

Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

*Years ended March 31, 2005 and 2006
with Report of Independent Auditors*

Yodogawa Steel Works, Ltd.
Consolidated Financial Statements
Years ended March 31, 2005 and 2006

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Consolidated Financial Statements

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Report of Independent Auditors

The Board of Directors
Yodogawa Steel Works, Ltd.

We have audited the accompanying consolidated balance sheets of Yodogawa Steel Works, Ltd. and consolidated subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yodogawa Steel Works, Ltd. and consolidated subsidiaries at March 31, 2005 and 2006, 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.

Supplemental Information

As described in Note 2, effective April 1, 2005, the Company and consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Osaka, Japan
June 29, 2006

Yodogawa Steel Works, Ltd.

Consolidated Balance Sheets

March 31, 2005 and 2006

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|--|------------------------|------------------|---|
| | 2005 | 2006 | 2006 |
| Assets | | | |
| Current assets: | | | |
| Cash and time deposits (<i>Note 4</i>) | ¥ 16,577 | ¥ 13,093 | \$ 111,458 |
| Marketable securities (<i>Note 5</i>) | 5,093 | 1,264 | 10,760 |
| Notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 14,227 | 11,333 | 96,476 |
| Trade | 30,789 | 26,675 | 227,079 |
| Less allowance for doubtful receivables | (347) | (227) | (1,932) |
| Inventories | 23,740 | 31,196 | 265,566 |
| Deferred income taxes (<i>Note 9</i>) | 1,338 | 1,339 | 11,399 |
| Other current assets | 7,163 | 5,887 | 50,114 |
| Total current assets | <u>98,580</u> | <u>90,560</u> | <u>770,920</u> |
| Property, plant and equipment: | | | |
| Land (<i>Notes 6 and 11</i>) | 23,037 | 20,908 | 177,986 |
| Buildings and structures (<i>Note 6</i>) | 52,634 | 54,171 | 461,148 |
| Machinery, equipment and vehicles | 123,476 | 126,128 | 1,073,704 |
| Construction in progress | 457 | 2,048 | 17,434 |
| Less accumulated depreciation | <u>(133,694)</u> | <u>(139,015)</u> | <u>(1,183,409)</u> |
| Property, plant and equipment, net | 65,910 | 64,240 | 546,863 |
| Investments and other assets: | | | |
| Investments in securities (<i>Notes 5 and 7</i>) | 30,863 | 47,870 | 407,508 |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 3,191 | 3,490 | 29,710 |
| Deferred income taxes (<i>Note 9</i>) | 387 | 471 | 4,010 |
| Other assets | 2,108 | 2,286 | 19,460 |
| Total investments and other assets | <u>36,549</u> | <u>54,117</u> | <u>460,688</u> |
| | | | |
| Total assets | <u>¥ 201,039</u> | <u>¥ 208,917</u> | <u>\$ 1,778,471</u> |

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|--|------------------------|-----------------|---|
| | 2005 | 2006 | 2006 |
| Liabilities, minority interests and shareholders' equity | | | |
| Current liabilities: | | | |
| Short-term bank loans (Note 7) | ¥ 4,600 | ¥ – | \$ – |
| Notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | 897 | 786 | 6,691 |
| Trade | 16,091 | 14,617 | 124,432 |
| Construction | 1,681 | 1,466 | 12,480 |
| Accrued expenses | 4,690 | 4,200 | 35,754 |
| Accrued income taxes (Note 9) | 5,624 | 2,684 | 22,848 |
| Other current liabilities (Note 7) | 2,584 | 2,200 | 18,728 |
| Total current liabilities | <u>36,167</u> | <u>25,953</u> | <u>220,933</u> |
| Long-term liabilities: | | | |
| Accrued retirement benefits to employees (Note 8) | 7,382 | 7,517 | 63,991 |
| Accrued retirement benefits to directors and statutory auditors (Note 1(m)) | 90 | 107 | 911 |
| Guarantee deposits (Note 7) | 4,044 | 4,007 | 34,111 |
| Deferred income taxes (Note 9) | 3,410 | 8,877 | 75,568 |
| Deferred income taxes on land revaluation reserve (Note 9) | 675 | 2,368 | 20,158 |
| Other long-term liabilities | 773 | 537 | 4,571 |
| Total long-term liabilities | <u>16,374</u> | <u>23,413</u> | <u>199,310</u> |
| Minority interests | 13,922 | 14,607 | 124,347 |
| Contingent liabilities (Note 14) | | | |
| Shareholders' equity (Note 10): | | | |
| Common stock: | | | |
| Authorized: 753,814,067 shares in 2005 and 2006 | | | |
| Issued: 184,186,153 shares in 2005 and 2006 | 23,221 | 23,221 | 197,676 |
| Capital surplus | 23,222 | 23,740 | 202,094 |
| Land revaluation reserve (Note 11) | 871 | 303 | 2,579 |
| Retained earnings (Note 18) | 86,300 | 86,843 | 739,278 |
| Unrealized holding gain on securities (Note 5) | 8,335 | 17,744 | 151,051 |
| Translation adjustments | (2,686) | (1,315) | (11,194) |
| Treasury stock, at cost – 13,188,866 shares in 2005 and 14,748,753 shares in 2006 | (4,687) | (5,592) | (47,603) |
| Total shareholders' equity | <u>134,576</u> | <u>144,944</u> | <u>1,233,881</u> |
| Total liabilities, minority interests and shareholders' equity | <u>¥201,039</u> | <u>¥208,917</u> | <u>\$1,778,471</u> |

