



# **Annual Report 2008**

**TOKIMEC INC.**

## Description of Business

The TOKIMEC Group is engaged in the manufacture and sale of marine instruments, hydraulic equipment, aerospace and defense equipment, instruments and systems for industrial use.

## Financial Highlights

Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales .....	¥51,321	¥46,808	\$513,210
Operating income .....	3,848	3,284	38,480
Income before income taxes and minority interests .....	3,569	2,906	35,690
Net income .....	2,357	3,548	23,570
Total assets .....	48,903	48,814	489,030
Equity .....	20,440	19,063	204,400
	Yen		U.S. dollars
Per share of common stock:	2008	2007	2008
Net income (Note 14) .....	¥27.64	¥41.63	\$0.28
Cash dividends .....	5.00	3.00	0.05

Notes: 1. Yen amounts are translated, for convenience only, at the rate of ¥100=U.S. \$1.

2. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each year.

## Sales by Operating Segment

Year ended March 31, 2008

	Millions of yen	% to total	% change (2008/2007)
Marine Systems .....	¥11,578	22.6%	22.8%
Hydraulic and Pneumatic .....	14,561	28.4	2.7
Fluid Measurement .....	2,196	4.3	(5.7)
Defense and Communications .....	18,685	36.4	11.7
Others .....	4,301	8.4	3.9
Total .....	¥51,321	100.0%	9.6%

# To Our Shareholders

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## Review of Business Operations

The Japanese economy in the first part of the consolidated fiscal year had been on a path of moderate growth, buoyed by increased capital investments amid good corporate performance and steady consumer spending. Since the summer however, economic conditions have become lackluster, reflecting prevailing downside concerns associated with the US subprime mortgage problem, rising crude oil prices, and rise in yen currency.

Against this backdrop, the TOKIMEC Group embraced business policies that emphasized the promotion of greater efficiencies of our existing businesses and higher added value in order to further improve earnings, establishment of a strong earnings base with a growth-oriented restructuring of operations, and fulfillment of our social responsibilities as a corporate entity. Specific efforts in line with these policies included improving the efficiencies of each of our operational processes, furthering total cost down by promoting greater parts commonality and revising purchasing methods, and achieving higher added value in the products and services provided to overseas markets.

These efforts resulted in orders for the consolidated fiscal year which exceeded the last year for marine equipment and hydraulic & pneumatic equipment, although orders in the period declined for defense & communications equipment and fluid measurement equipment. For the Group overall, orders were ¥52,238 million, an increase of 8.8% over last year. Sales of marine equipment, hydraulic & pneumatic equipment, and defense & communications equipment registered gains over the last period and, despite a decrease in sales of fluid measurement equipment, overall Group sales were ¥51,321 million - an increase of 9.6% from the previous year.

Regarding profit and loss, with a 9.6% increase in sales over last year, operating income increased ¥564 million compared to the previous period to ¥3,848 million. Net income for the year was ¥2,357 million, which represented a decline of ¥1,192 million from the last year but with an increase of ¥1,798 million in adjustments for corporate taxes due to changes in tax effect accounting calculation methods, the result was an increase of ¥606 million in real terms.

Business operations by segments were as follows.

### *Marine Systems Business*

In the commercial vessel market, ship construction at major domestic shipyards remained at high level and bolstered by aggressive sales efforts centering on gyrocompasses, autopilots, and electronic chart display systems (ECDIS), we recorded increases in sales and orders over the previous year. In the coastal vessel market, a rebound in market conditions and increase in number of ships built resulted in gains in both orders and sales compared to last year.

Although there was a decline in orders in the government vessel market, increased construction of patrol vessels led to increased sales over the previous year. In the overseas market, there was a greater number of new ships built in Korea and China and increase in quantity of gyrocompass sets supplied to Europe and the US under OEM arrangements which, together with sales efforts targeting Turkey and India, enabled us to post gains in orders and sales. Building on last year's efforts, promotional activities and private seminars held for domestic and overseas ship owners and shipyards which focused on the ease of use and multi-functionality of our ECDIS system, were well received.

Business for components and parts for marine equipment repair in the commercial and coastal vessel markets remained brisk and, aided by growth in parts sales to the overseas market and as well as increases in repair & installation work, both orders and sales exceeded last year's levels.

Product launches during the year included the TRW-1000 weather facsimile receiver which was sales released in June, 2007. We also introduced into the market marine electric anticorrosion systems (CP-50A, CP-100A) as part of our sales expansion efforts aimed at the coastal vessel market.

Overall sales in this segment were ¥11,578 million which was an increase of ¥2,151 million (22.8%) compared to the previous year and operating income was ¥1,285 million, an increase of ¥644 million (100.5%) over the same period.

### *Hydraulic and Pneumatic Business*

In the plastics processing machinery market, business was negatively affected by the continuing trend from

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hydraulic to electric machines and postponements in automobile-related investments despite activities promoting close-up support and sales efforts at customers, resulting in declines in orders and sales compared to last year. Increases in capital investments in the machine tool and industrial machinery markets impacted favorably on our business and orders and sales in these sectors rose over the previous period. The pace of orders and sales to the construction machinery market continued at last year's high level as domestic and overseas demand for machinery continued brisk. In the overseas market, sales expansion efforts undertaken as production adjustments by customers in Korea, Taiwan, and China were coming to an end paid off in orders and sales which greatly exceeded the last year.

Supported by continuing favorable business for bulk carrier hatch cover hydraulic equipment, we recorded gains in order and sales of hydraulic systems over the previous year.

During the year we sales-released a direct drive pump control system with customized pumps for the industrial machinery market. For the construction machinery market, we product-launched a PRC3 Series transmitter for our special, low power pocket-sized radio remote control system as well as a new 8-channel version in the same configuration in addition to new controllers for mobile construction and aerial work platform vehicles.

As the result of these activities, overall sales in this segment were ¥14,561 million, an increase of ¥384 million (2.7%) over the previous year with an operating income of ¥1,813 million which was an increase of ¥92 million (4.8%) compared to the last period.

