolidated statements of income for the year ended March 31, 2009.

TAKASAGO THERMAL ENGINEERING CO., LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended March 31, 2009 and 2008

Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements  
– Effective for the year ended March 31, 2009, the Company and its subsidiaries have adopted Practical Issues Task Force (PITF) No.18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements” issued by the ASBJ on May 17, 2006 and made necessary adjustments in its consolidation process.

There were no effects as a result of adopting the PITF No.18 on the consolidated financial statements for the year ended March 31, 2009.

**4. Cash and cash equivalents**

Cash and cash equivalents at March 31, 2009 and 2008 on the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Cash and time deposits	¥ 24,170	¥ 26,574	\$ 245,980	\$ 270,446
Less: Time deposits over three months	(1,411)	(1,800)	(14,360)	(18,319)
Cash and cash equivalents	<u>¥ 22,759</u>	<u>¥ 24,774</u>	<u>\$ 231,620</u>	<u>\$ 252,127</u>

**5. Market value information for securities**

(1) At March 31, 2009 and 2008, acquisition cost, book value and fair value of securities with available fair values were as follows:

(a) Held-to-maturity debt securities with fair values exceeding book values

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Book value	¥ 500	¥ 500	\$ 5,089	\$ 5,089
Fair value	507	511	5,160	5,201
Difference	<u>¥ 7</u>	<u>¥ 11</u>	<u>\$ 71</u>	<u>\$ 112</u>

There were no held-to-maturity debt securities with fair values not exceeding book values at March 31, 2009 and 2008.

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**5. Market value information for securities (cont'd)**

(b) Available-for-sale securities

	Millions of yen		
	2009		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition cost:			
Equity securities	¥ 8,133	¥ 11,679	¥ 3,546
Bonds	—	—	—
Others	—	—	—
Total	¥ 8,133	¥ 11,679	¥ 3,546
Securities with book values (fair value) not exceeding acquisition cost:			
Equity securities	¥ 12,172	¥ 9,397	¥ (2,775)
Bonds	1,568	1,466	(102)
Others	246	205	(41)
Total	¥ 13,986	¥ 11,068	¥ (2,918)
	Millions of yen		
	2008		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition cost:			
Equity securities	¥ 13,057	¥ 23,962	¥ 10,905
Bonds	—	—	—
Others	—	—	—
Total	¥ 13,057	¥ 23,962	¥ 10,905
Securities with book values (fair value) not exceeding acquisition cost:			
Equity securities	¥ 9,870	¥ 7,969	¥ (1,901)
Bonds	1,739	1,690	(49)
Others	303	278	(25)
Total	¥ 11,912	¥ 9,937	¥ (1,975)

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**5. Market value information for securities (cont'd)**

	Thousands of U.S. dollars (Note 1)		
	2009		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition cost:			
Equity securities	\$ 82,770	\$ 118,858	\$ 36,088
Bonds	—	—	—
Others	—	—	—
Total	\$ 82,770	\$ 118,858	\$ 36,088
Securities with book values (fair value) not exceeding acquisition cost:			
Equity securities	\$ 123,875	\$ 95,634	\$ (28,241)
Bonds	15,958	14,920	(1,038)
Others	2,504	2,086	(418)
Total	\$ 142,337	\$ 112,640	\$ (29,697)

	Thousands of U.S. dollars (Note 1)		
	2008		
	Acquisition cost	Book value	Difference
Securities with book values (fair value) exceeding acquisition cost:			
Equity securities	\$ 132,882	\$ 243,863	\$ 110,981
Bonds	—	—	—
Others	—	—	—
Total	\$ 132,882	\$ 243,863	\$ 110,981
Securities with book values (fair value) not exceeding acquisition cost:			
Equity securities	\$ 100,448	\$ 81,101	\$ (19,347)
Bonds	17,698	17,199	(499)
Others	3,084	2,830	(254)
Total	\$ 121,230	\$ 101,130	\$ (20,100)

“Bonds” of securities with book values (fair value) not exceeding acquisition cost in the above tables, includes unrealized loss on revaluation of financial instruments with embedded derivatives. As for details, refer to the “7. Derivative transactions” section.