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Income

Years ended March 31, 2005 and 2006

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|--|------------------------|-----------|---|
| | 2005 | 2006 | 2006 |
| Net sales | ¥ 176,682 | ¥ 180,036 | \$ 1,532,613 |
| Cost of sales | 140,507 | 150,478 | 1,280,991 |
| Gross profit | 36,175 | 29,558 | 251,622 |
| Selling, general and administrative expenses (Note 12) | 16,863 | 16,210 | 137,993 |
| Operating income | 19,312 | 13,348 | 113,629 |
| Other income (expenses): | | | |
| Interest and dividend income | 426 | 754 | 6,419 |
| Interest expense | (143) | (71) | (604) |
| Gain on sales of investments in securities | 44 | 8 | 68 |
| Loss on impairment of investments in securities (Note 5) | (23) | — | — |
| Loss on sales or disposal of property, plant and equipment, net | (209) | (216) | (1,839) |
| Equity in (loss) earnings of an affiliate | (86) | 484 | 4,120 |
| Loss on liquidation of a subsidiary | (1,461) | — | — |
| Loss on devaluation of real estate held for sale | (456) | — | — |
| Loss on impairment of fixed assets (Notes 3 and 6) | — | (3,381) | (28,782) |
| Other, net | (315) | 541 | 4,605 |
| Income before income taxes and minority interests | 17,089 | 11,467 | 97,616 |
| Income taxes (Note 9): | | | |
| Current | 6,955 | 5,813 | 49,485 |
| Deferred | (478) | (522) | (4,444) |
| | 6,477 | 5,291 | 45,041 |
| Income before minority interests | 10,612 | 6,176 | 52,575 |
| Minority interests in earnings of consolidated subsidiaries | (3,094) | (1,584) | (13,484) |
| Net income | ¥ 7,518 | ¥ 4,592 | \$ 39,091 |

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005 and 2006

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|---|------------------------|-----------|---|
| | 2005 | 2006 | 2006 |
| Common stock | | | |
| Balance at beginning and end of the year | ¥23,221 | ¥23,221 | \$ 197,676 |
| Capital surplus | | | |
| Balance at beginning of the year | ¥23,611 | ¥23,222 | \$ 197,685 |
| Add: | | | |
| Gain on disposition of treasury stock | 1 | 0 | 0 |
| Transfer from retained earnings | – | 390 | 3,320 |
| Other increase | – | 128 | 1,089 |
| Deduct: | | | |
| Transfer to retained earnings | (390) | – | – |
| Balance at end of the year | ¥23,222 | ¥23,740 | \$ 202,094 |
| Land revaluation reserve (Note 11) | | | |
| Balance at beginning of the year | ¥ 874 | ¥ 871 | \$ 7,415 |
| Net change during the year | (3) | (568) | (4,836) |
| Balance at end of the year | ¥ 871 | ¥ 303 | \$ 2,579 |
| Retained earnings | | | |
| Balance at beginning of the year | ¥80,175 | ¥86,300 | \$ 734,656 |
| Add: | | | |
| Net income | 7,518 | 4,592 | 39,091 |
| Reversal of land revaluation reserve | 1 | – | – |
| Transfer from capital surplus | 390 | – | – |
| Deduct: | | | |
| Cash dividends paid | (1,701) | (2,699) | (22,976) |
| Bonuses to directors and statutory auditors | (57) | (77) | (656) |
| Bonuses to employees of an overseas subsidiary | (26) | (38) | (324) |
| Reversal of land revaluation reserve | – | (845) | (7,193) |
| Transfer to capital surplus | – | (390) | (3,320) |
| Balance at end of the year | ¥86,300 | ¥86,843 | \$ 739,278 |
| Unrealized holding gain on securities (Note 5) | | | |
| Balance at beginning of the year | ¥ 7,136 | ¥ 8,335 | \$ 70,954 |
| Net change during the year | 1,199 | 9,409 | 80,097 |
| Balance at end of the year | ¥ 8,335 | ¥17,744 | \$ 151,051 |
| Translation adjustments | | | |
| Balance at beginning of the year | ¥ (3,081) | ¥ (2,686) | \$ (22,865) |
| Net change during the year | 395 | 1,371 | 11,671 |
| Balance at end of the year | ¥ (2,686) | ¥ (1,315) | \$ (11,194) |

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows

Years ended March 31, 2005 and 2006

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|---|------------------------|----------|--------------------------------------|
| | 2005 | 2006 | (Note 3) 2006 |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | ¥ 17,089 | ¥ 11,467 | \$ 97,616 |
| Adjustments for: | | | |
| Depreciation and amortization | 5,758 | 5,361 | 45,637 |
| Equity in loss (earnings) of an affiliate | 86 | (484) | (4,120) |
| Loss on impairment of investments in securities | 23 | – | – |
| Decrease in accrued retirement benefits | (135) | (2) | (17) |
| Increase (decrease) in accrued bonuses | 127 | (1) | (9) |
| Decrease in allowance for doubtful receivables | (157) | (297) | (2,528) |
| Interest and dividend income | (426) | (754) | (6,419) |
| Interest expense | 143 | 71 | 604 |
| Gain on sales of investments in securities | (44) | (8) | (68) |
| Loss on sales or disposal of property, plant and equipment, net | 209 | 216 | 1,839 |
| Loss on impairment of fixed assets | – | 3,381 | 28,782 |
| (Increase) decrease in notes and accounts receivable | (9,356) | 7,310 | 62,229 |
| Increase in inventories | (1,631) | (6,706) | (57,087) |
| Increase (decrease) in notes and accounts payable | 2,280 | (1,713) | (14,582) |
| Bonus payments to directors, statutory auditors and employees of an overseas subsidiary | (83) | (115) | (979) |
| Loss on liquidation of a subsidiary | 1,461 | – | – |
| Loss on devaluation of real estate held for sale | 456 | – | – |
| Other | 1,843 | 147 | 1,251 |
| Subtotal | 17,643 | 17,873 | 152,149 |
| Interest and dividends received | 451 | 781 | 6,649 |
| Interest paid | (144) | (73) | (621) |
| Income taxes paid | (2,977) | (8,868) | (75,492) |
| Net cash provided by operating activities | ¥ 14,973 | ¥ 9,713 | \$ 82,685 |

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows (continued)