### ***Fluid Measurement Equipment Business***

In the public sector market, budgets related to our business remained comparatively firm despite general budget belt-tightening by government offices and agencies. With a growing trend toward comprehensive outsourcing of operations to the private sector however, competition has intensified as major foreign firms are now also participating in the process.

Under these circumstances and with a basic policy focus on sales to small and medium-sized cities, we undertook joint efforts with local dealers in seeking out demand opportunities. We also aggressively pursued sales activities directed at project renewals relating to agricultural water management systems. However budget postponements in the water supply and agricultural water markets impacted negatively and precipitated declines in orders and sales compared to last year.

In the private sector market, there were intensified investments related to energy-saving environmental measures as well as similar activity in the HVAC market. In response to the improving business conditions of industrial plant companies, efforts to expand sales channels for microwave

level gauges and ultrasonic flow meters resulted in gains in both orders and sales over the last period.

In overseas markets, there was favorable growth centering on ultrasonic flow meters in Korea. In addition, active efforts to promote sales of ultrasonic flow meters in the European and US water markets contributed to increases in orders and sales compared to last year.

Specific product activities in the period included market launch of the UFP-700C portable flow meter which is used to measure efficiencies of dams and other applications.

As the result, overall sales in this segment were ¥2,196 million, a decrease of ¥132 million (5.7%) compared to the previous year with operating income of ¥206 million which was a decline of ¥119 million (36.6%) from the last period.

### ***Defense and Communications Equipment Business***

In the defense market, total defense-related expenditures under the Mid-Term Defense Plan remained largely unchanged, declining 0.2% compared to the previous period.

Under these circumstances, we experienced a falloff in orders due to completion of the FPS-4 ground search radar system program and FPS-20 search radar system development upgrade project and decreases in repairs and parts for naval vessel and conventional aircraft equipment. However there were order gains attributable to increased volumes under the final contract for the F-2 support fighter radar warning system, rise in repair work related to the F-15 electronic systems avionics intermediate shop and FPS-20 search radar, new orders for next generation radio equipment for transport aircraft, new development work on the radar warning system for the U-125A search and rescue aircraft, increased volumes of patrol helicopter HLR-109C countermeasure sets, as well as growth in orders from the private sector - factors which boosted orders past the previous year.

Sales were negatively impacted by completion of the MLRS multiple launch rocket system program, decreased quantity of spares related to radar systems for the F-2 support fighter, completion of prototype programs pertaining to the FPS-4 search radar system and large size cargo aircraft, reduced repairs for FPS-20 search radar systems, and decreased quantities of imported parts which resulted in a decline compared to the last period.

In the maritime transport equipment market, we posted gains in orders and sales over last year with increases for Automatic Identification Systems (AIS), radar signal compression/decompression equipment, and radar systems.

In the communications equipment market, business for conventional products remained firm but orders declined due to the lack of large scale orders comparable to the antenna positioning control systems for mobile satellite

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communications received last year. However these systems helped to increase sales considerably over the previous year.

Specific product activities included the development and market release of advanced amplifier modules for PHS ground stations and RF devices for WiMAX systems - an application area which is expected to grow significantly.

Overall business results of this segment were sales of ¥18,685 million, an increase of ¥1,950 (11.7%) compared to the previous year and operating income of ¥452 million which was a decrease of ¥88 million (16.4%) compared to last year.

### ***Other Businesses***

In our printing inspection equipment and systems segment, we achieved good results from our sales efforts in Asia. However with the passing of the round of new equipment installations prompted by environmental restrictions and project contract deferrals, both orders and sales declined from the year before.

Brisk activity in the construction market resulted in an upswing in work volumes related to fire control equipment. Additionally, there were increases for fire extinguishing systems and associated renovation work for multi-level parking structures which were spurred by revisions in the Road Traffic Law and growth in multi-dwelling unit construction. This enabled us to post increases in orders and sales over last year.

In the midst of continuing fierce competition in our road and tunnel equipment segment, sales efforts focusing on new products for road applications developed in the prior year and increases in overseas tunneling projects generated gains in both orders and sales compared to the previous period.

With heightened demand for improved quality inspection and testing services related to our railway equipment segment, equipment sales and demand for track maintenance contract services remained strong, resulting in orders and sales which exceeded last year.

Active sales efforts in our information systems segment contributed to increases in orders and sales over the preceding year.

Overall results of these segments were sales of ¥4,301 million, an increase of ¥160 million (3.9%) over last year and operating income of ¥93 million, an increase of ¥220 million compared to the previous year.

### **Status of Cash Flow**

Cash and cash equivalents ("funds") on a consolidated basis for the fiscal year were ¥4,889 million which was a decrease of ¥466 million compared to the previous fiscal period. Cash flow from the various sources and factors involved are as follows.

### ***Cash Flow from Operating Activities***

Funds from sales activities were ¥1,857 million which was a decrease of ¥1,165 million compared to the previous year. This was mainly due to an increase in corporate taxes paid compared to last year.

### ***Cash Flow from Investing Activities***

Funds used in investment activities were ¥1,059 million which was an increase of ¥439 million compared to last year. This primarily reflected an increase in acquisition of fixed assets compared to last year.

### ***Cash Flow from Financing Activities***

Funds used in financing activities were ¥1,262 million which was a decrease of ¥4,605 compared to the previous year. This was due chiefly to a decrease in repayments of short-term debt compared to last year.

### ***The Tasks of the Company***

A deteriorating climate in corporate earnings and worries of a business recession have cast a cloud over the future of the country's economy - the conditions of which have been adversely affected by a slumping US economy reeling from financial concerns triggered by the subprime lending problem in addition to a slowdown in the economic growth rates in Europe and Asia prompted by the turmoil in financial markets and impact of the US economy and further exacerbated by skyrocketing crude oil prices, yen currency escalation, and falling stock prices.

