

***Denyo Co., Ltd.***

Annual Report 2011

Year ended March 31, 2011



## PROFILE

Since its establishment in 1948, Denyo Co., Ltd. has engaged in the production and sales of engine generators, engine welders, engine air-compressors and other construction-related machinery. Denyo is a global enterprise with production facilities in Southeast Asia and the U.S., as well as plants and its comprehensive R&D Center located in Japan.

We extend our deepest sympathy to the people affected by the Great East Japan Earthquake of March 11th.

As a company producing products essential for the recovery and reconstruction of East Japan, we have been engaging in supportive activities such as shipping our generators to the affected areas for use in temporary houses and also to re-open the Sendai Airport, which has been severely damaged by the tsunami.

We pray for safe and swift recovery of the areas in Japan affected by the Great East Japan Earthquake.



Denyo Engine Generators were transported as relief supplies to affected areas.

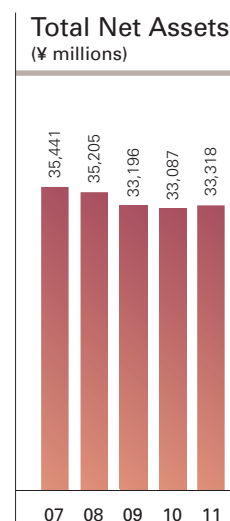
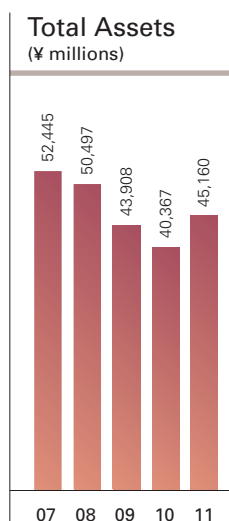
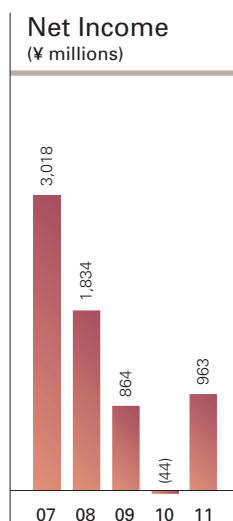
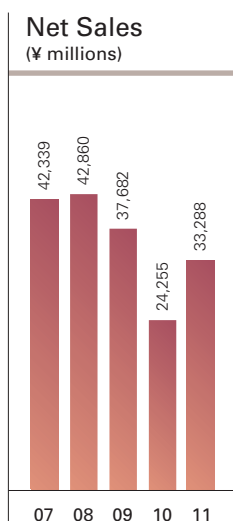
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**CONSOLIDATED FINANCIAL HIGHLIGHTS**

Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Net Sales	<b>¥33,288</b>	¥24,255	¥37,682	<b>\$400,334</b>
Total Assets	<b>45,160</b>	40,367	43,908	<b>543,119</b>
Total Net Assets	<b>33,318</b>	33,087	33,196	<b>400,695</b>
Operating Income (Loss)	<b>1,419</b>	(85)	1,591	<b>17,063</b>
Net Income (Loss)	<b>963</b>	(44)	864	<b>11,579</b>
<b>Per Share Data</b>				
	Yen			U.S. dollars
Total Net Assets	<b>¥1,412.47</b>	¥1,386.46	¥1,358.44	<b>\$16.99</b>
Net Income (Loss)	<b>41.35</b>	(1.88)	35.37	<b>0.50</b>
Cash Dividends	<b>13.00</b>	12.00	18.00	<b>0.16</b>

Note: Transaction into U.S. dollars has been made, solely for the reader's convenience, at the rate of ¥83.15 to U.S.\$1, prevailing on the Tokyo Foreign Exchange Market on March 31, 2011.



### **Business Environment and Results**

Fiscal year 2011, the term ended March 31, 2011, marks the Denyo Group's 63rd business term.

Owing largely to the increase in production activities and business investment, the Japanese economy showed signs of improvement during the term under review. The employment and personal consumption rates, however, remained relatively severe. Despite the promising signs of economic recovery during this term's second half, the Great East Japan Earthquake on March 11th caused the situation to become unpredictable and uncertain.

In overseas markets, Asia's emerging economies continued to grow, and North America continued to recover slowly. With domestic private investment showing slight improvement, and demand in Asia and North and Central America growing steadily, Denyo's business outlook is looking better.

Under this business environment, Denyo Group endeavored to expand sales for its line of environment conscious equipment. Also, as a result of emergency shipments to areas affected by the Great East Japan Earthquake, the consolidated net sales for the term increased by 37.2% to ¥33,288 million (US\$400,334 thousand). Due to the increase in production, the consolidated operating loss of ¥85 million (US\$1,022 thousand) from the previous term was shifted to a consolidated operating income of ¥1,419 million (US\$17,063 thousand). Income before income taxes and minority interests amounted to ¥1,637 million (US\$19,686 thousand), a substantial increase over the previous term's figure of ¥162 million (US\$1,949 thousand). Consolidated net income was ¥963million (US\$11,579 thousand), also a large increase over the previous term's consolidated net loss of ¥44 million (US\$534 thousand).

The year-end dividend was ¥7 (US\$0.08) per share and the interim dividend was ¥6 (US\$0.07) per share. As a result, the total payout for the year was ¥13 (US\$0.16) per share.

### **Revitalization through New Management**

This term marked the start of Denyo's operation under new management. The recent business environment has been harsh. The difficulties in the finance market have affected many countries and led to a contraction of overall market size, and has lead to a corresponding decline in corporate revenue. Denyo, while continuing to strive for increased sales, will also introduce strategic plans to improve performance by putting an increased emphasis on profit.

In order to do so, we have to produce new products to be responsive to market demands, and to differentiate us from our competitors. We will also expand our sales in new markets.



Left:  
Hideaki Kuboyama,  
*Chairman and CEO*

Right:  
Shigeru Koga,  
*President*

### **Future Focus**

Looking ahead at the economy, we are anticipating an escalation in the price of copper, steel and other metals, but the world economy is expected to recover gradually. The future of the domestic market, on the other hand, is unpredictable due to electricity shortages, disrupted supply chains and other effects of the earthquake. Under these conditions, Denyo Group will endeavor to develop new markets for its products.

The matching production to demand has been challenging, especially during the first quarter, due to the instability of sourcing of materials, however, as a company producing equipment essential to the post-earthquake reconstruction, we are putting all our effort into stabilizing the production in order to overtake demand.

In presenting this report, we would like to take this opportunity to express our sincere gratitude to our shareholders for their continued patronage and support.

June 29, 2011

A handwritten signature in black ink, appearing to read 'H. Kuboyama', written in a cursive style.

Hideaki Kuboyama,  
*Chairman and CEO*

A handwritten signature in black ink, appearing to read 'S. Koga', written in a cursive style.

Shigeru Koga,  
*President*

## REVIEW OF OPERATIONS

### Standby Generating Sets that are Receiving Attention

The Great East Japan Earthquake has raised serious concerns about electricity shortage and planned blackouts. Consequently, generators have received greater attention recently; however, generators come in many varieties such as regular use, disaster control and emergency use.

Regular-use generating sets, because they can be used in conjunction with power from conventional power companies, are primarily used by larger factories to limit the impact of peak cuts.

Currently, the Fire Service Act mandates the installation of disaster-control generating sets in large capacity facilities and buildings above a certain size. These generating sets are used to operate fire sprinklers in case of blackouts, and are also used to prevent loss of power to data centers and factories, where a lack of electricity can be costly or even fatal.

Denyo Group produces many types of generating sets specially designed and manufactured to accommodate the varying needs of each client.



**Regular-use Generating Set  
DCA-45ESIT**



**Standby Generating Set for  
disaster control DCA-275MSR**



**Engine Welder with automatic idling  
stop function DLW-200 X 2LS**



**Engine Compressor with switchable  
pressure and capacity DIS-200VPS**

### Expansion of NETIS Product Registration

Denyo's engine compressors and welders have been newly registered in NETIS (New Technology Information System), a system constructed by The Ministry of Land, Infrastructure and Transport to simplify access to technology developed in the private sector.