Years ended March 31, 2005 and 2006

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 3)</i> |
|---|------------------------|-----------|---|
| | 2005 | 2006 | 2006 |
| Cash flows from investing activities: | | | |
| Increase in time deposits with a maturity of more than three months | ¥ (675) | ¥ (2,675) | \$ (22,772) |
| Proceeds from time deposits with a maturity of more than three months | 175 | 3,075 | 26,177 |
| Purchases of marketable securities | – | (1,231) | (10,479) |
| Proceeds from sales of marketable securities | 500 | 1,518 | 12,922 |
| Purchases of property, plant and equipment | (2,765) | (5,018) | (42,717) |
| Proceeds from sales of property, plant and equipment | 59 | 81 | 690 |
| Purchases of intangible fixed assets | (211) | (35) | (298) |
| Purchases of investments in securities | (6,707) | (3,725) | (31,710) |
| Proceeds from sales of investments in securities | 2,459 | 4,095 | 34,860 |
| Increase in loans receivable | (3,746) | (927) | (7,891) |
| Collection of loans receivable | 1,312 | 1,210 | 10,300 |
| Other | 35 | 60 | 510 |
| Net cash used in investing activities | (9,564) | (3,572) | (30,408) |
| Cash flows from financing activities: | | | |
| Decrease in short-term bank loans | (1,229) | (4,600) | (39,159) |
| Purchases of treasury stock | (590) | (903) | (7,687) |
| Cash dividends paid to the Company's shareholders | (1,711) | (2,716) | (23,121) |
| Cash dividends paid to shareholders of minority interests | (1,496) | (2,275) | (19,367) |
| Other | 3 | 1 | 9 |
| Net cash used in financing activities | (5,023) | (10,493) | (89,325) |
| Effect of exchange rate changes on cash and cash equivalents | 90 | 176 | 1,498 |
| Net increase (decrease) in cash and cash equivalents | 476 | (4,176) | (35,550) |
| Cash and cash equivalents at beginning of the year | 19,887 | 20,363 | 173,347 |
| Cash and cash equivalents at end of the year | ¥ 20,363 | ¥ 16,187 | \$ 137,797 |

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements

March 31, 2006

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The accompanying consolidated financial statements of Yodogawa Steel Works, Ltd. (the “Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2005 to the 2006 presentation. Such reclassifications had no effect on consolidated net income or shareholders’ equity.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Investment in one affiliate (a company over which the Company has the ability to exercise significant influence) is stated at cost plus equity in its undistributed earnings or undisposed loss. Consolidated net income includes the Company’s equity in the current net income or loss of this company after the elimination of unrealized intercompany profits.

All assets and liabilities of the consolidated subsidiaries are revalued on acquisition, if applicable. The difference, not significant in amount, between the cost of investments in subsidiaries and the equity in their net assets at their respective dates of acquisition is charged to income as incurred or amortized over a period of 5 years on a straight-line basis.

The financial statements of one consolidated subsidiary whose fiscal year end is December 31 have been included in consolidation on the basis of a full fiscal year after making the appropriate adjustments for significant transactions during the period from its fiscal year end to the Company’s balance sheet date.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Other assets and liabilities denominated in foreign currencies are translated at their historical rates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is charged or credited to income.

The balance sheet accounts of the overseas consolidated subsidiary (except for shareholders' equity) are translated into yen at the rate of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their respective historical rates of exchange. Revenue and expense accounts are translated into yen at the average rate of exchange in effect during the year.

Translation adjustments have been presented as a component of shareholders' equity and minority interests in consolidated subsidiaries in the accompanying consolidated financial statements.

(d) Cash equivalents

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

(e) Securities

The accounting standard for financial instruments requires that securities other than those of subsidiaries and affiliates be classified into three categories: trading securities, held-to-maturity debt securities or other securities. Under this standard, trading securities are carried at fair value and gain or loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are carried at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(f) Inventories

Inventories are stated at cost determined principally by the average method.

Inventories at the Company's overseas consolidated subsidiary are stated at the lower of cost or market, cost being determined by the moving average method.

(g) Property, plant and equipment and depreciation

Depreciation of property, plant and equipment is calculated by the declining-balance method over the useful lives of the respective assets, except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired on and after April 1, 1998.

Depreciation of property, plant and equipment at the overseas consolidated subsidiary is calculated by the straight-line method.

The useful lives adopted for calculating depreciation are principally as follows:

| | |
|-----------------------------------|---------------|
| Buildings and structures | 3 to 60 years |
| Machinery, equipment and vehicles | 3 to 36 years |

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(h) Intangible assets

Intangible assets are stated on the basis of cost. Amortization is calculated by the straight-line method over the useful lives of the respective assets.

(i) Allowance for doubtful receivables

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

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(j) Research and development costs and computer software

Research and development costs are charged to income as incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, unless these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their estimated useful life of 5 years.

(k) Leases

The Company and its consolidated subsidiaries lease certain equipment under noncancelable leases referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

(l) Income taxes

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities for financial reporting purposes and the corresponding balances for tax reporting purposes.

(m) Retirement benefits

Employees of the Company and its consolidated subsidiaries are covered by employees' retirement benefit and employees' pension plans. The employees' retirement benefit plans provide for a lump-sum payment determined by reference to their basic salary, length of service and conditions under which the termination occurs. The employees' pension plans, which are funded non-contributory plans, partially cover the benefits under the employees' retirement benefit plans to employees who retire after 15 or more years of service.

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

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(m) Retirement benefits (continued)

Actuarial gain and loss are amortized in the years following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

Prior service cost is being amortized as incurred by the straight-line method over 15 years, which is within the estimated average remaining years of service of the eligible employees.

The directors and statutory auditors of the Company and its domestic consolidated subsidiaries have customarily been entitled to lump-sum payments under the unfunded retirement benefit plans. The provision for retirement benefits for directors and statutory auditors has been made at an estimated amount based on the Company's or each consolidated subsidiary's internal rules.

The Company reconsidered the remuneration paid to its directors and statutory auditors as part of its management revival plan. Accordingly, the retirement benefit plan for directors and statutory auditors of the Company, pursuant to a resolution approved at the annual general meeting of the shareholders held on June 29, 2004, was discontinued effective this date.

(n) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the gain or loss on the underlying hedged item is recognized. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

(o) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such appropriations. Refer to Note 18.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Adoption of a New Accounting Standard

Effective the year ended March 31, 2006, the Company and its consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and its consolidated subsidiaries are required to recognize an impairment loss in their statements of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that an impairment loss is to be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs, or (2) the present value of future cash flows arising from ongoing utilization of the asset and from its disposal after use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are to be grouped at the lowest level for which there are identifiable cash flows which are independent of the cash flows from other groups of assets.