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**5. Market value information for securities (cont'd)**

(c) Other securities which were sold during the current consolidated fiscal year.

		Millions of yen		
		2009		
		The amount of sale	Profit on sale	Loss on sale
Other securities		¥ 931	¥ 452	—
		Millions of yen		
		2008		
		The amount of sale	Profit on sale	Loss on sale
Other securities		¥ 1,351	¥ 229	¥ 2
		Thousands of U.S. dollars		
		2009		
		The amount of sale	Profit on sale	Loss on sale
Other securities		\$ 9,475	\$ 4,600	—
		Thousands of U.S. dollars		
		2008		
		The amount of sale	Profit on sale	Loss on sale
Other securities		\$ 13,749	\$ 2,331	\$ 20

(2) At March 31, 2009 and 2008, the book values of securities with no available fair values were as follows:

Available-for-sale securities

		Millions of yen		Thousands of U.S. dollars (Note 1)	
		2009	2008	2009	2008
Non-listed bond		¥ 1	¥ 2	\$ 10	\$ 20
Non-listed equity securities		1,052	1,019	10,706	10,370
Non-listed investments in preferred stock		—	1,000	—	10,177
Other		—	1	—	11
Total		¥ 1,053	¥ 2,022	\$ 10,716	\$ 20,578

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**5. Market value information for securities (cont'd)**

- (3) At March 31, 2009 and 2008, the maturities of available-for-sale securities with maturity and held-to-maturity debt securities were as follows:

	Millions of yen				Total
	2009				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Bonds:					
Government bonds	¥ 500	¥ —	¥ —	¥ —	¥ 500
Corporate bonds	—	331	—	—	332
Others	—	—	—	1,135	1,135
Others	—	47	—	—	47
Total	¥ 500	¥ 378	¥ 1	¥ 1,135	¥ 2,014

	Millions of yen				Total
	2008				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Bonds:					
Government bonds	¥ —	¥ 500	¥ —	¥ —	¥ 500
Corporate bonds	1	396	1	—	398
Others	—	—	—	1,294	1,294
Others	—	78	—	—	78
Total	¥ 1	¥ 974	¥ 1	¥ 1,294	¥ 2,270

	Thousands of U.S. dollars (Note 1)				Total
	2009				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Bonds:					
Government bonds	\$ 5,089	\$ —	\$ —	\$ —	\$ 5,089
Corporate bonds	—	3,369	10	—	3,379
Others	—	—	—	11,551	11,551
Others	—	478	—	—	478
Total	\$ 5,089	\$ 3,847	\$ 10	\$ 11,551	\$ 20,497

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**5. Market value information for securities (cont'd)**

	Thousands of U.S. dollars (Note 1)				Total
	2008				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
Bonds:					
Government bonds	\$ —	\$ 5,089	\$ —	\$ —	\$ 5,089
Corporate bonds	10	4,030	10	—	4,050
Others	—	—	—	13,169	13,169
Others	—	794	—	—	794
Total	<u>\$ 10</u>	<u>\$ 9,913</u>	<u>\$ 10</u>	<u>\$13,169</u>	<u>\$ 23,102</u>

**6. Cost of uncompleted contracts and other inventories**

Cost of uncompleted contracts and other inventories at March 31, 2009 consisted of the following items. Details of cost of uncompleted contracts and other inventories at March 31, 2008 were not required to be disclosed.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2009	2009
	Cost of uncompleted contracts	¥ 30,629
Merchandise and finished goods	439	4,468
Work in process	15	153
Raw materials and supplies	321	3,266
	<u>¥ 31,404</u>	<u>\$ 319,601</u>

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**7. Derivative transactions**

(1) Qualitative disclosure about derivatives

(a) Types, purpose and policy related to derivative instruments

The Company has the derivatives which are embedded into debenture certificate, for the purpose to utilize surplus funds. The Company does not hold or issue derivatives for trading or speculative purposes.