In this instance, the welders that were registered were the Welders with Automatic Idling Stop Function, which are welders with an automatic idling stop function which automatically stops the engine when welding work is stopped, thus greatly reducing CO<sub>2</sub> emissions. Also registered into NETIS were the Compressors with Switchable Pressure and Capacity Modes type compressors, which are designed to accommodate use in various working environments regardless of pressure requirements.

With these latest additions, we now have been able to register all three of our main product lines on NETIS: engine generators, engine welders and engine compressors. Products registered on NETIS are rated when they are used for public works. We are hoping that the use of our products for public works will expand as a result.

## Business Performance by Product Category

### Engine Generators

On top of a rise in domestic sales for emergency and rental purposes, our overseas demand, especially in North and Central America and Southeast Asia, showed a gradual upswing.

As a result, sales of generators increased by 45.0% over the previous term to ¥23,811 million (US\$286,367 thousand). The domestic market share for this product category is 65%.

### Engine Welders

Sales of compact engine welders in the domestic market increased owing to the energy conservation movement. The North and Central American markets recovered somewhat as well. Consequently, total sales of engine welders increased by 16.0% over the previous term to ¥2,935 million (US\$35,303 thousand). The domestic market share for this product category is 55%.

### Engine Compressors

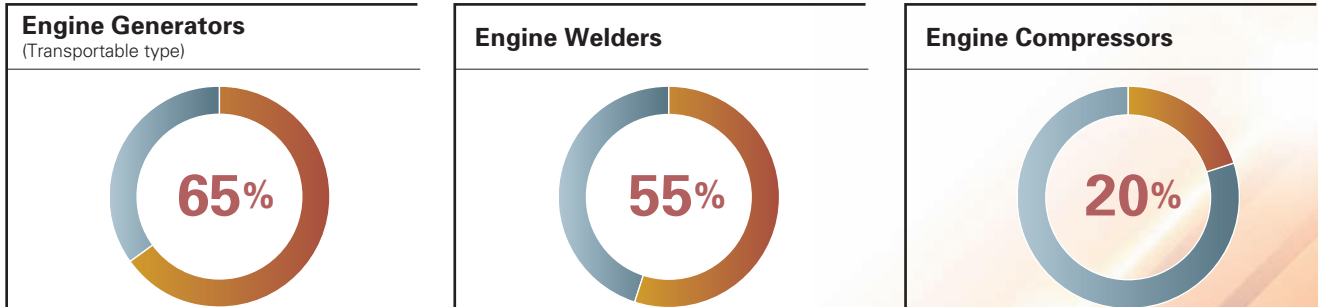
Although the overall number of public works decreased, demand for compressors in the rental industry and also in the overseas market increased and surpassed the sales of the previous term.

As a result, total sales for engine compressors for this term were ¥929 million (US\$11,173 thousand), a 24.9% increase over the previous term. The domestic market share for this product category was 20%.

### Other Products

Sales of parts associated with our products increased. The result is that sales for this category increased 23.2% over the previous term to ¥5,612 million (US\$67,490 thousand).

## Domestic Market Share



# CONSOLIDATED FINANCIAL STATEMENTS

## FINANCIAL REVIEW

### Business Environment and Results

The business environment surrounding the Denyo Group showed a small amount of improvement. Domestic private investment increased slightly, and demand in Asia, as well as North and Central America, grew steadily.

Under this business environment, Denyo Group endeavored to expand sales for its line of environment conscious equipment. Also as a result of the emergency shipment to the affected areas of the Great East Japan Earthquake, the consolidated net sales for the term increased by 37.2% over the previous term to ¥33,288 million (US\$400,334 thousand).

Due to the increase in production, the consolidated operating loss of ¥85 million (US\$1,022 thousand) from the previous term was shifted to a consolidated operating income of ¥1,419 million (US\$17,063 thousand). Income before income taxes and minority interests was ¥1,637 million (US\$19,686 thousand), a substantial increase over the previous term's figure of ¥162 million (US\$1,949 thousand). Consolidated net income was ¥963 million (US\$11,579 thousand), also a remarkable recovery from a consolidated net loss of ¥44 million (US\$534 thousand) in the previous term.

### Segment Information

Reflecting the rise in domestic sales of generators and compressors for rental purposes, the rise in the sales for generators in the overseas market particularly in North and Central America and Southeast Asia, and the rise in sales for generators due to the Great East Japan Earthquake, the Group's business performance by segment shows domestic sales amounted to ¥24,885 million (US\$299,276 thousand), an increase of 34.6%, or ¥6,401 million (US\$76,987 thousand), over the previous term. Operating income was ¥733 million (US\$8,813 thousand), an increase of ¥1,227 million (US\$14,760 thousand) over the previous term's operating loss of ¥495 million (US\$5,947 thousand).

Total sales in the U.S. market were ¥5,164 million

(US\$62,097 thousand), a 75.4%, or ¥2,219 million (US\$26,688 thousand), increase over the previous term. Operating income was ¥324 million (US\$3,902 thousand), an increase of ¥273 million (US\$3,283 thousand) over the previous term.

Meanwhile, overall business investment increased in the Asian market, and our sales to Indonesia and Australia increased as well. As a result, sales for this segment were ¥2,696 million (US\$32,429 thousand), a 10.2%, or ¥250 million (US\$3,011 thousand), increase over the previous term. Operating income was ¥320 million (US\$3,848 thousand), an increase of ¥119 million (US\$1,430 thousand) over the previous term.

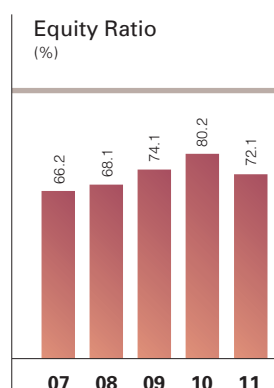
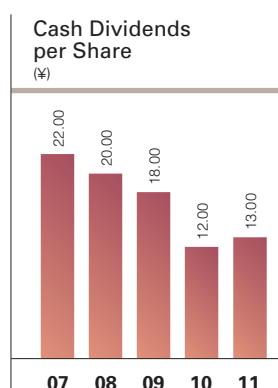
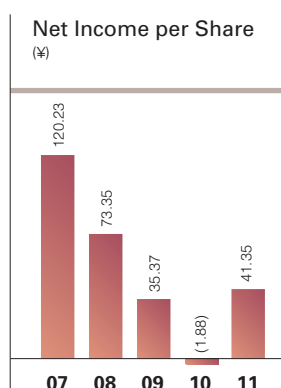
Although sales were affected by the depreciation of the Euro, the shipment of generators to Europe increased. As a result, the sales in this segment were ¥543 million (US\$6,532 thousand), a 42.5%, or ¥162 million (US\$1,948 thousand) increase over the previous term. Operating losses also improved by ¥7 million (US\$81 thousand) over the previous term to ¥37 million (US\$444 thousand).

### Financial Position

Total assets at the end of the fiscal year amounted to ¥45,160 million (US\$543,119 thousand), an increase of ¥4,793 million (US\$57,643 thousand) over the previous term. The equity ratio was 72.1%, a decrease of 8.1% from the previous consolidated accounting year.

Total current assets at the end of the term were ¥29,489 million (US\$354,653 thousand), an increase of ¥3,689 million (US\$44,363 thousand) over the previous term. This change was due mainly to a decrease in cash deposits of ¥1,786 million (US\$21,478 thousand), an increase in notes and accounts receivable of ¥4,522 million (US\$54,397 thousand), and an increase in inventory assets of ¥611 million (US\$7,352 thousand).

Fixed assets at the end of the fiscal term were ¥15,671 million (US\$188,465 thousand), an increase of ¥1,104 million (US\$13,282 thousand) over the previous term, owing largely to an increase in tangible



fixed assets of ¥703 million (US\$8,459 thousand), and an increase in intangible fixed assets of ¥237 million (US\$2,849 thousand) from new investment in Denyo Vietnam Co., Ltd.