As a result of the adoption of this new accounting standard, a loss on impairment of fixed assets in the aggregate amount of ¥3,381 million (\$28,782 thousand) was recognized. Income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2006 from the corresponding amount which would have been recorded under the previous method.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2006. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

4. Cash and Cash Equivalents

A reconciliation of cash and time deposits shown in the consolidated balance sheets to cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2005 and 2006 is presented as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|--|------------------------|----------------|----------------------------------|
| | 2005 | 2006 | 2006 |
| Cash and time deposits | ¥16,577 | ¥13,093 | \$ 111,458 |
| Investment trust funds | 2,522 | 470 | 4,001 |
| Beneficiary interests in trusts and others | 1,840 | 2,700 | 22,985 |
| Time deposits with original maturities of more than three months | (576) | (76) | (647) |
| Cash and cash equivalents | <u>¥20,363</u> | <u>¥16,187</u> | <u>\$ 137,797</u> |

5. Securities

Marketable securities classified as held-to-maturity debt securities at March 31, 2005 and 2006 are summarized as follows:

| | 2005 | | |
|---|------------------------|----------------------|------------------------|
| | <i>Millions of yen</i> | | |
| | Carrying value | Estimated fair value | Unrealized gain (loss) |
| Securities whose fair value exceeds their carrying value: | | | |
| Government bonds | ¥ 70 | ¥ 72 | ¥ 2 |
| Other | 211 | 213 | 2 |
| | <u>281</u> | <u>285</u> | <u>4</u> |
| Securities whose fair value does not exceed their carrying value: | | | |
| Government bonds | 10 | 10 | (0) |
| Other | 1,597 | 1,526 | (71) |
| | <u>1,607</u> | <u>1,536</u> | <u>(71)</u> |
| Total | <u>¥1,888</u> | <u>¥1,821</u> | <u>¥ (67)</u> |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Securities (continued)

| | 2006 | | |
|---|------------------------|----------------------|------------------------|
| | <i>Millions of yen</i> | | |
| | Carrying value | Estimated fair value | Unrealized gain (loss) |
| Securities whose fair value exceeds their carrying value: | | | |
| Government bonds | ¥ 10 | ¥ 10 | ¥ 0 |
| Other | 500 | 501 | 1 |
| | 510 | 511 | 1 |
| Securities whose fair value does not exceed their carrying value: | | | |
| Government bonds | 70 | 70 | (0) |
| Corporate bonds | 1,597 | 1,383 | (214) |
| Other | 200 | 198 | (2) |
| | 1,867 | 1,651 | (216) |
| Total | ¥2,377 | ¥2,162 | ¥(215) |

| | 2006 | | |
|---|----------------------------------|----------------------|------------------------|
| | <i>Thousands of U.S. dollars</i> | | |
| | Carrying value | Estimated fair value | Unrealized gain (loss) |
| Securities whose fair value exceeds their carrying value: | | | |
| Government bonds | \$ 85 | \$ 85 | \$ 0 |
| Other | 4,257 | 4,265 | 8 |
| | 4,342 | 4,350 | 8 |
| Securities whose fair value does not exceed their carrying value: | | | |
| Government bonds | 596 | 596 | (0) |
| Corporate bonds | 13,595 | 11,773 | (1,822) |
| Other | 1,702 | 1,686 | (16) |
| | 15,893 | 14,055 | (1,838) |
| Total | \$20,235 | \$18,405 | \$(1,830) |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Securities (continued)

Other securities with determinable market value at March 31, 2005 and 2006 are summarized as follows:

| | 2005 | | |
|--|------------------------|----------------|------------------------|
| | <i>Millions of yen</i> | | |
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | ¥10,151 | ¥24,263 | ¥14,112 |
| Other | 599 | 600 | 1 |
| | <u>10,750</u> | <u>24,863</u> | <u>14,113</u> |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | 1,279 | 1,253 | (26) |
| Other | 1,662 | 1,662 | (0) |
| | <u>2,941</u> | <u>2,915</u> | <u>(26)</u> |
| Total | <u>¥13,691</u> | <u>¥27,778</u> | <u>¥14,087</u> |
| | | | |
| | 2006 | | |
| | <i>Millions of yen</i> | | |
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | ¥12,315 | ¥42,339 | ¥30,024 |
| Other | 98 | 108 | 10 |
| | <u>12,413</u> | <u>42,447</u> | <u>30,034</u> |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | 600 | 579 | (21) |
| Government bonds | 713 | 693 | (20) |
| | <u>1,476</u> | <u>1,409</u> | <u>(67)</u> |
| Total | <u>¥13,889</u> | <u>¥43,856</u> | <u>¥29,967</u> |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Securities (continued)

| | 2006 | | |
|---|----------------------------------|-------------------|---------------------------|
| | <i>Thousands of U.S. dollars</i> | | |
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | \$ 104,835 | \$360,424 | \$ 255,589 |
| Other | 834 | 919 | 85 |
| | <u>105,669</u> | <u>361,343</u> | <u>255,674</u> |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | 1,387 | 1,166 | (221) |
| Government bonds | 5,108 | 4,929 | (179) |
| | 6,070 | 5,899 | (171) |
| | <u>12,565</u> | <u>11,994</u> | <u>(571)</u> |
| Total | <u>\$ 118,234</u> | <u>\$373,337</u> | <u>\$ 255,103</u> |

Sales of securities classified as other securities for the years ended March 31, 2005 and 2006 are summarized as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|----------------|------------------------|------|--------------------------------------|
| | 2005 | 2006 | 2006 |
| Sales | ¥593 | ¥13 | \$111 |
| Aggregate gain | 21 | 8 | 68 |
| Aggregate loss | 35 | - | - |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Securities (continued)

The carrying value of securities without determinable market value at March 31, 2005 and 2006 were as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|---|------------------------|-------|--------------------------------------|
| | 2005 | 2006 | 2005 |
| Held-to-maturity debt securities: | | | |
| Interest-bearing financial bonds | ¥ 50 | ¥ 550 | \$4,682 |
| Other securities: | | | |
| Non-marketable equity securities | 619 | 594 | 5,057 |
| Money management funds | 2,021 | 470 | 4,001 |
| Free financial funds | 1,000 | – | – |
| Investment in limited liability partnership | – | 187 | 1,592 |
| Preferred stock | 1,100 | – | – |
| Preferred subscription certificates | 1,500 | 1,100 | 9,364 |

The Company and its consolidated subsidiaries recorded a loss on impairment of securities of ¥23 million for the year ended March 31, 2005.