Cognizant of this situation, we, as a Group, need to address specific tasks and goals which include the marshalling of the tangible and intangible management resources at our disposal which have been acquired over the years, in establishing a "cycle of growth" that will provide us with an ongoing competitive edge and the transformation of the company in manner which will provide lasting enhancement in corporate value and which will enable us to respond - with our own resources - to the challenges posed by a changing environment. Actions required to meet these goals will involve accelerating development of new products and new technologies that anticipate changes in market and customer needs and strengthening our product planning capabilities as well as R&D structure in order to provide us the means to support continual development and market introduction of products. With reference to both our overseas and domestic business, we will implement on a broad scale, a Group global strategy oriented toward development of new markets.

We will also focus on strengthening our production technology capabilities and upgrading our manufacturing system in order to boost productivity and cost competitiveness - actions which will allow us greater flexibility in dealing with changes in the business

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environment. In addition to expanding our areas of business, we will also consider business takeovers, tie-ups, and M&A to shore up insufficiencies that may exist in our management resources. We will strive to enhance corporate governance which upholds stakeholder trust and set up an internal controls system in addition to nurturing the human resources that engender corporate value, thereby ensuring the continuity and growth of our Group. As a strict policy, we also absolutely reject any involvement with asocial forces that may endanger the safety, order and well-being of society.

The basic policies which govern the company are described below.

Regarding the fiscal 2007 mid-term business plan established in March of 2007, we have undertaken improvement of corporate value by enhancing the competitive superiority of each business segment through the restructuring of our operating base which is predicated upon structural reform of our business and development and the strengthening of our human resources. Our management philosophy emphasizes the creation of products based on leading edge measurement, recognition, and control technologies and our contribution to society in supplying such products to our customers. Our employees are committed to diligently assimilating and applying our seven Code of Conduct guidelines, described below, which, in addition to customer satisfaction, address preservation of our environment and the observance of laws and regulations.

### ***Code of Conduct***

1. We shall strive relentlessly with imagination and creativity in developing the best products and technology.
2. We shall strive to create new products and businesses which anticipate the needs of the market.
3. We shall earn the trust of our customers by providing safe and secure products and services.
4. We shall hone individual skills and emphasize self-improvement in striving to become leaders in our respective fields.
5. We shall observe all applicable laws and regulations and as members of society, shall conduct ourselves in manner consistent with common sense and in accordance with the highest standards of integrity.
6. We shall strive to protect our beautiful natural environment and take good care of our precious resources.
7. With shared responsibility for corporate policy, each of us shall focus on achieving our goals with enthusiasm and sense of mission.

We are aware that a high morale of employees and their ability to carry out required tasks are essential factors which will determine whether we are able to successfully implement related measures and achieve improvement in corporate value. We recognize that enhancement in Group corporate value will demand that management and employees share the objectives and together insure that our management philosophy and code of conduct are tangibly reflected in our business, and as consequence, in the sustenance and enhancement of the profits of our shareholders.

In this context, there may be a case where an acquisition proposal arises from a party with a different awareness. Whether to accept or reject such proposal would be determined by the stockholders and it is necessary to ensure, in anticipation of such an occurrence, that there will be ample opportunity to study the proposal and enough time for the board of directors to gather the necessary information and consider and prepare possible alternative proposals to stockholders and enable negotiations with the party proposing the acquisition. We convened a board of directors meeting on 10 May, 2007 where we established a "large-scale acquisition rule" (defense against takeover) which outlines a clear and definite procedure which would be implemented before an actual takeover attempt by a party with the aim to deter any acquisition which would not only negatively impact corporate value but cause a drop in stockholder profits. This rule was presented and adopted during our 76th stockholder's meeting held on June 28, 2007 corporate value and to realize.

### ***Research and Development Activities***

The basic posture of the Group's R&D effort is the development of original products based on original technology. With its comparatively long range view, the company's MRD Center is tasked with fundamental and applications research as well as product developments which involve relatively long timeframes while individual divisions and affiliated subsidiaries carry out shorter term product development. The core technologies of the company include microwave, gyroscope, ultrasound, measurement, control, signal and image processing, and actuator technology.

Overall Group R&D expenditures totaled ¥2,503 million. The principal segments, objectives, and key accomplishments of our research and development efforts and associated R&D expenses are outlined as follows.

### ***Marine Systems***

The major focus of R&D efforts in this segment involved next generation navigational equipment and marine communications equipment designed to cope with innovations in information technology and activities related to revised International Maritime Organization (IMO) international standards. Specifically, research and development was carried out on gyrocompasses, autopilots, radars, and electronic chart display information systems. Accomplishments include the market release of a weather



facsimile receiver (TRW-1000) and marine electric anticorrosion systems (CP-50A/100A).

R&D expenditures related to these activities were ¥534 million.

### ***Hydraulic and Pneumatic Equipment***

R&D efforts in this segment were concentrated on hydraulic and pneumatic equipment and systems and related electronic controls. Specific product activities involved various types of pumps and control valves, hydraulic power units, hydraulic control systems, and electronic control equipment. Key concepts driving these efforts are energy savings and reliability improvement and accomplishments included market introduction of direct drive pump control systems for the machine tool market, and new controllers and new model special low power pocket-sized radio remote control system for construction vehicles and aerial work platforms.

R&D expenditures for these activities were ¥414 million.

### ***Fluid Measurement Equipment***

Research and development efforts were directed at fluid control measurement equipment and systems for next generation ultrasonic flow meters and microwave level gauges. Major achievements include market introduction of a portable flow meter (UFP-700C) which measures efficiencies of water turbines.

Related R&D expenditures for these activities were ¥168 million.

### ***Defense and Communications Equipment***

Research and development efforts focused on modernizing defense equipment including electronic warfare equipment and equipment for naval vessels as well as on technical innovations related to microwave components utilized in telecommunications systems. Specific defense-related research and development was carried out on upgrading radar warning receivers and enhancing performance of high frequency parts. Telecommunications-related business research and development focused on amplifier modules for wireless communication base stations, switches, RF-ID based premise entry/exit control systems, and antenna positioning control systems for mobile satellite communications. Achievements include mobile satellite communications antenna stabilizers for naval ships of the Maritime Self Defense Force, amplifier modules for advanced, high performance PHS ground stations, and RF devices for WiMAX applications.