Total liabilities at the end of the fiscal term were ¥11,842 million (US\$142,423 thousand), an increase of ¥4,563 million (US\$54,873 thousand) over the previous term. Current liabilities also increased by ¥4,182 million (US\$50,290 thousand) to a total of ¥9,999 million (US\$120,258 thousand). This increase was due mainly to the ¥3,792 million (US\$45,600 thousand) increase in notes and accounts payable.

Fixed liabilities at term end were ¥1,843 million (US\$22,165 thousand), an increase of ¥381 million (US\$4,582 thousand) over the previous term. This was due to an increase in deferred tax liabilities of ¥439 million (US\$5,274 thousand).

Total equity including minority interest at term end was ¥33,318 million (US\$400,696 thousand), an increase of ¥231 million (US\$2,772 thousand) from the previous term. This was due primarily to an increase in retained earnings of ¥687 million (US\$8,257 thousand), an increase in treasury stock of ¥195 million (US\$2,346 thousand), and a decrease in accumulated other comprehensive income of ¥292 million (US\$3,508 thousand).

### Cash Flows

Funds obtained as a result of operating activities in this consolidated accounting year were ¥392 million (US\$4,713 thousand), a decrease of ¥1,946 million (US\$23,403 thousand) over the previous term. This was due mainly to the fact that net income before income taxes came to ¥1,637 million (US\$19,686 thousand), while accounts receivable increased by ¥4,721 million (US\$56,777 thousand), trade payables increased by ¥3,891 million (US\$46,799 thousand), and inventory assets increased by ¥698 million (US\$8,399 thousand).

Funds used as a result of investment activities

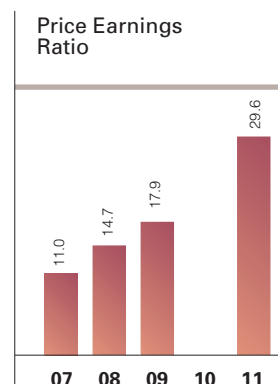
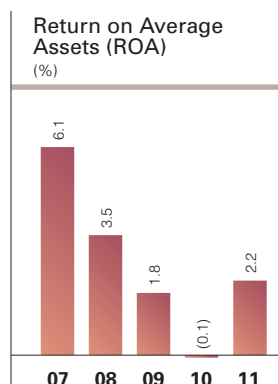
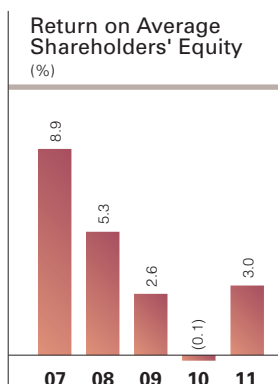
amounted to ¥1,969 million (US\$23,684 thousand) in the term. The previous term marked an increase of ¥262 million (US\$3,151 thousand). This is due to an expenditure from the acquisition of tangible fixed assets of ¥893 million (US\$10,743 thousand) and an expenditure from the acquisition of subsidiary company stock of ¥897 million (US\$10,790 thousand).

The funds used as a result of financing activities amounted to ¥631 million (US\$7,586 thousand), a decrease of ¥752 million (US\$9,044 thousand) over the previous accounting year. This decline was due mainly to an increase in short-term borrowings of ¥342 million (US\$4,116 thousand), repayment of long-term borrowings in the amount of ¥510 million (US\$6,133 thousand), ¥195 million (US\$2,346 thousand) related to the acquisition of treasury stocks, and expenditures of ¥257 million (US\$3,095 thousand) for payment of dividends.

As a result, the consolidated balance of cash and cash equivalents at term-end decreased by ¥1,786 million (US\$21,478 thousand) compared with the beginning of the term, to ¥8,792 million (US\$105,737 thousand). This decrease is mainly due to income before income taxes accounting for ¥1,637 million (US\$19,686 thousand), and also due to an increase in inventory assets and sales credits.

### Dividends

In its profit sharing, Denyo recognizes the importance of returning profits to shareholders, while investing in equipment and research & development in order to strengthen future competitiveness and profitability. Under this basic policy, we implemented an interim dividend of ¥6 (US\$0.07) per share and a term-end payout of ¥7 (US\$0.08) per share (as the year-end dividend). As a result, the total payout for the year was ¥13 (US\$0.16) per share, and the dividend payout ratio was 61.4%.



**CONSOLIDATED BALANCE SHEETS**

Years ended March 31, 2011 and 2010

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
<b>Current Assets:</b>			
Cash and cash equivalents (Note 14).....	¥ 8,792	¥10,578	\$105,737
Receivables (Note 14):			
Trade notes.....	2,704	2,454	32,517
Trade accounts .....	8,243	5,136	99,138
Associated companies (Note 20) .....	2,663	1,498	32,030
Other .....	304	208	3,657
Allowance for doubtful receivables .....	(41)	(29)	(496)
Inventories (Note 5) .....	6,067	5,456	72,966
Deferred tax assets (Note 11).....	503	329	6,054
Prepaid expenses and other current assets.....	254	171	3,050
Total current assets.....	<u>29,489</u>	<u>25,801</u>	<u>354,653</u>
 <b>Property, Plant and Equipment:</b>			
Land .....	4,594	4,502	55,246
Buildings and structures .....	6,724	6,858	80,868
Construction in progress.....	872	–	10,491
Machinery and equipment .....	2,581	2,627	31,038
Furniture and fixtures .....	1,357	1,317	16,315
Total .....	<u>16,128</u>	<u>15,304</u>	<u>193,958</u>
Accumulated depreciation .....	<u>(7,107)</u>	<u>(6,987)</u>	<u>(85,470)</u>
Net property, plant and equipment .....	<u>9,021</u>	<u>8,317</u>	<u>108,488</u>
 <b>Investments and Other Assets:</b>			
Investment securities (Notes 4 and 14) .....	4,912	4,689	59,069
Investments in and advances to associated companies (Note 6).....	611	644	7,349
Deferred tax assets (Note 11).....	93	98	1,120
Other assets (Note 13).....	1,034	818	12,440
Total investments and other assets .....	<u>6,650</u>	<u>6,249</u>	<u>79,978</u>
 <b>Total .....</b>	<u><b>¥45,160</b></u>	<u><b>¥40,367</b></u>	<u><b>\$543,119</b></u>

See notes to consolidated financial statements.

Liabilities and Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
<b>Current Liabilities:</b>			
Short-term bank loans (Notes 7 and 14) .....	¥ 776	¥ 452	\$ 9,336
Current portion of long-term debt (Notes 7 and 14).....	10	512	117
Payables (Note 14):			
Trade notes and accounts .....	7,616	3,752	91,597
Associated companies .....	32	105	384
Other .....	213	14	2,560
Accrued income taxes (Note 11).....	274	146	3,299
Accrued expenses .....	631	503	7,585
Provision for product warranties .....	259	207	3,119
Other current liabilities.....	188	127	2,261
Total current liabilities .....	<u>9,999</u>	<u>5,818</u>	<u>120,258</u>
<b>Long-Term Liabilities:</b>			
Long-term debt (Notes 7 and 14).....	3	12	31
Liability for retirement benefits (Note 9) .....	772	809	9,280
Deferred tax liabilities (Note 11).....	908	469	10,920
Other long-term liabilities.....	160	172	1,935
Total long-term liabilities .....	<u>1,843</u>	<u>1,462</u>	<u>22,166</u>
<b>Commitments and Contingent Liabilities (Notes 13, 15 and 16)</b>			
<b>Equity (Note 10):</b>			
Common stock,			
Authorized, 97,811,000 shares;			
Issued, 25,359,660 shares in 2011 and 2010 .....	1,955	1,955	23,510
Capital surplus.....	1,754	1,754	21,100
Retained earnings .....	30,556	29,869	367,479
Treasury stock - at cost 2,304,212 shares in 2011 and 2,015,725 shares in 2010 .....	(1,787)	(1,592)	(21,490)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities .....	979	816	11,770
Deferred gain on derivatives under hedge accounting.....	11	23	135
Foreign currency translation adjustments .....	(903)	(460)	(10,860)
Total .....	32,565	32,365	391,644
Minority interests .....	753	722	9,051
Total equity.....	<u>33,318</u>	<u>33,087</u>	<u>400,695</u>
<b>Total .....</b>	<u>¥45,160</u>	<u>¥40,367</u>	<u>\$543,119</u>

## CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

### CONSOLIDATED STATEMENT OF OPERATIONS

Year ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net Sales (Note 20) .....	¥33,288	¥24,255	\$400,334
Cost of Sales .....	25,675	18,961	308,774
Gross Profit .....	7,613	5,294	91,560
Selling, General and Administrative Expenses (Note 12) .....	6,194	5,379	74,497
Operating income (loss) .....	1,419	(85)	17,063
Other Income (Expenses):			
Interest and dividend income .....	142	134	1,709
Interest expense .....	(15)	(26)	(178)
Loss on sale or disposal of property, plant and equipment .....	(1)	(4)	(17)
Gain on sale of investment securities (Note 4) .....	13	38	155
Foreign exchange loss (gain) .....	(21)	11	(257)
Loss on revaluation of investment securities .....	(4)	-	(49)
Retirement benefit expense .....	-	(79)	-
Equity in earnings of associated company .....	22	29	260
Rent income .....	89	95	1,074
Commitment fee .....	(19)	(19)	(224)
Other – net .....	12	68	150
Other income – net .....	218	247	2,623
Income before income taxes and minority interests .....	1,637	162	19,686
Income Taxes (Note 11):			
Current .....	426	264	5,126
Deferred .....	150	(112)	1,806
Total income taxes .....	576	152	6,932
Net income before minority interests .....	1,061	10	12,754
Minority interests .....	98	54	1,175
Net income (loss) .....	963	¥(44)	11,579
Minority interests .....	98		1,175
Net income before minority interests .....	1,061		12,754
Other Comprehensive Loss:			
Unrealized gain on available-for-sale securities .....	162		1,951
Deferred loss on derivatives under hedge accounting .....	(12)		(137)
Foreign currency translation adjustments .....	(523)		(6,289)
Share of other comprehensive income in associates .....	0		3
Total other comprehensive loss .....	(373)		(4,472)
Comprehensive income .....	¥ 688		\$ 8,282
Total Comprehensive Income Attributable to:			
The Company's shareholders .....	¥671		\$8,071
Minority interests .....	17		211
		Yen	U.S. dollars (Note 1)
Per Share of Common Stock:			
Basic net income (loss) (Note 18) .....	¥41.35	¥ (1.88)	\$0.50
Cash dividends applicable to the year .....	13.00	12.00	0.16

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended March 31, 2011 and 2010

	Number of Shares of Common Stock Outstanding	Accumulated Other Comprehensive Income							Total	Minority Interests	Total Equity
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for- sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
	(Thousands)	Millions of yen									
Balance at April 1, 2009.....	23,945	¥1,955	¥1,754	¥30,295	¥(1,162)	¥314	¥(60)	¥(569)	¥32,527	¥669	¥33,196
Net income.....				(44)					(44)		(44)
Cash dividends, ¥16 per share.....				(382)					(382)		(382)
Purchase of treasury stock.....	(601)				(430)				(430)		(430)
Net change in the year .....						502	83	109	694	53	747
Balance at March 31, 2010.....	23,344	1,955	1,754	29,869	(1,592)	816	23	(460)	32,365	722	33,087
Net income.....				963					963		963
Adjustment of retained earnings for newly consolidated subsidiaries.....				(19)					(19)		(19)
Cash dividends, ¥11 per share.....				(257)					(257)		(257)
Purchase of treasury stock.....	(289)				(195)				(195)		(195)
Selling of treasury stock.....	0				0				0		0
Net change in the year .....						163	(12)	(443)	(292)	31	(261)
Balance at March 31, 2011 .....	<u>23,055</u>	<u>¥1,955</u>	<u>¥1,754</u>	<u>¥30,556</u>	<u>¥(1,787)</u>	<u>¥979</u>	<u>¥ 11</u>	<u>¥(903)</u>	<u>¥32,565</u>	<u>¥753</u>	<u>¥33,318</u>

Thousands of U.S. dollars (Note 1)

Balance at March 31, 2010.....	\$23,510	\$21,100	\$359,222	\$(19,144)	\$9,817	\$ 272	\$(5,536)	\$389,241	\$8,682	\$397,923
Net income.....			11,579					11,579		11,579
Adjustment of retained earnings for newly consolidated subsidiaries.....			(227)					(227)		(227)
Cash dividends, \$0.13 per share.....			(3,095)					(3,095)		(3,095)
Purchase of treasury stock.....				(2,346)				(2,346)		(2,346)
Selling of treasury stock.....				0				0		0
Net change in the year .....					1,953	(137)	(5,324)	(3,508)	369	(3,139)
Balance at March 31, 2011 .....	<u>\$23,510</u>	<u>\$21,100</u>	<u>\$367,479</u>	<u>\$(21,490)</u>	<u>\$11,770</u>	<u>\$ 135</u>	<u>\$(10,860)</u>	<u>\$391,644</u>	<u>\$9,051</u>	<u>\$400,695</u>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
<b>Operating Activities:</b>			
Income before income taxes and minority interests .....	¥ 1,637	¥ 162	\$ 19,686
Adjustments for:			
Income taxes – paid .....	(160)	(245)	(1,922)
Depreciation and amortization.....	427	425	5,135
Gain on sale of investment securities .....	(13)	(38)	(155)
Loss on sale or disposal of property, plant and equipment - net.....	1	4	17
Loss on revaluation of investment securities.....	4	–	49
Equity in earnings of associated company .....	(22)	(29)	(260)
Changes in assets and liabilities, net of effects:			
(Increase) decrease in trade notes and accounts receivable .....	(4,721)	2,031	(56,777)
(Increase) decrease in inventories .....	(698)	2,823	(8,399)
Decrease in interest and dividend receivable .....	13	11	161
Increase (decrease) in trade notes and accounts payable .....	3,891	(2,483)	46,799
(Decrease) increase in interest payable.....	(0)	0	(4)
Increase (decrease) in provision for allowance for doubtful accounts....	9	(15)	110
Decrease in liability for retirement benefits.....	(37)	(165)	(448)
Other – net .....	61	(143)	721
Total adjustments.....	(1,245)	2,176	(14,973)
Net cash provided by operating activities .....	392	2,338	4,713
<b>Investing Activities:</b>			
Increase in time deposit.....	–	(500)	–
Decrease in time deposit.....	–	800	–
Proceeds from sales of property, plant and equipment.....	7	0	80
Payments for purchase of property, plant and equipment.....	(893)	(89)	(10,743)
Proceeds from sales of securities.....	67	98	807
Payments for purchase of securities .....	(2)	(64)	(23)
Investment in loans receivable .....	(268)	(34)	(3,222)
Collections of loans receivable.....	46	60	552
Payments for establishment of unconsolidated subsidiary.....	(897)	–	(10,790)
Other – net.....	(29)	(9)	(345)
Net cash (used in) provided by investing activities .....	(1,969)	262	(23,684)
<b>Financing Activities:</b>			
Increase (decrease) in short-term loans – net.....	342	(50)	4,116
Repayment of long-term debt.....	(510)	(510)	(6,133)
Purchase of treasury stock .....	(195)	(430)	(2,346)
Dividends paid.....	(257)	(382)	(3,095)
Other – net.....	(11)	(11)	(128)
Net cash used in financing activities.....	(631)	(1,383)	(7,586)
Foreign currency translation adjustments on cash and cash equivalents ....	(138)	57	(1,655)
Net (decrease) increase in cash and cash equivalents.....	(2,346)	1,274	(28,212)
Cash and cash equivalents, beginning of year .....	10,578	9,304	127,214
Cash and cash equivalents of newly consolidated subsidiary, beginning of year....	560	–	6,735
Cash and cash equivalents, end of year .....	¥ 8,792	¥10,578	\$105,737

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2011 and 2010

### 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 Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of income and comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 17. In addition, "net income before minority interests" is disclosed in the consolidated statement of income and comprehensive

income from the year ended March 31, 2011.