The redemption schedule for other securities with maturities and held-to-maturity debt securities at March 31, 2006 is summarized as follows:

| | <i>Millions of yen</i> | | | |
|------------------|----------------------------|---|--|------------------------|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Government bonds | ¥ 10 | ¥ 10 | ¥60 | ¥ – |
| Corporate bonds | 101 | – | – | 2,597 |
| Other | – | 250 | – | 500 |
| Total | ¥111 | ¥260 | ¥60 | ¥3,097 |

| | <i>Thousands of U.S. dollars</i> | | | |
|------------------|----------------------------------|---|--|------------------------|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Government bonds | \$ 85 | \$ 85 | \$511 | \$ – |
| Corporate bonds | 860 | – | – | 22,108 |
| Other | – | 2,128 | – | 4,256 |
| Total | \$945 | \$2,213 | \$511 | \$26,364 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries recognized a loss on impairment of fixed assets for the year ended March 31, 2006 as follows:

| Location | Use | Classification | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|--|--------------|---|------------------------|----------------------------------|
| Nishiwaki City, Hyogo Prefecture | Golf courses | Land, buildings and structures, and other | ¥ 2,175 | \$ 18,515 |
| Miyazaki City, Miyazaki Prefecture | Hotel | Land, buildings and structures, and other | 1,154 | 9,824 |
| Takarazuka City, Hyogo Prefecture, and other | Idle assets | Land, buildings and structures, and other | 52 | 443 |
| Total | | | ¥ 3,381 | \$ 28,782 |

The Company and its consolidated subsidiaries group fixed assets by management segment, each of which continuously record receipts and payments. They group idle assets which are not utilized in their operations on an individual asset basis.

Consequently, the Company and its consolidated subsidiaries have written down the golf course group and hotel group to their net recoverable value due to significant declines in their fair value, and have recorded the related loss on impairment of fixed assets of ¥3,329 million (\$28,339 thousand) in the consolidated statement of income for the year ended March 31, 2006. Loss on impairment of fixed assets consisted of land of ¥2,289 million (\$19,485 thousand), buildings and structures of ¥1,016 million (\$8,649 thousand), machinery, equipment and vehicles of ¥5 million (\$43 thousand), and others of ¥19 million (\$162 thousand). The recoverable amounts of these assets are measured at their estimated selling value or measured at net realizable value based on appraisals conducted by real estate appraisers.

The Company and its consolidated subsidiaries have written down the idle assets owned by one consolidated domestic subsidiary which are not expected to be utilized in the future to their net recoverable value, and have recorded the related loss on impairment of fixed assets. Loss on impairment of fixed assets consisted of land of ¥40 million (\$341 thousand), and buildings and structures of ¥12 million (\$102 thousand). The recoverable amounts of these assets are measured at their estimated selling value or at a valuation assessed for property tax purposes or at the comparable published land prices if they are not material.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

7. Short-Term Bank Loans and Guarantee Deposits

Short-term bank loans represented overdrafts at an average annual interest rate of approximately 0.568% at March 31, 2005. No short-term bank loans were outstanding at March 31, 2006.

At March 31, 2006, investments in securities of ¥66 million (\$562 thousand) were pledged as collateral for internal deposits held for employees of ¥44 million (\$375 thousand), a component of other current liabilities.

Guarantee deposits consisted of interest-free deposits, most of which were golf membership deposits, and interest-bearing deposits, which were principally deposits from customers at average annual interest rates of 0.59% and 0.66% at March 31, 2005 and 2006, respectively.

Interest-free deposits and interest-bearing deposits at March 31, 2005, and 2006 were as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|---------------------------|------------------------|---------|--------------------------------------|
| | 2005 | 2006 | 2006 |
| Interest-free deposits | ¥ 3,486 | ¥ 3,396 | \$ 28,910 |
| Interest-bearing deposits | 558 | 611 | 5,201 |
| | ¥ 4,044 | ¥ 4,007 | \$ 34,111 |

All guarantee deposits are scheduled to mature during the year ending March 31, 2012 and thereafter.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

7. Short-Term Bank Loans and Guarantee Deposits (continued)

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2006 was as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|------------------|------------------------|--------------------------------------|
| | 2006 | 2006 |
| Lines of credit | ¥ 22,300 | \$ 189,836 |
| Credit utilized | - | - |
| Available credit | ¥ 22,300 | \$ 189,836 |

8. Retirement Benefits

The funded and accrued status of the employees' defined benefit plans of the Company and its consolidated subsidiaries, and the amounts recognized in the consolidated balance sheets at March 31, 2005 and 2006 are summarized as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|--|------------------------|-----------|--------------------------------------|
| | 2005 | 2006 | 2006 |
| Retirement benefit obligation | ¥(14,114) | ¥(14,530) | \$(123,691) |
| Plan assets at fair value | 5,809 | 7,960 | 67,762 |
| Unfunded retirement benefit obligation | (8,305) | (6,570) | (55,929) |
| Unrecognized actuarial loss (gain) | 1,303 | (575) | (4,896) |
| Unrecognized prior service cost | 20 | 15 | 128 |
| Net retirement benefit obligation | (6,982) | (7,130) | (60,697) |
| Prepaid pension cost | 400 | 387 | 3,294 |
| Accrued retirement benefits | ¥ (7,382) | ¥ (7,517) | \$ (63,991) |

As allowed under the accounting standard for retirement benefits, certain domestic consolidated subsidiaries calculate accrued retirement benefits for their employees by simplified methods.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefits (continued)

The components of retirement benefit expenses for the years ended March 31, 2005 and 2006 are outlined as follows:

| | <i>Millions of yen</i> | | <i>Thousands of</i> |
|------------------------------------|------------------------|----------------|---------------------|
| | 2005 | 2006 | <i>U.S. dollars</i> |
| Service cost | ¥ 795 | ¥ 579 | \$ 4,929 |
| Interest cost | 340 | 330 | 2,809 |
| Expected return on plan assets | (63) | (65) | (553) |
| Amortization of actuarial loss | 178 | 151 | 1,285 |
| Amortization of prior service cost | 7 | 7 | 60 |
| | <u>¥ 1,257</u> | <u>¥ 1,002</u> | <u>\$ 8,530</u> |

The retirement benefit expenses of certain domestic consolidated subsidiaries which were calculated by simplified methods have been included in service cost in the above table.