R&D expenditures were ¥965 million.

### ***Other Equipment***

Other major business segments of the Group include printing inspection equipment and systems, fire extinguishing systems, road and tunnel equipment, and railway track maintenance equipment.

Development efforts related to printing inspection equipment and systems emphasized expanded printing pattern inspection functions. People-safe and environment-safe extinguishing systems are the focus of research and development of our fire extinguishing systems business segment. R&D efforts in our road and tunnel equipment segment, the focus of our TOKIMEC CONSTRUCTION SYSTEMS subsidiary, is centered on the automation of construction machinery. Railway track maintenance equipment is the primary business of our TOKIMEC RAIL TECHNO subsidiary and research and development is devoted to promoting manpower-savings and precision of railway track maintenance measurement equipment and systems. Major achievements related to railway maintenance equipment include market introduction of a platform clearance gauge (HMG-1), portable expansion gap gauge (PEG-1), new switch profile gauge (SPG-3) and new tracked cart type ultrasonic rail flaw detector (TRD-300).

R&D expenses for these activities were ¥422 million.

We have also begun to ship sample evaluation units of our multi-output, micro-inertial sensor (MESAG) system which was developed by our R&D Center.

I would like to sincerely thank the shareholders, customers, business partners, and other associates who have supported and cooperated with us during fiscal 2007. I look forward to your continued support and advice in the future.



Kenichi Waki  
President

# Consolidated Balance Sheets

## TOKIMEC INC. and Consolidated Subsidiaries

March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥4,889	¥5,356	\$48,890
Receivables—			
Trade notes .....	4,739	5,515	47,390
Trade accounts .....	12,600	10,301	126,000
Associated companies .....	476	351	4,760
Other .....	277	164	2,770
Allowance for doubtful accounts .....	(20)	(86)	(200)
Inventories (Note 4) .....	11,289	11,964	112,890
Deferred tax assets (Note 8) .....	850	856	8,500
Prepaid expenses and other current assets .....	336	230	3,360
<b>Total current assets</b> .....	<u>35,435</u>	<u>34,650</u>	<u>354,350</u>
<b>Property, plant and equipment:</b>			
Land .....	1,926	1,927	19,260
Buildings and structures .....	12,808	12,838	128,080
Machinery and equipment .....	14,500	14,480	145,000
Furniture and fixtures .....	10,370	10,366	103,700
Construction in progress .....	71	31	710
<b>Total</b> .....	<u>39,675</u>	<u>39,642</u>	<u>396,750</u>
Accumulated depreciation .....	(32,223)	(32,018)	(322,230)
<b>Net property, plant and equipment</b> .....	<u>7,452</u>	<u>7,624</u>	<u>74,520</u>
<b>Investments and other assets:</b>			
Investment securities (Note 3) .....	2,405	3,305	24,050
Investments in and advances to associated companies .....	534	438	5,340
Software .....	23	34	230
Goodwill .....	65	98	650
Deposits .....	1,028	1,022	10,280
Deferred tax assets (Note 8) .....	1,778	1,479	17,780
Other assets .....	273	234	2,730
Allowance for doubtful accounts .....	(91)	(70)	(910)
<b>Total investments and other assets</b> .....	<u>6,016</u>	<u>6,540</u>	<u>60,160</u>
<b>Total</b> .....	<u>¥48,903</u>	<u>¥48,814</u>	<u>\$489,030</u>

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Note 5) .....	¥5,693	¥5,959	\$56,930
Current portion of long-term debt (Note 5) .....	3,979	1,534	39,790
Payables—			
Trade notes .....	1,133	1,150	11,330
Trade accounts .....	6,121	5,490	61,210
Associated companies .....	1	1	10
Other .....	496	560	4,960
Income taxes payable .....	493	1,624	4,930
Accrued bonuses .....	1,129	1,005	11,290
Accrued expenses .....	1,347	1,292	13,470
Other current liabilities .....	543	260	5,430
<b>Total current liabilities</b> .....	<u>20,934</u>	<u>18,876</u>	<u>209,340</u>
<b>Long-term liabilities:</b>			
Long-term debt (Note 5) .....	2,092	5,101	20,920
Liability for retirement benefits (Note 6) .....	5,422	5,755	54,220
Deposits received .....	13	11	130
Deferred tax liabilities (Note 8) .....	2	8	20
<b>Total long-term liabilities</b> .....	<u>7,529</u>	<u>10,874</u>	<u>75,290</u>
<b>Commitments and contingent liabilities</b> (Notes 11 and 13)			
<b>Equity</b> (Notes 7 and 15):			
Common stock,			
Authorized, 250,000,000 shares			
Issued, 85,382,196 shares in 2008 and 2007 .....	7,218	7,218	72,180
Capital surplus .....	14	14	140
Retained earnings .....	12,377	10,455	123,770
Unrealized gain on available-for-sale securities .....	665	1,177	6,650
Foreign currency translation adjustments .....	39	68	390
Treasury stock —at cost			
124,979 shares in 2008 and 107,535 shares in 2007 .....	(23)	(18)	(230)
<b>Total</b> .....	<u>20,289</u>	<u>18,914</u>	<u>202,890</u>
Minority interests .....	151	150	1,510
<b>Total equity</b> .....	<u>20,440</u>	<u>19,063</u>	<u>204,400</u>
<b>Total</b> .....	<u>¥48,903</u>	<u>¥48,814</u>	<u>\$489,030</u>

See notes to consolidated financial statements.