(b) Risks related to derivative instruments

The derivatives which are embedded into debenture certificate have risks due to fluctuations in foreign exchange rates. The Company believes that the overall credit risks related to its financial instruments are low since counterparties to the Company represent major financial institutions with high creditworthiness.

(c) Controls over derivative transactions

The derivatives transactions are executed and controlled by the Accounting Section in the Accounting Department in accordance with company regulation, which stipulates authorization procedure for derivative transaction. The status of the transactions are periodically reported to the Board of Directors.

(d) Other

The consolidated subsidiaries do not enter into derivatives transactions.

(2) Quantitative disclosure about derivatives

At March 31, 2009 and 2008, derivatives of fair value and the unrealized losses were as follows:

		Millions of yen		
		2009		
		The amount of contract	Fair value	Difference
	Other securities	¥ 1,100	¥ 568	¥ (532)
	Total	¥ 1,100	¥ 568	¥ (532)
		Millions of yen		
		2008		
		The amount of contract	Fair value	Difference
	Other securities	¥ 1,100	¥ 740	¥ (360)
	Total	¥ 1,100	¥ 740	¥ (360)

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**7. Derivative transactions (cont'd)**

		Thousands of U.S. dollars (Note 1)		
		2009		
		The amount of contract	Fair value	Difference
	Other securities			
		\$ 11,195	\$ 5,781	\$ (5,414)
	Total	\$ 11,195	\$ 5,781	\$ (5,414)
		Thousands of U.S. dollars (Note 1)		
		2008		
		The amount of contract	Fair value	Difference
	Other securities			
		\$ 11,195	\$ 7,531	\$ (3,664)
	Total	\$ 11,195	\$ 7,531	\$ (3,664)

The Company measures at fair value entire financial instruments containing embedded derivatives and recorded changes in fair value as gain or loss in the accompanying consolidated statements of income for the year ended March 31, 2009 and 2008. The amount of contract is based on acquisition cost of securities, and fair value is based on the amount indicated by financial institutions.

**8. Bank loans and long-term debt**

Bank loans at March 31, 2009 and 2008 represented short-term notes, bearing interest from 0.881% to 2.000% per annum and from 1.001% to 2.125% per annum, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

		Millions of yen		Thousands of U.S. dollars (Note 1)	
		2009	2008	2009	2008
Loans principally from banks and insurance companies:					
Unsecured, with interest rates ranging from					
1.345% to 2.00% in 2009					
1.25% to 2.56% in 2008					
		¥ 371	¥ 648	\$ 3,776	\$ 6,595
	Lease obligation	14	—	142	—
		385	648	3,918	6,595
	Less amount due within one year	(119)	(537)	(1,211)	(5,465)
	Long-term debt	¥ 266	¥ 111	\$ 2,707	\$ 1,130

As is customary in Japan, security must be given if requested by a lending bank and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debt payable to the bank. The Company and its consolidated domestic subsidiaries have never received any such request.

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**8. Bank loans and long-term debt (cont'd)**

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

<u>Years ending March 31,</u>	<u>Millions of yen</u>	<u>Thousands of U.S. dollars (Note 1)</u>
2010	¥ 116	\$ 1,181
2011	75	763
2012	180	1,832
2013	—	—
2014 and thereafter	—	—
<u>Total</u>	<u>¥ 371</u>	<u>\$ 3,776</u>

The annual maturities of lease obligation at March 31, 2009 were as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>	<u>Thousands of U.S. dollars (Note 1)</u>
2010	¥ 3	\$ 30
2011	3	31
2012	3	31
2013	3	31
2014 and thereafter	2	19
<u>Total</u>	<u>¥ 14</u>	<u>\$ 142</u>

At March 31, 2009 and 2008, no assets were pledged as collateral for long-term debt or guarantees.