The assumptions used in accounting for the above benefit plans for the years ended March 31, 2005 and 2006 were as follows:

| | 2005 | 2006 |
|--|------------------|------------------|
| Discount rate | Principally 2.5% | Principally 2.5% |
| Expected rate of return on plan assets | Principally 1.5% | Principally 1.5% |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended March 31, 2005 and 2006.

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31, 2005 and 2006 as a percentage of income before income taxes and minority interests is as follows:

| | 2005 | 2006 |
|--|-------|-------|
| Statutory tax rate | 40.5% | 40.5% |
| Investment tax credits | (0.5) | (0.7) |
| Nondeductible expenses | 2.4 | 0.4 |
| Per capita portion of inhabitants' taxes | 0.4 | 0.5 |
| Difference in tax rates applicable to the overseas consolidated subsidiary | (7.5) | (5.5) |
| Cash dividends received from the overseas consolidated subsidiary | 1.5 | 4.1 |
| Equity in earnings (loss) of an affiliate | 0.2 | (1.7) |
| Tax loss carryforward of a consolidated subsidiary | – | 4.6 |
| Loss on impairment of revalued land | – | 4.1 |
| Other | 0.9 | (0.2) |
| Effective tax rates | 37.9% | 46.1% |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

9. Income Taxes (continued)

The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2005 and 2006 are summarized as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|--|------------------------|-----------------|--------------------------------------|
| | 2005 | 2006 | 2006 |
| Deferred tax assets: | | | |
| Accrued retirement benefits | ¥ 2,639 | ¥ 2,806 | \$ 23,887 |
| Allowance for doubtful receivables | 87 | 68 | 579 |
| Accrued bonuses | 491 | 497 | 4,231 |
| Inventories | 385 | 186 | 1,583 |
| Foreign tax credits | 366 | 328 | 2,792 |
| Tax loss carryforwards | 348 | 412 | 3,507 |
| Loss on impairment of investments in securities and golf club memberships | 916 | 859 | 7,313 |
| Loss on impairment of fixed assets | - | 1,328 | 11,305 |
| Other | 814 | 935 | 7,960 |
| Gross deferred tax assets | <u>6,046</u> | <u>7,419</u> | <u>63,157</u> |
| Less valuation allowance | (775) | (1,212) | (10,317) |
| Total deferred tax assets | <u>5,271</u> | <u>6,207</u> | <u>52,840</u> |
| Deferred tax liabilities: | | | |
| Dividends from an overseas subsidiary | (164) | (86) | (732) |
| Unrealized holding gain on securities | (5,706) | (12,158) | (103,499) |
| Land revaluation reserve | (675) | (2,368) | (20,158) |
| Reserve for deferred taxation on contributions for acquisition of property | (1,086) | (1,030) | (8,768) |
| Total deferred tax liabilities | <u>(7,631)</u> | <u>(15,642)</u> | <u>(133,157)</u> |
| Net deferred tax liabilities | <u>¥(2,360)</u> | <u>¥(9,435)</u> | <u>\$(80,317)</u> |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

10. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and bonuses to directors and statutory auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of stated capital. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital by resolution of the Board of Directors. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Additional paid-in capital and the legal reserve are included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets and statements of shareholders' equity. The Company's legal reserve amounted to nil at March 31, 2005 and 2006.

In accordance with the Code, a stock option plan for certain directors and executive officers of the Company was approved at the annual general meeting of the shareholders held on June 29, 2004. Under the terms of this plan, 81,000 shares of common stock were granted at ¥1 (\$0.01) per share. The options became exercisable on July 13, 2004 and are scheduled to expire on June 29, 2024.

In accordance with the Code, a stock option plan for certain directors and executive officers of the Company was approved at the annual general meeting of the shareholders held on June 29, 2005. Under the terms of this plan, up to 62,000 shares of common stock were granted at ¥1 (\$0.01) per share. The options became exercisable on July 15, 2005 and are scheduled to expire on June 29, 2025.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law stipulates requirements on distributions of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Land Revaluation

At March 31, 2000 and 2002, certain consolidated subsidiaries and an affiliate revalued their land held for business use in accordance with the “Law on Land Revaluation.” Differences on land revaluation have been accounted for as land revaluation reserve under shareholders’ equity and are stated at the Company’s share of the net amount of the relevant tax effect. The method followed for land revaluation was determined in accordance with the “Enforcement Act Concerning Land Revaluation.”

The fair value of the land revalued at March 31, 2000 and 2002 was less than the corresponding carrying value by the following amounts at March 31, 2005 and 2006:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|---------------------------------|------------------------|----------|--------------------------------------|
| | 2005 | 2006 | 2006 |
| Land revalued at March 31, 2000 | ¥ (146) | ¥ (167) | \$ (1,422) |
| Land revalued at March 31, 2002 | (2,203) | (2,289) | (19,486) |
| | ¥(2,349) | ¥(2,456) | \$(20,908) |

12. Research and Development Costs

Research and development costs included in selling, general and administrative expenses totaled ¥503 million and ¥483 million (\$4,112 thousand) for the years ended March 31, 2005 and 2006, respectively.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

13. Leases

The following *pro forma* amounts present the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2005 and 2006, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property of the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized:

| | <i>Millions of yen</i> | | | | | |
|-----------------------------------|---------------------------------|--------------------------|----------------|-------------------|--------------------------|----------------|
| | 2005 | | | 2006 | | |
| | Acquisition costs | Accumulated depreciation | Net book value | Acquisition costs | Accumulated depreciation | Net book value |
| Machinery, equipment and vehicles | ¥476 | ¥257 | ¥219 | ¥362 | ¥136 | ¥226 |
| | <i>Thousands of U.S dollars</i> | | | | | |
| | 2006 | | | | | |
| | Acquisition costs | Accumulated depreciation | Net book value | | | |
| Machinery, equipment and vehicles | \$3,082 | \$1,158 | \$1,924 | | | |

The related lease payments and depreciation for the years ended March 31, 2005 and 2006 were as follows:

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|----------------|------------------------|------|----------------------------------|
| | 2005 | 2006 | 2006 |
| Lease payments | ¥80 | ¥82 | \$698 |
| Depreciation | 80 | 82 | 698 |

Depreciation is calculated by the straight-line method over the respective lease terms assuming a nil residual value.