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 2010 financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Denyo Co., Ltd. (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 ¥83.15 to \$1, the approximate rate of exchange at March 31, 2011. 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.

### 2. Summary of Significant Accounting Policies

#### a. Consolidation

The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 9 (8 in 2010) subsidiaries, including mainly "Denyo Kosan Co., Ltd.," "Nishinohon Generator Mfg. Co., Ltd.," "Denyo America Corporation," "Denyo Manufacturing Corporation," "Denyo Asia Pte. Ltd.," "Denyo United Machinery Pte. Ltd.," "Denyo Europe B.V." and "Denyo Vietnam Co Ltd." (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.

The investment in "New Japan Machinery Corporation," an associated company, is accounted for by the equity method. The investment in the remaining associated company is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material. 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.

The assets and liabilities of consolidated subsidiaries are valued by the full-fair value method.

"Denyo America Corporation," "Denyo Manufacturing Corporation," "Denyo Asia Pte. Ltd.," "Denyo United Machin-

ery Pte. Ltd.," "Denyo Europe B.V." and "Denyo Vietnam Co Ltd." and one other, were consolidated using the financial statements as of December 31 because the difference between the fiscal year-end date of the subsidiaries and that of the Company did not exceed three months. Significant transactions between December 31 and March 31 are reflected in the accompanying consolidated financial statements.

#### b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (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." PITF No. 18 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 of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly

recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

#### **c. Cash Equivalents**

Cash and cash equivalents include cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which are exposed to a minor risk of fluctuations in value.

#### **d. Marketable and Investment Securities**

Marketable and investment securities are classified and accounted for, depending on management's intent. Available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

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

#### **e. Allowance for Doubtful Accounts**

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

#### **f. Inventories**

Inventories are stated at the lower of cost, determined by the first-in, first-out method for finished products and work in process, and by the average method for raw materials, or net selling value.

#### **g. Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its consolidated domestic subsidiaries after April 1, 1998, and all property, plant and equipment of consolidated foreign subsidiaries.

The range of useful lives is principally from 7 to 47 years for buildings and structures, and from 4 to 11 years for machinery and equipment.

#### **h. Provision for Product Warranties**

The provision for product warranties is recorded to provide for future potential costs such as costs related to after-sales services within the warranty period based on past experience.

#### **i. Accrued Bonuses**

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

#### **j. Retirement and Pension Plans**

The Company and domestic subsidiaries maintain a defined benefit pension plan. Some foreign subsidiaries maintain defined contribution pension plans.

Accrued severance indemnities are accrued based on an estimated retirement benefit obligation, considering the estimated fair value of plan assets at the balance sheet date.

Prior service cost is charged to income as incurred. The unrecognized actuarial gains and losses are amortized on a straight-line basis over the period of 5 years from the year incurred.

On April 1, 2009, all employees of certain domestic subsidiaries, which had been applying the simplified method, were permanently transferred to the Company, which had been applying the principal method. Due to this transfer and change in the calculation method, the retirement benefit obligation was increased by ¥79 million. The effect of increase in PBO was charged to income as other expense. Due to this change, income before income taxes and minority interests were decreased by ¥79 million.

On April 1, 2009, the Company and domestic subsidiaries shifted its pension plan from a tax qualified pension plan or lump-sum payment plan to the defined benefit pension plan. Upon transition, "Guidance on Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No. 1) was applied. The effect of this plan amendment, because prior service cost was charged to income as incurred, was to decrease operating loss by ¥75 million for the year ended March 31, 2010.

#### **k. Asset Retirement Obligations**

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18

“Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21 “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. Adoption of this accounting standard had no effect on the Company’s consolidated financial statements.

#### **I. Research and Development Costs**

Research and development costs are charged to income as incurred.

#### **m. Leases**

In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized”

information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company continues to account for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

#### **n. Bonuses to Directors and Corporate Auditors**

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

#### **o. Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. 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. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### **p. 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 income statement.

#### **q. 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 the historical rate.

Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

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#### r. Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and raw material costs. Foreign exchange forward contracts and commodity swaps are utilized by the Group to reduce the risk of fluctuation of foreign currency exchange and raw material costs. 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, except for those which qualify for hedge accounting, are 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 commodity swaps which qualify for hedge accounting are measured at market value at the balance sheet date and unrealized gains or losses are deferred until maturity as deferred gain (loss) on derivatives under hedge accounting as a separate component of equity.

#### s. 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.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

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### 3. Accounting for Stock Granting Trust ("J-ESOP")

The Company's Board of Directors resolved on August 10, 2010, to introduce a Stock Granting Trust ("J-ESOP") for the purpose of enhancing the benefit package to employees and providing incentives for raising corporate value.

As of September 1, 2010, the Company has transferred 800,000 shares of treasury stock to the Trust & Custody Services Bank, Ltd. ("Trust Account").

The Company and the Trust Account are treated as a single entity for accounting purposes reflecting the economic reality. Accordingly, treasury stocks, assets, liabilities,

#### t. Consumption Taxes

Consumption taxes are not included in sales, cost of sales and selling, general and administrative expenses, etc.

#### u. New Accounting Pronouncements

##### *Accounting Changes and Error Corrections*

In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections".

Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations – When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors – When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

expenses and profits held by the Trust Account were recorded in the accompanying consolidated balance sheet, consolidated statement of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows. The Company shares held by the Trust Account are recorded as treasury stock.

The Trust Account held 799,900 treasury stocks as of March 31, 2011.

#### 4. Investment Securities

Investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Non-current:			
Marketable equity securities .....	¥3,594	¥3,357	\$43,219
Marketable trust fund investments and other.....	174	179	2,095
Non-marketable equity securities.....	1,144	1,153	13,755
Total .....	<u>¥4,912</u>	<u>¥4,689</u>	<u>\$59,069</u>

The cost and aggregate fair values of marketable and investment securities at March 31, 2011 and 2010 were as follows:

March 31, 2011	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:								
Available-for-sale:								
Equity securities.....	¥1,988	¥1,640	¥34	¥3,594	\$23,905	\$19,721	\$407	\$43,219
Trust fund investments and other .....	183	1	10	174	2,206	16	127	2,095

March 31, 2010	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥2,016	¥1,355	¥14	¥3,357
Trust fund investments and other .....	191	-	12	179

The information of available-for-sale securities which were sold during the years ended March 31, 2011 and 2010 were as follows:

March 31, 2011	Millions of yen			Thousands of U.S. dollars			
	Proceeds	Realized Gains	Realized Loss	Proceeds	Realized Gains	Realized Loss	
Available-for-sale:							
Equity securities.....		¥58	¥13	¥-	\$702	\$155	\$-

March 31, 2010	Millions of yen		
	Proceeds	Realized Gains	Realized Loss
Available-for-sale:			
Equity securities.....	¥96	¥40	¥2

#### 5. Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished products .....	¥3,499	¥3,775	\$42,078
Work in process.....	495	192	5,953
Raw materials and supplies.....	2,073	1,489	24,935
Total .....	<u>¥6,067</u>	<u>¥5,456</u>	<u>\$72,966</u>

## 6. Investments in and Advances to Associated Companies

Investments in and advances to associated companies at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Investments:			
New Japan Machinery Corporation.....	¥454	¥459	\$5,462
P.T. Dein Prima Generator .....	123	123	1,478
Subtotal .....	577	582	6,940
Advances:			
P.T. Dein Prima Generator .....	34	62	409
Subtotal .....	34	62	409
Total .....	¥611	¥644	\$7,349

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

Short-term bank loans at March 31, 2011 consisted of bank overdrafts. The weighted average interest rate applicable to the short-term bank loans was 0.2% at March 31, 2011.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unsecured loans from banks, due serially to 2011 with interest rates ranging from 1.720% .....	¥ 8	¥ 517	\$ 90
Obligations under finance leases.....	5	7	58
Total .....	13	524	148
Less current portion .....	(10)	(512)	(117)
Long-term debt, less current portion.....	¥ 3	¥ 12	\$ 31

Annual maturities of long-term debt at March 31, 2011, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2011.....	¥10	\$117
2012.....	2	27
2013.....	1	4
Total .....	¥13	\$148

## 8. Commitment Line Contracts

In order to raise funds efficiently, the Company has entered into a commitment line contract with four financial institutions, of which Mizuho Bank, Ltd. is the arranger. The contract provided the Company with the commitment line of

¥3,000 million (\$36,079 thousand) as of March 31, 2011 and 2010. The Company had no borrowings outstanding under the agreement as of March 31, 2011 and 2010.