The Company entered into lending commitments with 6 financial institutions for efficient financing. The unexecuted balances of lending commitments as of March 31, 2009 and 2008 were as follows:

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars (Note 1)</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Total lending commitments	¥ 5,000	¥ 8,000	\$ 50,885	\$ 81,417
Less amounts currently executed	—	—	—	—
Unexecuted balance	<u>¥ 5,000</u>	<u>¥ 8,000</u>	<u>\$ 50,885</u>	<u>\$ 81,417</u>

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**9. Income taxes**

Income taxes consist of corporation, enterprise and inhabitants' taxes. The aggregate normal effective statutory tax rate was approximately 40.6% for the years ended March 31, 2009 and 2008.

The following table summarizes the significant differences between the statutory tax rate and the Company and its consolidated subsidiaries' effective tax rates for financial statement purposes for the years ended March 31, 2009 and 2008:

	2009	2008
Statutory tax rate	40.6%	40.6%
Non-taxable dividend income	(3.2)	(3.4)
Non-deductible expenses	7.1	7.6
Per capita inhabitants' taxes	1.7	1.8
Valuation allowance	(1.5)	1.9
Intercompany dividend elimination	2.1	—
Lower income tax rates applicable to loss in certain overseas consolidated subsidiaries	1.8	—
Other	1.9	(2.4)
	50.5%	46.1%

Significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Deferred tax assets:				
Employees' severance and retirement benefits	¥ 1,508	¥ 1,605	\$ 15,347	\$ 16,334
Allowance for accrued severance indemnities to directors and corporate auditors	208	237	2,117	2,412
Write-down of investment securities	440	595	4,478	6,055
Net unrealized holding losses on securities	1,184	802	12,050	8,162
Write-down of golf membership	390	411	3,969	4,183
Software development expenses	343	301	3,491	3,063
Allowance for claim expenses	189	190	1,923	1,934
Allowance for losses on construction contracts	243	280	2,473	2,850
Accrued enterprise tax	175	190	1,781	1,934
Allowance for doubtful accounts	182	—	1,852	—
Others	743	776	7,561	7,897
Subtotal deferred tax assets	5,605	5,387	57,042	54,824
Valuation allowance	(1,000)	(1,043)	(10,177)	(10,615)
Total deferred tax assets	4,605	4,344	46,865	44,209
Deferred tax liabilities:				
Net unrealized holding gains on securities	(1,293)	(4,190)	(13,159)	(42,642)
Gains on security contribution to employees' retirement benefit trust	(464)	(464)	(4,722)	(4,722)
Total deferred liabilities	(1,757)	(4,654)	(17,881)	(47,364)
Net deferred tax assets (liabilities)	¥ 2,848	¥ (310)	\$ 28,984	\$ (3,155)

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**10. Employees' severance and retirement benefits**

The Company maintains a combination plan of lump-sum severance payment plan, defined benefit corporate pension plan and defined contribution pension plan. Lump-sum severance payment plan is funded with a pension trust in order to meet future severance payment. Certain of consolidated domestic subsidiaries maintain defined contribution pension plan and lump-sum severance payment plan.

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Projected benefit obligation	¥ 17,144	¥ 16,964	\$ 174,476	\$ 172,644
Unrecognized actuarial differences	(4,776)	(2,210)	(48,606)	(22,491)
Less fair value of pension assets	(9,930)	(12,060)	(101,058)	(122,736)
Prepaid pension costs	642	113	6,533	1,150
Allowance for severance and retirement benefits	<u>¥ 3,080</u>	<u>¥ 2,807</u>	<u>\$ 31,345</u>	<u>\$ 28,567</u>