No loss on impairment has been recorded on finance leases.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

13. Leases (continued)

The related future minimum payments (including the interest portion thereon) subsequent to March 31, 2006 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

| <u>Year ending March 31,</u> | <u>Millions of yen</u> | <u>Thousands of U.S. dollars</u> |
|------------------------------|------------------------|--------------------------------------|
| 2007 | ¥ 73 | \$ 621 |
| 2008 and thereafter | 153 | 1,303 |
| | <u>¥226</u> | <u>\$1,924</u> |

14. Contingent Liabilities

At March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

| | <u>Millions of yen</u> | <u>Thousands of U.S. dollars</u> |
|---|------------------------|--------------------------------------|
| Guarantees of housing loans of employees and indebtedness of an unconsolidated subsidiary and other | ¥426 | \$3,623 |

15. Derivatives

The Company and its consolidated subsidiaries enter into various transactions involving derivatives in order to manage risk arising from adverse fluctuation in foreign currency exchange rates. Forward foreign exchange contracts entail the market risk of fluctuation in foreign currency exchange rates. Derivatives positions involve the credit risk that the counterparties may default on their obligations. The Company and its consolidated subsidiaries select only financial institutions with high credit ratings as counterparties in order to minimize their credit risk. The Company and its consolidated subsidiaries do not enter into derivatives transactions whose fluctuation in fair value is material and which could thus impact their operations significantly.

The Company and its consolidated subsidiaries have established policies for approving and reporting the purpose, nature, counterparties, inherent risk, limit on loss and the level of risk of each transaction. Under these policies governing derivatives, trading is not entered into for speculative purposes.

At March 31, 2005 and 2006, all derivatives positions qualified for the application of hedge accounting and, thus, disclosure of fair value information has been omitted.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

16. Amounts per Share

Amounts per share at March 31, 2005 and 2006 and for the years then ended were as follows:

| | <i>Yen</i> | | <i>U.S. dollars</i> |
|---------------------------------------|------------|---------|---------------------|
| | 2005 | 2006 | 2006 |
| Net assets | ¥785.36 | ¥854.83 | \$7.28 |
| Net income: | | | |
| Basic | 43.06 | 26.44 | 0.23 |
| Diluted | 43.04 | 26.42 | 0.23 |
| Cash dividends applicable to the year | 14.00 | 16.00 | 0.14 |

The amount per share of net assets is computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

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

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

17. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of a variety of steel products such as steel sheets, construction materials, prefabricated structures, home furnishings, and steel rolls and gratings. The Company also engages in other activities such as real estate rental and engineering projects.

The business and geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2006 are outlined as follows:

Business Segments

| | <i>Millions of yen</i> | | | | | |
|---|---------------------------|---------------------------------|---------------|----------------|---|-------------------|
| | Year ended March 31, 2005 | | | | | |
| | Steel sheet products | Electric furnace products | Other | Total | Elimina- tions and general corporate assets | Consoli- dated |
| I. Sales and operating income (loss) | | | | | | |
| Sales to third parties | ¥161,235 | ¥7,444 | ¥8,003 | ¥176,682 | ¥- | ¥176,682 |
| Intergroup sales and transfers | - | - | 4,461 | 4,461 | (4,461) | - |
| Total sales | <u>161,235</u> | <u>7,444</u> | <u>12,464</u> | <u>181,143</u> | <u>(4,461)</u> | <u>176,682</u> |
| Operating expenses | <u>141,666</u> | <u>7,558</u> | <u>11,672</u> | <u>160,896</u> | <u>(3,526)</u> | <u>157,370</u> |
| Operating income (loss) | <u>¥19,569</u> | <u>¥(114)</u> | <u>¥792</u> | <u>¥20,247</u> | <u>¥(935)</u> | <u>¥19,312</u> |
| II. Assets, depreciation and capital expenditures | | | | | | |
| Total assets | ¥112,279 | ¥8,823 | ¥22,707 | ¥143,809 | ¥57,230 | ¥201,039 |
| Depreciation | 4,967 | 327 | 393 | 5,687 | 92 | 5,779 |
| Capital expenditures | 2,726 | 338 | 235 | 3,299 | 22 | 3,321 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

17. Segment Information (continued)

Business Segments (continued)