# Consolidated Statements of Income

## TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>Net sales</b> (Note 9).....	<u>¥51,321</u>	<u>¥46,808</u>	<u>\$513,210</u>
<b>Cost of sales</b> (Notes 9 and 10) .....	<u>38,186</u>	<u>34,667</u>	<u>381,860</u>
<b>Gross profit</b> .....	<u>13,135</u>	<u>12,141</u>	<u>131,350</u>
<b>Selling, general and administrative expenses</b> (Note 10) .....	<u>9,287</u>	<u>8,858</u>	<u>92,870</u>
<b>Operating income</b> .....	<u>3,848</u>	<u>3,284</u>	<u>38,480</u>
<b>Other income (expenses):</b>			
Interest and dividend income.....	90	65	900
Equity in earnings of associated companies .....	30	57	300
Loss on devaluation of investment securities .....	(53)	(116)	(530)
Gains from sales of investment securities .....		2	
Interest expense .....	(195)	(190)	(1,950)
Loss on sales and disposals of property, plant and equipment .....	(29)	(43)	(290)
Loss on disposals of inventories .....	(216)	(235)	(2,160)
Other-net.....	93	83	930
<b>Other expenses-net</b> .....	<u>(279)</u>	<u>(378)</u>	<u>(2,790)</u>
<b>Income before income taxes and minority interests</b> .....	<u>3,569</u>	<u>2,906</u>	<u>35,690</u>
<b>Income taxes</b> (Note 8):			
Current.....	1,166	1,647	11,660
Deferred.....	42	(2,285)	420
Total .....	<u>1,208</u>	<u>(638)</u>	<u>12,080</u>
<b>Minority interests in net income (loss) of consolidated subsidiaries</b> .....	<u>4</u>	<u>(5)</u>	<u>40</u>
<b>Net income</b> .....	<u>¥2,357</u>	<u>¥3,548</u>	<u>\$23,570</u>
<b>Per share of common stock</b> (Notes 2 and 14):	Yen		U.S. dollars
	2008	2007	2008
Net income .....	<u>¥27.64</u>	<u>¥41.63</u>	<u>\$0.28</u>
Cash dividends.....	<u>5.00</u>	<u>3.00</u>	<u>0.05</u>

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

## TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2008 and 2007

Millions of yen										
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
<b>Balance at April 1, 2006</b> .....	85,286,371	¥7,218	¥14	¥7,163	¥1,395	¥1	¥(15)	¥15,775		¥15,775
Reclassified balance as of March 31,2006 (Note2) .....									¥131	131
Net income .....				3,548				3,548		3,548
Purchase of treasury stock .....	11,710						(3)	(3)		(3)
Cash dividends, ¥3 per share .....				(256)				(256)		(256)
Net change in the year .....					(218)	67		(151)	19	(132)
<b>Balance at March 31, 2007</b> .....	85,274,661	7,218	14	10,455	1,177	68	(18)	18,914	150	19,063
Net income .....				2,357				2,537		2,357
Purchase of treasury stock .....	17,444						(5)	(5)		(5)
Cash dividends, ¥5 per share .....				(426)				(426)		(426)
Decrease due to application of equity method for new affiliates .....				(9)				(9)		(9)
Net change in the year .....					(513)	(29)		(542)	2	(540)
<b>Balance at March 31, 2008</b> .....	<u>85,257,217</u>	<u>¥7,218</u>	<u>¥14</u>	<u>¥12,377</u>	<u>¥665</u>	<u>¥39</u>	<u>¥(23)</u>	<u>¥20,289</u>	<u>¥151</u>	<u>¥20,440</u>

	Thousands of U.S. dollars(Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at March 31, 2007	\$72,180	\$140	\$104,550	\$11,770	\$680	\$(180)	\$189,140	\$1,500	\$190,630
Net income			23,570				23,570		23,570
Purchase of treasury stock						(50)	(50)		(50)
Cash dividends, ¥5 per share			(4,260)				(4,260)		(4,260)
Decrease due to application of equity method for new affiliates			(90)				(90)		(90)
Net change in the year				(5,130)	(290)		(5,420)	20	(5,400)
Balance at March 31, 2008	\$72,180	\$140	\$123,770	\$6,650	\$390	\$(230)	\$202,890	\$1,510	\$204,400

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

## TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>Operating activities:</b>			
Income before income taxes and minority interests .....	¥3,569	¥2,906	\$35,690
Adjustments for:			
Income taxes - paid .....	(2,266)	(181)	(22,660)
Depreciation .....	1,089	790	10,890
Increase in accrued bonuses .....	124	104	1,240
(Decrease) increase in allowance for doubtful accounts .....	(45)	2	(450)
(Decrease) increase in liability for retirement benefits .....	(332)	776	(3,320)
Gains from sales of investment securities .....		(2)	
Loss on devaluation of investment securities .....	53	116	530
Loss on sales and disposals of property, plant and equipment .....	29	43	290
Changes in assets and liabilities:			
Increase in receivables .....	(1,600)	(2,087)	(16,000)
Decrease (increase) in inventories .....	650	(130)	6,500
Increase in payables .....	614	515	6,140
Decrease in other assets .....	(269)	(38)	(2,690)
Increase in liabilities .....	206	195	2,060
Other-net .....	36	14	360
Total adjustments .....	(1,711)	117	(17,110)
Net cash provided by operating activities .....	1,857	3,022	18,570
<b>Investing activities:</b>			
Purchases of investment securities .....	(9)	(80)	(90)
Proceeds from sales of investment securities .....		7	
Proceeds from liquidation of unconsolidated subsidiary .....	7		70
Purchases of property, plant and equipment .....	(934)	(704)	(9,340)
Proceeds from sales of property, plant and equipment .....	14	13	140
Other-net .....	(137)	145	(1,370)
Net cash used in investing activities .....	(1,059)	(620)	(10,590)
<b>Financing activities:</b>			
Decrease in short-term bank loans-net .....	(266)	(3,927)	(2,660)
Proceeds from long-term debt .....	970	100	9,700
Repayments of long-term debt .....	(1,534)	(1,779)	(15,340)
Other-net .....	(432)	(261)	(4,320)
Net cash used in financing activities .....	(1,262)	(5,867)	(12,620)
<b>Foreign currency translation adjustments on cash and cash equivalents .....</b>	<b>(3)</b>	<b>1</b>	<b>(30)</b>
<b>Net decrease in cash and cash equivalents .....</b>	<b>(466)</b>	<b>(3,464)</b>	<b>(4,660)</b>
<b>Cash and cash equivalents, beginning of year .....</b>	<b>5,356</b>	<b>8,820</b>	<b>53,560</b>
<b>Cash and cash equivalents, end of year .....</b>	<b>¥4,889</b>	<b>¥5,356</b>	<b>\$48,890</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2008 and 2007

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) 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 of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition certain reclassifications have been made in the 2007 financial statements to conform to classifications and presentations used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKIMEC INC. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100 to \$1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen or one thousand U.S. dollars have been eliminated, except for per share data. As a result, totals may not add up exactly.