Included in the consolidated statements of income for the years ended March 31, 2009 and 2008 was employees' severance and retirement benefit expense comprising of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Service costs – benefits earned during the year	¥ 594	¥ 620	\$ 6,045	\$ 6,310
Interest cost on projected benefit obligation	405	410	4,122	4,173
Expected return on plan assets	(361)	(420)	(3,674)	(4,274)
Amortization of actuarial differences	406	97	4,132	987
Others	216	222	2,198	2,259
Net severance and retirement benefit expense	<u>¥ 1,260</u>	<u>¥ 929</u>	<u>\$ 12,823</u>	<u>\$ 9,455</u>

The discount rate on benefit obligations used by the Company and its domestic consolidated subsidiary was 2.5% for the years ended March 31, 2009 and 2008, and the rate of expected return on plan assets used principally by the Company and its domestic consolidated subsidiary is 3.0% for the years ended March 31, 2009 and 2008. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses were recognized using the straight-line method over 10 years commencing from the succeeding period.

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**11. Net Assets**

The Japanese Corporate Law (“the Law”) became effective on May 1, 2006, replacing the Japanese Commercial Code (“the Code”). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations the entire amount paid for new share is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders’ meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders’ meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders’ meeting held on June 26, 2009, the shareholders approved cash dividends amounting to ¥1,007 million (\$10,248 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. Such appropriations are recognized in the period in which they are approved by the shareholders.

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**12. Contingent liabilities**

Contingent liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Guarantees of construction contracts	¥ 468	¥ —	\$ 4,763	\$ —
Guarantees of loans and others	214	1,089	2,178	11,083

**13. Pledged assets**

Assets pledged as collateral for guaranty of the business as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2009	2008	2009	2008
Time deposits	¥ 29	¥ 29	\$ 295	\$ 295

**14. Loss on impairment of fixed assets**

In connection with accounting for impairment of property, plant and equipment, the Company and its consolidated subsidiaries review the carrying amount of such assets by type.

The Company and its consolidated subsidiaries categorize business assets by type of management accounting, and assets used for the purpose of leases and idle assets without a specific future use by individual property type.

The Company recorded loss on impairment on the following assets for the year ended March 31, 2008:

Use	Balance Sheet Item	Location
Assets for rent	Land and Buildings	Nagoya, Aichi

For assets affected by significant decrease in fair market value during current fiscal year, their book values have been written down to the recoverable amount and such reduction in the amounts of ¥ 19 million (\$193 thousand) was recorded as loss on impairment of fixed assets. The impairment loss consists of ¥ 5 million (\$51 thousand) for buildings and ¥ 14 million (\$142 thousand) for land. The recoverable amounts for relevant assets are net selling price of them.

**15. Loss on liquidation of subsidiary**

At the Board of Directors' meeting held on January 24, 2008, the Board resolved to liquidate Takasago Philippines Inc., which was one of the Company's overseas non-consolidated subsidiaries. As a result, ¥237 million (\$2,412 thousand) of notes and accounts receivable-trade to them was unrecoverable at March 31, 2008.

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**16. Allowance for doubtful accounts**

The balance at March 31, 2009 included estimated uncollectible receivables to an ex-employee who committed corrupt practices.

**17. Segment information**

The Company and its consolidated subsidiaries operate principally in three industry segments: Construction, Equipment and Other.

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

2009	Millions of yen				Elimination and/or corporate	Consolidated
	Construction	Equipment	Other	Total		
Net sales:						
Outside customers	¥ 207,245	¥ 6,805	¥ 166	¥ 214,216	¥ —	¥ 214,216
Intersegment	—	694	62	756	(756)	—
Total	207,245	7,499	228	214,972	(756)	214,216
Costs and expenses	200,390	6,790	149	207,329	(794)	206,535
Operating income	¥ 6,855	¥ 709	¥ 79	¥ 7,643	¥ 38	¥ 7,681
Assets and others:						
Assets	¥ 189,813	¥ 7,060	¥ 942	¥ 197,815	¥ (935)	¥ 196,880
Depreciation	473	209	14	696	—	696
Capital Expenditures	695	113	2	810	—	810