| | <i>Millions of yen</i> | | | | | |
|---|----------------------------------|---------------------------|------------|--------------|---|--------------|
| | Year ended March 31, 2006 | | | | | |
| | Steel sheet products | Electric furnace products | Other | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income (loss) | | | | | | |
| Sales to third parties | ¥ 163,439 | ¥ 8,843 | ¥ 7,754 | ¥ 180,036 | ¥ – | ¥ 180,036 |
| Intergroup sales and transfers | – | – | 4,395 | 4,395 | (4,395) | – |
| Total sales | 163,439 | 8,843 | 12,149 | 184,431 | (4,395) | 180,036 |
| Operating expenses | 150,154 | 8,965 | 11,016 | 170,135 | (3,447) | 166,688 |
| Operating income (loss) | ¥ 13,285 | ¥ (122) | ¥ 1,133 | ¥ 14,296 | ¥ (948) | ¥ 13,348 |
| II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures | | | | | | |
| Total assets | ¥ 112,504 | ¥10,251 | ¥ 18,272 | ¥ 141,027 | ¥ 67,890 | ¥ 208,917 |
| Depreciation | 4,186 | 316 | 321 | 4,823 | 557 | 5,380 |
| Loss on impairment of fixed assets | – | – | 3,381 | 3,381 | – | 3,381 |
| Capital expenditures | 2,670 | 272 | 197 | 3,139 | 1,174 | 4,313 |
| | <i>Thousands of U.S. dollars</i> | | | | | |
| | Year ended March 31, 2006 | | | | | |
| | Steel sheet products | Electric furnace products | Other | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income (loss) | | | | | | |
| Sales to third parties | \$ 1,391,326 | \$ 75,279 | \$ 66,008 | \$ 1,532,613 | \$ – | \$ 1,532,613 |
| Intergroup sales and transfers | – | – | 37,414 | 37,414 | (37,414) | – |
| Total sales | 1,391,326 | 75,279 | 103,422 | 1,570,027 | (37,414) | 1,532,613 |
| Operating expenses | 1,278,233 | 76,318 | 93,777 | 1,448,328 | (29,344) | 1,418,984 |
| Operating income (loss) | \$ 113,093 | \$ (1,039) | \$ 9,645 | \$ 121,699 | \$ (8,070) | \$ 113,629 |
| II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures | | | | | | |
| Total assets | \$ 957,725 | \$ 87,265 | \$ 155,546 | \$ 1,200,536 | \$ 577,935 | \$ 1,778,471 |
| Depreciation | 35,634 | 2,690 | 2,733 | 41,057 | 4,742 | 45,799 |
| Loss on impairment of fixed assets | – | – | 28,782 | 28,782 | – | 28,782 |
| Capital expenditures | 22,729 | 2,316 | 1,677 | 26,722 | 9,994 | 36,716 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

17. Segment Information (continued)

Geographical Segments

| <i>Millions of yen</i> | | | | | |
|-------------------------------|------------------|-------------------|------------------|--|------------------|
| Year ended March 31, 2005 | | | | | |
| | Japan | Southeast Asia | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | |
| Sales to third parties | ¥ 115,283 | ¥ 61,399 | ¥ 176,682 | ¥ – | ¥ 176,682 |
| Interarea sales and transfers | 16 | – | 16 | (16) | – |
| Total sales | 115,299 | 61,399 | 176,698 | (16) | 176,682 |
| Operating expenses | 106,067 | 51,439 | 157,506 | (136) | 157,370 |
| Operating income | <u>¥ 9,232</u> | <u>¥ 9,960</u> | <u>¥ 19,192</u> | <u>¥ 120</u> | <u>¥ 19,312</u> |
| II. Assets | <u>¥ 117,610</u> | <u>¥ 31,823</u> | <u>¥ 149,433</u> | <u>¥ 51,606</u> | <u>¥ 201,039</u> |

| <i>Millions of yen</i> | | | | | |
|-------------------------------|------------------|-------------------|------------------|--|------------------|
| Year ended March 31, 2006 | | | | | |
| | Japan | Southeast Asia | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | |
| Sales to third parties | ¥ 118,625 | ¥ 61,411 | ¥ 180,036 | ¥ – | ¥ 180,036 |
| Interarea sales and transfers | 17 | 279 | 296 | (296) | – |
| Total sales | 118,642 | 61,690 | 180,332 | (296) | 180,036 |
| Operating expenses | 108,988 | 58,071 | 167,059 | (371) | 166,688 |
| Operating income | <u>¥ 9,654</u> | <u>¥ 3,619</u> | <u>¥ 13,273</u> | <u>¥ 75</u> | <u>¥ 13,348</u> |
| II. Assets | <u>¥ 115,483</u> | <u>¥ 31,210</u> | <u>¥ 146,693</u> | <u>¥ 62,224</u> | <u>¥ 208,917</u> |

| <i>Thousands of U.S. dollars</i> | | | | | |
|----------------------------------|-------------------|-------------------|---------------------|--|---------------------|
| Year ended March 31, 2006 | | | | | |
| | Japan | Southeast Asia | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | |
| Sales to third parties | \$ 1,009,833 | \$ 522,780 | \$ 1,532,613 | \$ – | \$ 1,532,613 |
| Interarea sales and transfers | 145 | 2,375 | 2,520 | (2,520) | – |
| Total sales | 1,009,978 | 525,155 | 1,535,133 | (2,520) | 1,532,613 |
| Operating expenses | 927,795 | 494,347 | 1,422,142 | (3,158) | 1,418,984 |
| Operating income | <u>\$ 82,183</u> | <u>\$ 30,808</u> | <u>\$ 112,991</u> | <u>\$ 638</u> | <u>\$ 113,629</u> |
| II. Assets | <u>\$ 983,085</u> | <u>\$ 265,685</u> | <u>\$ 1,248,770</u> | <u>\$ 529,701</u> | <u>\$ 1,778,471</u> |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

17. Segment Information (continued)

Geographical Segments (continued)

Overseas sales which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiary for the years ended March 31, 2005 and 2006 are summarized as follows:

| | <i>Millions of yen</i> | | |
|--|----------------------------------|-----------|------------|
| | Year ended March 31, 2005 | | |
| | Asia | Other | Total |
| Overseas sales | ¥44,661 | ¥23,207 | ¥ 67,868 |
| Consolidated net sales | – | – | 176,682 |
| Overseas sales as a percentage of consolidated net sales | 25.3% | 13.1% | 38.4% |
| | <i>Millions of yen</i> | | |
| | Year ended March 31, 2006 | | |
| | Asia | Other | Total |
| Overseas sales | ¥51,989 | ¥15,087 | ¥ 67,076 |
| Consolidated net sales | – | – | 180,036 |
| Overseas sales as a percentage of consolidated net sales | 28.9% | 8.4% | 37.3% |
| | <i>Thousands of U.S. dollars</i> | | |
| | Year ended March 31, 2006 | | |
| | Asia | Other | Total |
| Overseas sales | \$442,573 | \$128,432 | \$ 571,005 |
| Consolidated net sales | – | – | 1,532,613 |

18. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved at a meeting of the shareholders held on June 29, 2006:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|---|------------------------|----------------------------------|
| Cash dividends of ¥9 (U.S.\$0.08) per share | ¥1,565 | \$13,323 |
| Bonuses to directors and statutory auditors | 59 | 502 |