## 9. Retirement and Pension Plans

The Company has a defined benefit pension plan and domestic subsidiaries also participate in the same plan. Some foreign subsidiaries have defined contribution plans. In addition, the Company and domestic subsidiaries have introduced a stock granting retirement plan in September 1, 2010.

The projected benefit obligation of the subsidiary is calculated using a simplified method, which is permitted for small companies in conformity with the accounting standard for retirement benefits.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation.....	¥ 2,492	¥ 2,384	\$ 29,967
Fair value of plan assets .....	(1,796)	(1,603)	(21,596)
Unrecognized actuarial loss .....	35	28	416
Liability for stock granting retirement.....	41	–	493
Net liability .....	¥ 772	¥ 809	\$ 9,280

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost.....	¥243	¥140	\$2,918
Interest cost .....	39	43	467
Expected return on plan assets .....	(17)	(18)	(201)
Recognized actuarial loss .....	(17)	(9)	(210)
Amortization of prior service cost.....	–	(75)	–
Stock granting cost.....	41	–	499
Net periodic benefit costs .....	¥289	¥ 81	\$3,473

On April 1, 2009, all employees of the certain domestic subsidiaries, which had been applying the simplified method, were permanently transferred to the Company, which had been applying the principal method. The effect of this change was to decrease income before income taxes and

minority interests by ¥79 million and was recorded in the consolidated statements of operations as "Retirement benefit expenses" under other expense for the year ended March 31, 2010.

Assumptions used for the years ended March 31, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate .....	2.00%	2.00%
Expected rate of return on plan assets.....	1.25%	1.25%
Recognition period of actuarial gain/loss .....	5 years	5 years

## 10. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, 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 divi-

dends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act 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 Companies Act 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.

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

The Companies Act 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 aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act, 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 a specific formula. Under the Companies Act, stock acquisition rights are now presented as a separate component of equity. The Companies Act, 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.

## 11. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued bonuses .....	¥ 131	¥ 105	\$ 1,574
Provision for product warranties .....	109	88	1,315
Accrued enterprises taxes .....	18	6	215
Unrealized gain on sale of inventory .....	66	60	794
Unrealized gain on sale of property .....	57	58	690
Liability for retirement benefits .....	299	328	3,602
Loss on revaluation of investment securities .....	61	61	729
Loss on revaluation of golf club membership .....	6	6	78
Tax loss carryforwards .....	133	374	1,596
Other .....	248	211	2,988
Less valuation allowance .....	(225)	(229)	(2,712)
Total .....	¥ 903	¥1,068	\$10,869
Deferred tax liabilities:			
Reserve for deferred gains on sales of property .....	¥ 558	¥ 564	\$ 6,717
Other .....	657	546	7,898
Total .....	¥1,215	¥1,110	\$14,615
Net deferred tax liabilities .....	¥ (312)	¥ (42)	\$ (3,746)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2011 and 2010 are as follows:

	2011	2010
Normal effective statutory tax rate.....	40.7%	40.7%
Expenses not deductible for income tax purposes .....	2.2	10.9
Income not recognizable for income tax purposes.....	(1.0)	(0.8)
Per capita portion of inhabitants taxes .....	0.7	19.3
Prior year's income taxes .....	(2.4)	10.5
Undistributed earnings of subsidiaries .....	(0.5)	9.6
Lower income tax rates applicable to income in certain foreign countries .....	(6.1)	(31.2)
Valuation allowance .....	1.6	33.7
Other – net .....	(0.0)	1.1
Actual effective tax rate.....	<u>35.2%</u>	<u>93.8%</u>

At March 31, 2011, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥133 million (\$1,596 thousand) which are available to be offset against taxable income of such companies in future years. These tax loss carryforwards, if not utilized, will expire 2017 and thereafter.

## 12. Research and Development Costs

Research and development costs charged to income were ¥584 million (U.S.\$7,022 thousand) and ¥407 million for the years ended March 31, 2011 and 2010, respectively.

## 13. Leases

The Group leases software.

Lease payments under finance leases for the years ended March 31, 2011 and 2010 were ¥125 million (U.S.\$1,500 thousand) and ¥128 million, respectively.

Obligations under finance leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year .....	¥2	¥2	\$27
Due after one year.....	3	5	31
Total .....	<u>¥5</u>	<u>¥7</u>	<u>\$58</u>

### *Pro forma information of leased property whose lease inception was before March 31, 2008*

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements.

The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of yen				Thousands of U.S. dollars			
	Machinery and Equipment	Furniture and Fixtures, Rental Assets	Software	Total	Machinery and Equipment	Furniture and Fixtures, Rental Assets	Software	Total
March 31, 2011								
Acquisition cost .....	¥313	¥88	¥358	¥759	\$3,764	\$1,059	\$4,311	\$9,134
Accumulated depreciation .....	216	67	235	518	2,596	805	2,832	6,233
Net leased property .....	¥ 97	¥21	¥123	¥241	\$1,168	\$ 254	\$1,479	\$2,901

	Millions of yen			
	Machinery and Equipment	Furniture and Fixtures, Rental Assets	Software	Total
March 31, 2010				
Acquisition cost .....	¥313	¥99	¥359	¥771
Accumulated depreciation .....	180	60	164	404
Net leased property .....	¥133	¥39	¥195	¥367

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year .....	¥124	¥126	\$1,494
Due after one year .....	117	241	1,407
Total .....	¥241	¥367	\$2,901

Depreciation expenses, which are not reflected in the accompanying consolidated statements of operations, computed by the straight-line method, would be ¥125 million

(U.S.\$1,500 thousand) and ¥128 million for the years ended March 31, 2011 and 2010, respectively.

#### 14. Financial Instruments and Related Disclosures

In March, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance was applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and guidance effective March 31, 2010.

##### (1) Group policy for financial instruments

The Group invests cash surpluses in low risk financial assets. Bank loans are used to fund its ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in Note 15.

##### (2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Investment securities, mainly equity instruments of customers and suppliers of the Company, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than six-months. Payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

Bank loans are due within one year after the balance sheet date.

Derivatives mainly include commodity swaps and forward foreign currency contracts, which are used to manage exposure to market risks from changes in raw material price, and from changes in foreign currency exchange rates of receivables and advances. Please see Note 15 for more detail about derivatives.

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

###### *Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Please see Note 15 for the detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2011.

*Market risk management (foreign exchange risk and interest rate risk)*

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. The Group reduces such foreign exchange risk by balancing foreign currency trade receivables and payables.

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which prescribe the authority and the limit for

each transaction. The transaction data are reported to the management meeting on a monthly basis.

*Liquidity risk management*

Liquidity risk comprises the risk that the Company cannot meet its contractual obligations in full on maturity dates. The Company manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the corporate treasury department.