2008	Millions of yen				Elimination and/or corporate	Consolidated
	Construction	Equipment	Other	Total		
Net sales:						
Outside customers	¥ 237,031	¥ 6,182	¥ 164	¥ 243,377	¥ —	¥ 243,377
Intersegment	—	791	59	850	(850)	—
Total	237,031	6,973	223	244,227	(850)	243,377
Costs and expenses	232,041	6,324	144	238,509	(979)	237,530
Operating income	¥ 4,990	¥ 649	¥ 79	¥ 5,718	¥ 129	¥ 5,847
Assets and others:						
Assets	¥ 202,217	¥ 7,036	¥ 966	¥ 210,219	¥ (767)	¥ 209,452
Depreciation	386	140	13	539	—	539
Loss on impairment	19	—	—	19	—	19
Capital Expenditures	1,107	321	3	1,431	—	1,431

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**17. Segment information (cont'd)**

2009	Thousands of U.S. dollars (Note 1)					
	Construction	Equipment	Other	Total	Elimination and/or corporate	Consolidated
Net sales:						
Outside customers	\$ 2,109,149	\$ 69,255	\$ 1,690	\$ 2,180,094	\$ —	\$ 2,180,094
Intersegment	—	7,063	631	7,694	(7,694)	—
Total	2,109,149	76,318	2,321	2,187,788	(7,694)	2,180,094
Costs and expenses	2,039,386	69,102	1,516	2,110,004	(8,080)	2,101,924
Operating income	<u>\$ 69,763</u>	<u>\$ 7,216</u>	<u>\$ 805</u>	<u>\$ 77,784</u>	<u>\$ 386</u>	<u>\$ 78,170</u>
Assets and others:						
Assets	\$ 1,931,742	\$ 71,850	\$ 9,587	\$ 2,013,179	\$ (9,515)	\$ 2,003,664
Depreciation	4,814	2,127	142	7,083	—	7,083
Capital Expenditures	7,073	1,150	20	8,243	—	8,243
2008	Thousands of U.S. dollars (Note 1)					
	Construction	Equipment	Other	Total	Elimination and/or corporate	Consolidated
Net sales:						
Outside customers	\$ 2,412,284	\$ 62,915	\$ 1,668	\$ 2,476,867	\$ —	\$ 2,476,867
Intersegment	—	8,050	601	8,651	(8,651)	—
Total	2,412,284	70,965	2,269	2,485,518	(8,651)	2,476,867
Costs and expenses	2,361,500	64,360	1,465	2,427,325	(9,963)	2,417,362
Operating income	<u>\$ 50,784</u>	<u>\$ 6,605</u>	<u>\$ 804</u>	<u>\$ 58,193</u>	<u>\$ 1,312</u>	<u>\$ 59,505</u>
Assets and others:						
Assets	\$ 2,057,979	\$ 71,606	\$ 9,830	\$ 2,139,415	\$ (7,805)	\$ 2,131,610
Depreciation	3,928	1,425	132	5,485	—	5,485
Loss on impairment	193	—	—	193	—	193
Capital Expenditures	11,266	3,267	30	14,563	—	14,563

Geographical segment information for the years ended March 31, 2009 and 2008, were not shown since aggregate sales of overseas subsidiaries were less than 10% of total net sales of all segments and aggregate assets of overseas subsidiaries were less than 10% of total assets of all segments.

Overseas sales for the years ended March 31, 2009 and 2008 were not shown since overseas sales were less than 10% of the consolidated net sales.

**18. Subsequent event**

The following appropriations of retained earnings at March 31, 2009 were approved at the annual meeting of shareholders of the Company held on June 26, 2009.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends		
¥12.5 (\$0.13) per share	¥ 1,007	\$ 10,248

## Independent Auditors' Report

To the Shareholders and Board of Directors of  
Takasago Thermal Engineering Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Takasago Thermal Engineering Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Takasago Thermal Engineering Co., Ltd. and subsidiaries as of March 31, 2009 and 2008, 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 years ended March 31, 2009 and 2008 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 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan  
June 26, 2009