### 2. Summary of Significant Accounting Policies

#### **Consolidation**

The consolidated financial statements as of March 31, 2008 include the accounts of the Company and its ten significant (ten in 2007) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in three (two in 2007) associated companies are accounted for by the equity method.

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

The excess of the cost of the Group's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the fair value of the net assets at the respective dates of acquisition, is charged to income when the effect is immaterial.

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

#### **Cash Equivalents**

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months from the date of acquisition.

#### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the assets outstanding.

#### **Inventories**

The cost of finished goods and work in process is determined by the job identification cost method. Raw materials and supplies are stated at cost determined by the first-in, first-out method.

#### **Marketable and Investment Securities**

Marketable and investment securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

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**Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is computed on the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 8 to 65 years for buildings and structures, from 4 to 11 years for machinery and equipment, and from 2 to 15 years for furniture and fixtures.

Property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over five years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥ 192 million (\$ 1,920 thousand)

**Long-lived assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**Goodwill**

Goodwill on the purchase of specific business is amortized on a straight-line basis over five years.

**Software**

Purchased software costs are deferred and amortized over their useful lives.

**Accrued Bonuses**

An accrual is provided for bonuses to be paid to employees.

**Retirement and Pension Plans**

The Company has a non-contributory funded pension plan covering substantially all of its employees.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥ 7,627 million (\$ 76,270 thousand), determined as of the April 1, 2000, is being amortized over ten years.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

**Presentation of Equity**

On December 9, 2005, the Accounting Standard Board of Japan (the "ASBJ") published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting.

This standard is effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

**Research and Development Costs**

Research and development costs are charged to income as incurred.

**Leases**

Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. All other leases are accounted for as operating leases.

**Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

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Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

#### ***Appropriations of Retained Earnings***

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

#### ***Foreign Currency Transactions***

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

#### ***Foreign Currency Financial Statements***

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at historical rates.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the current exchange rate as of the balance sheet date.

#### ***Derivatives and Hedging Activities***

The Group uses interest rate swaps as a means of hedging exposure to interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

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

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

#### ***Per Share Information***

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Fully diluted net income per share at March 31, 2008 and 2007 are not disclosed in the accompanying consolidated financial statements because bonds with warrants or convertible bonds have not been issued.

#### ***New Accounting Pronouncements***

##### ***Measurement of Inventories***

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

##### ***Lease Accounting***

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee shall be recognized as investments in lease.



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***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements***

Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new standard force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

### 3. Investment Securities

Investment securities as of March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Non-current:			
Equity securities	¥2,394	¥3,291	\$23,940
Trust fund investments and other	11	14	110
Total	¥2,405	¥3,305	\$24,050

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

March 31, 2008	Millions of yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,237	¥1,280	¥150	¥2,366
Other	13		2	11

March 31, 2007	Millions of yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,281	¥1,983	¥5	¥3,259
Other	13	1		14

March 31, 2008	Thousands of U.S. dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$12,370	\$12,800	\$1,500	\$23,660
Other	130		20	110

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount		Thousands of
	Millions of yen		U.S. dollars
	2008	2007	2008
Available-for-sale:			
Equity securities	¥28	¥32	\$280

#### 4. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods .....	¥962	¥711	\$9,620
Work in process .....	5,722	7,060	57,220
Raw materials and supplies .....	4,605	4,192	46,050
Total .....	<u>¥11,289</u>	<u>¥11,964</u>	<u>\$112,890</u>

#### 5. Short-term Bank Loans and Long-term Debt

The annual weighted-average interest rate applicable to the short-term bank loans was 1.28% and 1.15% at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans from banks and insurance companies due serially to 2012 with weighted-average interest of 1.54% (2008) and 1.50% (2007) .....	¥6,071	¥6,635	\$60,710
Less current portion .....	(3,979)	(1,534)	(39,790)
Long-term debt, less current portion .....	<u>¥2,092</u>	<u>¥5,101</u>	<u>\$20,920</u>

Annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009 .....	¥3,979	\$39,790
2010 .....	1,145	11,450
2011 .....	709	7,090
2012 .....	178	1,780
2013 .....	60	600
Total .....	<u>¥6,071</u>	<u>\$60,710</u>

## 6. Retirement and Pension Plans

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payment both from a trustee for the Company and are made in a form of severance payment from certain consolidated subsidiaries. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits for directors and corporate auditors at March 31, 2008 and 2007 were ¥295 millions (\$2,950 thousand) and ¥269 millions respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥12,405	¥11,587	\$124,050
Fair value of plan assets	(4,618)	(3,827)	(46,180)
Unrecognized actuarial loss	(1,152)	(13)	(11,520)
Unrecognized transitional obligation	(1,507)	(2,261)	(15,070)
Net liability	¥5,128	¥5,486	\$51,280

The components of net periodic benefit costs for the year ended March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥541	¥520	\$5,410
Interest cost	259	255	2,590
Expected return on plan assets	(38)	(34)	(380)
Amortization of transitional obligation	754	754	7,540
Recognized actuarial loss	3	36	30
Net periodic benefit costs	¥1,518	¥1,531	\$15,180

Assumptions used for the year ended March 31, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	2.3%	2.3%
Expected rate of return on plan assets	1.0%	1.0%
Recognition period of actuarial gain / loss	10 years	10 years
Amortization period of transitional obligation	10 years	10 years