(4) Fair values of financial instruments

Fair values of financial instruments are based on a quoted price in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Also, please see Note 15 for the detail of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen			Thousands of U.S. dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2011						
Cash and cash equivalents .....	¥ 8,792	¥ 8,792	¥-	\$105,737	\$105,737	\$-
Receivables .....	13,873	13,873	-	166,846	166,846	-
Investment securities .....	3,768	3,768	-	45,314	45,314	-
Total .....	¥26,433	¥26,433	¥-	\$317,897	\$317,897	\$-
Short-term bank loans .....	¥ 776	¥ 776	¥-	\$ 9,336	\$ 9,336	\$-
Payables .....	7,861	7,861	-	94,541	94,541	-
Long-term loans.....	8	8	0	90	90	0
Total .....	¥ 8,645	¥ 8,645	¥0	\$103,967	\$103,967	\$0
Derivatives.....	¥ 21	¥ 21	¥-	\$ 258	\$ 258	\$-
March 31, 2010						
Cash and cash equivalents .....	¥10,578	¥10,578	¥-			
Receivables .....	9,267	9,267	-			
Investment securities .....	3,537	3,537	-			
Total .....	¥23,382	¥23,382	¥-			
Short-term bank loans .....	¥ 452	¥ 452	¥-			
Payables .....	3,871	3,871	-			
Long-term loans.....	517	519	2			
Total .....	¥ 4,840	¥ 4,842	¥2			
Derivatives.....	¥ 38	¥ 38	¥-			

*Cash and cash equivalents*

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

*Marketable and investment securities*

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments.

*Receivables and payables*

The carrying values of receivables and payables approximate fair value because of their short maturities.

*Short-term bank loans and long-term debt*

The carrying values of short-term bank loans approximate fair value because of their short maturities.

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

#### Derivatives

The information of the fair value for derivatives is included in Note 15.

(b) Financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Investments in equity instruments that do not have a quoted market price in an active market.....	¥1,144	¥1,332	\$13,755

(5) Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen		Thousands of U.S. dollars	
	Due in One Year or Less	Due after One Year through Five Years	Due in One Year or Less	Due after One Year through Five Years
March 31, 2011				
Cash and cash equivalents .....	¥ 8,792	¥ -	\$105,737	\$ -
Receivables .....	13,869	4	166,792	54
Other .....	-	99	-	1,202
Total .....	¥22,661	¥103	\$272,529	\$1,256

Please see Note 7 for annual maturities of long-term debt and Note 13 for obligations under finance leases, respectively.

## 15. Derivatives

The Group enters into derivatives, in the normal course of business, to reduce the exposure to fluctuations in foreign exchange rates and raw material prices. The primary derivative instruments used by the Company are foreign currency forward contracts and commodity swaps.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities.

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

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

### *Derivative transactions to which hedge accounting is not applied*

At March 31, 2011	Millions of yen				Thousands of U.S. dollars			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:								
Buying U.S.\$ .....	¥797	¥-	¥ 34	¥ 34	\$9,590	\$-	\$ 404	\$ 404
Selling U.S.\$.....	796	-	(31)	(31)	9,579	-	(373)	(373)

### *Derivative transactions to which hedge accounting is applied*

At March 31, 2011	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount due after One Year	Fair Value
Commodity swaps:				
(fixed price payment, quoted price receipt) .....	Inventories	¥20	¥-	¥19

At March 31, 2010	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount due after One Year	Fair Value
Commodity swaps:				
(fixed price payment, quoted price receipt) .....	Inventories	¥122	¥20	¥38
Interest rate swaps:				
(fixed rate payment, floating rate receipt) .....	Long-term Debt	¥500	—	—

The above 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. In addition, the fair value of such interest rate swaps in Note 14 is included in that of hedged items (i.e. long-term debt).

At March 31, 2011	Hedged Item	Thousands of U.S. dollars		
		Contract Amount	Contract Amount due after One Year	Fair Value
Commodity swaps:				
(fixed price payment, quoted price receipt) .....	Inventories	\$241	—	\$228

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are

shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

## 16. Contingent Liabilities

At March 31, 2011, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Export trade bill discounted .....	¥9	\$113

## 17. Comprehensive Income

### For the year ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was the following:

	Millions of yen
Total comprehensive income attributable to:	
The Company's shareholders .....	¥649
Minority interests .....	88
Total comprehensive income .....	¥737

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
Other comprehensive income:	
Unrealized gain on available-for-sale securities .....	¥501
Deferred gain on derivatives under hedge accounting .....	82
Foreign currency translation adjustments .....	143
Share of other comprehensive income in associates .....	1
Total other comprehensive income .....	¥727

## 18. Net Income Per Share

Reconciliation of the differences between basic net income per share ("EPS") for the years ended March 31, 2011 and 2010 is as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2011:				
Basic EPS				
Net income available to common shareholders .....	¥963	23,286	¥41.35	\$0.50
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders .....	¥(44)	23,647	¥(1.88)	

## 19. Segment Information

### *For the years ended March 31, 2011 and 2010*

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed here under as required.

1. Description of reportable segments  
The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, geographic segment of the Group consists of Japan, United States of America, Asia and Europe. Japan includes the Company, "Denyo Kosan Co., Ltd." and "Nishinohon Generator Mfg. Co., Ltd." United States of America mainly includes "Denyo Manufacturing Corporation" Asia mainly includes "Denyo United Machinery Pte. Ltd." Europe consists of "Denyo Europe B.V."
2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment  
The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit (loss), assets and other items is as follows.

	Millions of yen						
	2011						
	Reportable Segment					Reconciliations	Consolidated
Japan	U.S.A.	Asia	Europe	Total			
Sales:							
Sales to external customers .....	¥24,885	¥5,164	¥2,696	¥543	¥33,288	¥ -	¥33,288
Intersegment sales or transfers.....	4,465	267	151	-	4,883	(4,883)	-
Total .....	29,350	5,431	2,847	543	38,171	(4,883)	33,238
Segment profit (loss) .....	733	324	320	(37)	1,340	79	1,419
Segment assets.....	39,355	3,366	4,787	391	47,899	(2,739)	45,160
Other:							
Depreciation.....	365	32	20	1	418	-	418
Investments in associated companies.....	454	-	-	-	454	-	454
Increase in property, plant and equipment and intangible assets .....	¥ 242	¥ 12	¥1,160	¥ 4	¥ 1,418	¥ -	¥ 1,418
	Millions of yen						
	2010						
	Reportable Segment					Reconciliations	Consolidated
Japan	U.S.A.	Asia	Europe	Total			
Sales:							
Sales to external customers .....	¥18,483	¥2,945	¥2,446	¥381	¥24,255	¥ -	¥24,255
Intersegment sales or transfers.....	2,217	111	2	-	2,330	(2,330)	-
Total .....	20,700	3,056	2,448	381	26,585	(2,330)	24,255
Segment profit (loss) .....	(495)	51	201	(44)	(287)	202	(85)
Segment assets.....	36,256	2,518	2,308	460	41,542	(1,175)	40,367
Other:							
Depreciation.....	371	37	16	1	425	-	425
Investments in associated companies.....	459	-	-	-	459	-	459
Increase in property, plant and equipment and intangible assets .....	¥ 95	¥ 0	¥ 11	¥ 1	¥ 107	¥ -	¥ 107
	Thousands of U.S. dollars						
	2011						
	Reportable Segment					Reconciliations	Consolidated
Japan	U.S.A.	Asia	Europe	Total			
Sales:							
Sales to external customers .....	\$299,276	\$62,097	\$32,429	\$6,532	\$400,334	\$ -	\$400,334
Intersegment sales or transfers.....	53,697	3,220	1,813	-	58,730	(58,730)	-
Total .....	352,973	65,317	34,242	6,532	459,064	(58,730)	400,334
Segment profit (loss) .....	8,813	3,902	3,848	(444)	16,119	944	17,063
Segment assets.....	473,298	40,485	57,570	4,707	576,060	(32,941)	543,119
Other:							
Depreciation.....	4,393	372	241	16	5,022	-	5,022
Investments in associated companies.....	5,462	-	-	-	5,462	-	5,462
Increase in property, plant and equipment and intangible assets .....	\$ 2,912	\$ 153	\$13,946	\$ 48	\$ 17,059	\$ -	\$ 17,059

(1) Industry Segments

The Company and subsidiaries operate predominantly in a single industry commonly classified as manufacturer of generators, welders, compressors and other products used in a wide range of industries.