## 7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 8. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% for the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Allowance for doubtful accounts	¥38	¥37	\$360
Accrued bonuses	457	407	4,570
Pension and severance costs	2,179	2,322	21,790
Other	875	855	8,750
Subtotal	3,550	3,621	35,500
Less valuation allowance	(460)	(490)	(4,600)
Total	3,090	3,131	30,900
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(462)	(801)	(4,620)
Other	(1)	(1)	(10)
Total	(464)	(803)	(4,640)
Net deferred tax assets	¥2,626	¥2,327	\$26,260

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate	40.5%	40.5%
Valuation allowance	1.3	(58.3)
Expenses not deductible for income tax purposes	0.6	0.7
Per capita levy of local taxes	1.1	1.3
Tax credit for R & D expenses	(5.0)	(4.8)
Refunded inhabitants tax	(3.4)	
Other-net	(1.3)	
Actual effective tax rate	33.8%	(21.9)%

## 9. Transactions with Associated Companies

Sale and purchase transactions with associated companies for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Sales	¥895	¥823	\$8,950
Purchase	1	1	10

## 10. Research and Development Costs

Research and development costs charged to income were ¥2,503 million (\$25,030 thousand) and ¥2,375 million for the years ended March 31, 2008 and 2007, respectively.



## 11. Leases

The Group leases certain machinery, computer equipment and other assets. Total rental expense for the years ended March 31, 2008 and 2007 were ¥970 million (\$9,700 thousand) and ¥1,007 million, respectively, including ¥74 million (\$7,400 thousand) and ¥118 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, and interest expense of finance leases that do not transfer ownership of leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	Furniture and Fixtures	Furniture and Fixtures	Furniture and Fixtures
Acquisition cost	¥156	¥547	\$1,560
Accumulated depreciation	40	394	400
Net leased property	¥116	¥153	\$1,160

Obligations under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥49	¥114	\$490
Due after one year	68	46	680
Total	¥117	¥161	\$1,170

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, determined by the straight-line method and the interest method, respectively for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Depreciation expense	¥70	¥110	\$700
Interest expense	4	6	40
Total	¥74	¥116	\$740

The minimum rental commitments under noncancellable operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥504	¥504	\$5,040
Due after one year	3,528	4,032	35,280
Total	¥4,032	¥4,536	\$40,320

## 12. Derivatives

The Group enters into interest rate swap agreements as a means of managing their interest rate exposure.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Group does not hold or issue derivatives for trading purposes.

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

The basic policies for the use of derivatives are made in accordance with internal policies which regulate the authorization and credit limit amount.

Fair value information of derivatives is not disclosed because the Group uses only interest rate swaps which qualify for hedge accounting.

## 13. Commitments and Contingent Liabilities

Contingent liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Trade notes discounted .....		¥6	
Guarantees of bank loans .....	¥137	122	\$1,370

## 14. NET INCOME PER SHARE

Reconciliation of the differences between basic net income per share ("EPS") for the years ended March 31, 2008 and 2007 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
<b>For the year ended March 31, 2008:</b>				
Basic EPS				
Net income available to common shareholders .....	¥2,357	85,264	¥27.64	\$0.28
<b>For the year ended March 31, 2007:</b>				
Basic EPS				
Net income available to common shareholders .....	¥3,550	85,280	¥41.63	

## 15. Subsequent Event

The shareholders' meeting of the Company held on June 27, 2008 approved the following appropriations of retained earnings.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥5 (\$0.05) per share .....	¥426	\$4,260
Transfer to legal reserve .....	43	430
Total .....	¥469	\$4,690

## 16. Segment Information

Information with respect to operations in different business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2008 and 2007, is as follows:

### (1) Operations in Different Business Segments

#### a. Sales and Operating Income

Millions of yen						
2008						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate Consolidated
Sales to customers .....	¥11,578	¥14,561	¥2,196	¥18,685	¥4,301	¥51,321
Intersegment sales .....	80	105	4	71	1,563	¥1,823
Total sales .....	11,658	14,666	2,200	18,756	5,864	51,321
Operating expenses .....	10,374	12,852	1,995	18,304	5,771	(1,823) 47,473
Operating income .....	¥1,285	¥1,813	¥206	¥452	¥93	¥3,848

#### b. Assets, Depreciation and Capital Expenditures

Millions of yen						
2008						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate Consolidated
Assets .....	¥6,559	¥12,064	¥1,731	¥17,266	¥8,154	¥3,129 ¥48,903
Depreciation .....	69	307	16	668	61	1,121
Capital expenditures .....	67	301	12	448	121	949

#### a. Sales and Operating Income

Thousands of U.S. dollars						
2008						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate Consolidated
Sales to customers .....	\$115,780	\$145,610	\$21,960	\$186,850	\$43,010	\$513,210
Intersegment sales .....	800	1,050	40	710	15,630	\$18,230 0
Total sales .....	116,580	146,660	22,000	187,560	58,640	(18,230) 513,210
Operating expenses .....	103,740	128,520	19,950	183,040	57,710	(18,230) 474,730
Operating income .....	\$12,850	\$18,130	\$2,060	\$4,520	\$930	\$38,480

#### b. Assets, Depreciation and Capital Expenditures

Thousands of U.S. dollars						
2008						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate Consolidated
Assets .....	\$65,590	\$120,640	\$17,310	\$172,660	\$81,540	\$31,290 \$489,030
Depreciation .....	690	3,070	160	6,680	610	11,210
Capital expenditures .....	670	3,010	120	4,480	1,210	9,490

**a. Sales and Operating Income**

Millions of yen							
2007							
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/Corporate	Consolidated
Sales to customers .....	¥9,427	¥14,176	¥2,328	¥16,735	¥4,142		¥46,808
Intersegment sales .....	98	108	0	57	1,394	¥(1,657)	
Total sales .....	9,525	14,284	2,329	16,792	5,535	(1,657)	46,808
Operating expenses .....	8,885	12,379	2,005	16,252	5,662	(1,657)	43,525
Operating income(loss) .....	¥641	¥1,906	¥324	¥540	¥(127)		¥3,284

**b. Assets, Depreciation and Capital Expenditures**

Millions of yen							
2007							
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/Corporate	Consolidated
Assets .....	¥5,583	¥11,914	¥1,863	¥16,862	¥7,962	¥4,630	¥48,814
Depreciation .....	40	228	14	501	40		824
Capital expenditures .....	25	266	14	361	123		789

**(2) Geographical Segments**

Since domestic sales and total assets held domestically of the Group for the years ended March 31, 2008 and 2007, are more than 90% of the consolidated sales and assets, segment information by geographic area is not presented.