(2) Geographical Segments

The geographical segments of the Company and subsidiaries for the year ended March 31, 2010 are summarized as follows:

For the year ended March 31, 2010	Millions of yen					Consolidated
	Japan	U.S.A.	Asia	Other Area	Eliminations/ Corporate	
Sales to customers.....	¥18,484	¥2,944	¥2,446	¥381	¥ -	¥24,255
Interarea transfer.....	2,216	110	3	-	(2,329)	-
Total sales.....	20,700	3,054	2,449	381	(2,329)	24,255
Operating expenses.....	21,195	3,003	2,248	424	(2,530)	24,340
Operating income.....	¥ (495)	¥ 51	¥ 201	¥ (43)	¥ 201	¥ (85)
Total assets.....	¥36,256	¥2,518	¥2,308	¥460	¥(1,175)	¥40,367

(Notes to Segment Information by Area)

1. Asia segment for the year ended March 31, 2010 includes Singapore and Malaysia.

### (3) Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 2010 are summarized as follows:

For the year ended March 31, 2010	Millions of yen			
	North and Central America	Asia	Other	Total
Overseas sales.....	¥4,185	¥3,533	¥1,530	¥ 9,248
Total sales.....				¥24,255
Ratio of overseas sales to total sales.....	17.2%	14.6%	6.3%	38.1%

(Notes to Sales to Foreign Customers)

1. These segments are determined by propinquity of the areas.

2. Segments for the year ended March 31, 2010 included the following main areas:

North and Central America segment.....United States of America and Canada

Asia segment.....Singapore and Indonesia

Other segment.....United Kingdom and Russia

## 20. Related Party Transactions

The Company has sold its products to New Japan Machinery Corporation, an associated company. The Company has sold parts of generator to P.T. Dein Prima Generator, an associated company.

The transactions were made with usual terms and conditions.

The transactions with the associates for the years ended March 31, 2011 and 2010, and related balances at March 31, 2011 and 2010, were mainly as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Transactions:			
Sales.....	¥3,297	¥1,884	\$39,655
Balances:			
Trade notes receivable.....	¥1,107	¥ 780	\$13,310
Trade accounts receivable.....	1,525	687	18,340

## 21. Subsequent Events

### Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's Board of Directors meeting held on May 24, 2011:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥7 (U.S.\$0.08) per share.....	¥161	\$1,941

### Independent Auditors' Report

To the Board of Directors of Denyo Co., Ltd.

We have audited the accompanying consolidated balance sheets of Denyo Co., Ltd. (the "Company") and subsidiaries (the "Group") as of March 31, 2011 and 2010, and the related consolidated statement of income and comprehensive income for the year ended March 31, 2011, the consolidated statement of operations for the year ended March 31, 2010, and the related consolidated statements of 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 Denyo Co., Ltd. and subsidiaries as of March 31, 2011 and 2010, 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.

June 29, 2011

  
Deloitte Touche Tohmatsu LLC

### Company Outline

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Company name	Denyo Co., Ltd.
Established	July 2, 1948
Head office	2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan Tel: 81-3-6861-1111 Fax: 81-3-6861-1181
Paid-in capital	¥1,954,833,520 (U.S.\$23,509,724)
Authorized shares	97,811,000
Issued shares	25,359,660
Shareholders	6,539
Financial year	April 1 ~ March 31
Employees	436 (691 consolidated)
Branch and sales offices	26

### Board of Directors and Corporate Auditors

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*Chairman and CEO*

Hideaki Kuboyama

*President and Representative Director*

Shigeru Koga

*Directors*

Toru Masui

Makoto Harada

Kenji Hasegawa

Yoshio Tsuji

Shoichi Shiratori

*Corporate Auditors*

Yasumasa Mizuno

Hideo Yoshida

Hideto Masaki

Yoshihiko Chida

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## Business Lines

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Manufacture and sales of:

*Generators*

Engine-driven generators  
Stand-by generating sets  
General-use generating sets  
Co-generation systems  
AC generators

*Welders*

Engine-driven welders  
Welding generators  
Welding jigs  
Automatic welding equipment

*Compressors*

Engine-driven air compressors  
Motor-driven air compressors

*Water-related equipment*  
*Self-propelled work lifts*

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## Plants and R&D Center

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Fukui Plant

Wakasa-cho, Fukui Prefecture

Shiga Plant and Distribution Center

Konan, Shiga Prefecture

Saitama R&D Center

Kawagoe, Saitama Prefecture



Fukui Plant

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## Denyo Group Companies

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### ***Denyo Kosan Co., Ltd.***

2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan

Paid-in Capital: ¥50 million

Business: Services and sales of industrial electrical machinery and parts

### ***Nishinohon Generator Mfg. Co., Ltd.***

140 Chichika, Karatsu, Saga 847-0831, Japan

Paid-in Capital: ¥50 million

Business: Manufacture and sales of industrial electrical machinery

### ***Denyo America Corporation***

1811 S, Santa Fe Avenue, Rancho Dominguez, California 90021, U.S.A.

Paid-in Capital: US\$5 million

Business: Sales of parts for industrial electrical machinery

### ***Denyo Manufacturing Corporation***

1450 Minor Road, Danville, Kentucky 40422, U.S.A.

Paid-in Capital: US\$6 million

Business: Manufacture and sales of industrial electrical machinery to the U.S. market

### ***Denyo Europe B.V.***

Molensteyn 48, 3454 PT De Meern, The Netherlands

Paid-in Capital: €4 million

Business: Services and sales of industrial electrical machinery and parts

### ***Denyo Asia Pte. Ltd.***

27 Pioneer Sector 1, Jurong, Singapore 628433

Paid-in Capital: ¥600 million

Business: Sales of industrial electrical machinery

### ***Denyo Vietnam Co., Ltd.***

Plot A3 Thang Long Industrial ParkII, Yen My District, Hung Yen Province, Vietnam

Paid-in Capital: US\$10 million

Business: Manufacture and sales of industrial electrical machinery

### ***Denyo United Machinery Pte. Ltd.***

27 Pioneer Sector 1, Jurong, Singapore 628433

Paid-in Capital: S\$3 million

Business: Sales of industrial electrical machinery

### ***P.T. Dein Prima Generator***

JL. Raya Bekasi Km. 28, Medan Satria, Bekasi 17132 Jawa Barat, Indonesia

Paid-in Capital: US\$1 million

Business: Manufacture and sales of industrial electrical machinery to the Indonesia market

### ***New Japan Machinery Corporation***

3-6-5 Shinyokohama, Kohoku-ku, Yokohama, Kanagawa 222-0033, Japan

Paid-in Capital: ¥495 million

Business: Sales and rental service of industrial electrical machinery

## INVESTOR INFORMATION

(As of March 31, 2011)

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Head Office	2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan Tel: 81-3-6861-1111 Fax: 81-3-6861-1181
Financial Year	April 1 ~ March 31
Common Stock	Authorized shares: 97,811,000 Issued shares: 25,359,660
Stock Listing	Tokyo Stock Exchanges, First Section (Code: 6517)
Shareholders	6,539
Transfer Agency	Tokyo Securities Transfer Agent Co., Ltd. Togin Bldg., 1-4-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

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### Major Shareholders

Shareholders	Shares held (thousands)	Voting right ratio (%)
Kyuei Corporation	1,750	7.32
Mizuho Bank, Ltd.	1,166	4.88
Itochu International, Inc.	937	3.92
The Dai-ichi Mutual Life Insurance Co.	872	3.64
Trust & Custody Servies Bank, Ltd. (Trust Account)	799	3.34
Denyo Shin-eikai Group	617	2.58
Japan Trustee Services Bank, Ltd. (Trust Account)	613	2.56
Tsurumi Manufacturing Co., Ltd.	543	2.27
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	540	2.26
Komatsu Diesel Co., Ltd.	522	2.18



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