**(3) Sales to Foreign Customers**

Sales to foreign customers for the years ended March 31, 2008 and 2007 amounted to ¥7,099 million (\$70,990 thousand) and ¥6,042 million, respectively.

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
TOKIMEC INC.:

We have audited the accompanying consolidated balance sheets of TOKIMEC INC. (the "Company") and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 TOKIMEC INC. and subsidiaries as of March 31, 2008 and 2007, 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.

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

*Deloitte Touche Tohmatsu*

June 27, 2008

# Companies of the TOKIMEC Group

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## **TOKIMEC AVIATION INC.**

2-1-1 Misugi-dai, Hanno-shi,  
Saitama 357-0041  
Phone:+81-429-71-0550 Fax:+81-429-71-0554

## **TECS INC.**

2-16-46 Minami-Kamata, Ohta-ku,  
Tokyo 144-8551  
Phone:+81-3-5710-6441 Fax:+81-3-5710-6442

## **TOKIMEC POWER SYSTEMS INC.**

168 Tada-cho, Sano-shi,  
Tochigi 327-0311  
Phone:+81-283-62-7330 Fax:+81-283-62-7305

## **TOKIMEC INFORMATION SYSTEMS INC.**

2-16-46 Minami-Kamata, Ohta-ku,  
Tokyo 144-8551  
Phone:+81-3-3731-9841 Fax:+81-3-3735-8310

## **TECHNOPORT INC.**

2-16-46 Minami-Kamata, Ohta-ku,  
Tokyo 144-8551  
Phone:+81-3-3735-3731 Fax:+81-3-3732-2117

## **TOKIMEC CONSTRUCTION SYSTEMS INC.**

2-16-46 Minami-Kamata, Ohta-ku,  
Tokyo 144-8551  
Phone:+81-3-3731-2631 Fax:+81-3-3738-8670

## **TOKIMEC RAIL TECHNO INC.**

2-16-46 Minami-Kamata, Ohta-ku,  
Tokyo 144-8551  
Phone:+81-3-3732-7061 Fax:+81-3-3732-7050

## **TOKIMEC U.S.A., INC.**

445 South Figueroa St. Suite 3770  
Los Angeles, California, 90071 U.S.A.  
Phone:+1-213-689-4747 Fax:+1-213-689-0303

## **JYONAN UNYU CO., LTD.**

2-16-46 Minami-Kamata, Ohta-ku,  
Tokyo 144-8551  
Phone:+81-3-3738-0987 Fax:+81-3-3736-0261

## **OZ Web Technology CO., LTD.**

Ryoshu-Kagurazaka Bldg, 10F,  
29-3 Nakazato-cho, Shinjuku-ku, Tokyo 162-0804  
Phone:+81-3-5206-7121 Fax:+81-3-5206-7122

## **MORIOKA TOKKI CORPORATION**

1-15-8 Kami-lioka, Morioka-shi,  
Iwate 020-0854  
Phone:+81-19-638-5211 Fax:+81-19-637-1015

## **TOKIMEC KOREA POWER CONTROL CO., LTD.**

Rm 803, 8th Wooree venture town 2, 82-29, Mullae-dong  
3ga, Yeongdeungpo-gu, Seoul , KOREA  
Phone:+82-2-2670-4631 Fax:+82-2-2672-5712

## **TOKIMEC KOREA HYDRAULICS(wuxi) CO., LTD.**

No. 240-4, Xida Road, Mei Cun,  
National High-Tech Industrial Development Zone,  
Wuxi City, Jiangsu Province, 214112  
Peoples Republic of China  
Phone:+86-510-8865-5303 FAX:+86-510-8865-5308



# Directors and Auditors of the Company

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## President

Kenichi WAKI

## Executive Directors

Kenji WASHINO  
Yoshisuke AKITA  
Noriyuki AKABA

## Directors

Hidemitsu YAMADA  
Hiroshi EBINUMA  
Motoshi MITOBE  
Setsuro KIMURA  
Tsuyoshi ANDO  
Teruaki KAWAI

## Executive Officer

Kazushige MURABAYASHI  
Kazuhiko HATAKEYAMA

## Corporate Auditors

Chiaki TAKANASHI  
Noboru ISHIBASHI  
Yasuhiro HARA  
Masanori YONEDA

(As of June 27, 2008)

# Corporate Data of the Company

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## Head office:

2-16-46, Minami-Kamata, Ohta-ku, Tokyo 144-8551, Japan  
Tel: +81-3-3732-2111  
Fax: +81-3-3736-0261  
<http://www.tokimec.co.jp>

## Date of Establishment:

May 1, 1896

## Common Stock:

Authorized—250,000,000 shares  
Issued — 85,382,196 shares

## Number of Shareholders:

8,138

## Stock Listing:

Tokyo Stock Exchange (Code:7721)

## Number of Employees:

1,077

## Offices:

Sapporo, Sendai, Nagano, Kanazawa, Sano,  
Shizuoka, Nagoya, Osaka, Kobe, Hiroshima,  
Yamaguchi, Imabari, Kitakyushu, Nagasaki

## Plants:

Nasu, Yaita, Sano, Tanuma (Tochigi Prefecture)  
Hanno (Saitama Prefecture)

(As of March 31, 2008)



**TOKIMEC INC.**