

Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

*Years ended March 31, 2007 and 2008
with Report of Independent Auditors*

Yodogawa Steel Works, Ltd.
Consolidated Financial Statements
Years ended March 31, 2007 and 2008

Contents

Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Balance Sheets.....	2
Consolidated Statements of Income	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9

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, 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yodogawa Steel Works, Ltd. and consolidated subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Osaka, Japan
June 26, 2008

Yodogawa Steel Works, Ltd.

Consolidated Balance Sheets

March 31, 2007 and 2008

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	<u>2007</u>	<u>2008</u>	<u>2008</u>
Assets			
Current assets:			
Cash and time deposits (<i>Note 4</i>)	¥ 13,271	¥ 13,058	\$ 130,332
Marketable securities (<i>Note 6</i>)	10,689	4,721	47,120
Notes and accounts receivable (<i>Note 5</i>):			
Unconsolidated subsidiaries and affiliates	13,806	12,916	128,915
Trade	31,578	35,403	353,359
Less allowance for doubtful receivables	(367)	(323)	(3,224)
Inventories	36,233	34,596	345,305
Deferred income taxes (<i>Note 11</i>)	1,291	1,274	12,716
Other current assets	4,811	4,098	40,902
Total current assets	<u>111,312</u>	<u>105,743</u>	<u>1,055,425</u>
Property, plant and equipment, at cost:			
Land (<i>Notes 7, 9 and 13</i>)	19,805	18,799	187,633
Buildings and structures (<i>Notes 7 and 9</i>)	54,185	51,617	515,191
Machinery, equipment and vehicles (<i>Notes 7 and 9</i>)	129,467	128,170	1,279,269
Construction in progress	749	979	9,772
Less accumulated depreciation	(142,554)	(142,500)	(1,422,298)
Property, plant and equipment, net	<u>61,652</u>	<u>57,065</u>	<u>569,567</u>
Investments and other assets:			
Investments in securities (<i>Notes 6 and 9</i>)	49,320	36,116	360,475
Investments in and advances to unconsolidated subsidiaries and affiliates	3,874	4,390	43,817
Deferred income taxes (<i>Note 11</i>)	532	790	7,885
Other assets	2,841	2,756	27,508
Total investments and other assets	<u>56,567</u>	<u>44,052</u>	<u>439,685</u>
Total assets	<u>¥ 229,531</u>	<u>¥ 206,860</u>	<u>\$ 2,064,677</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2007	2008	2008
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (<i>Note 8</i>)	¥ 1,044	¥ 702	\$ 7,007
Notes and accounts payable (<i>Note 5</i>):			
Unconsolidated subsidiaries and affiliates	1,113	1,316	13,135
Trade	18,574	18,343	183,082
Construction	1,555	1,582	15,790
Accrued expenses	4,699	3,931	39,235
Accrued income taxes (<i>Note 11</i>)	2,737	2,130	21,260
Secured deposits	7,747	—	—
Other current liabilities	4,212	3,521	35,143
Total current liabilities	41,681	31,525	314,652
Long-term liabilities:			
Accrued retirement benefits for employees (<i>Note 10</i>)	7,750	7,455	74,409
Accrued retirement benefits for directors and corporate auditors	78	69	689
Guarantee deposits (<i>Note 8</i>)	4,045	3,878	38,706
Negative goodwill	96	122	1,218
Deferred income taxes (<i>Note 11</i>)	9,099	4,425	44,166
Deferred income taxes on land revaluation reserve (<i>Note 11</i>)	2,384	1,105	11,029
Other long-term liabilities	401	192	1,916
Total long-term liabilities	23,853	17,246	172,133
Contingent liabilities (<i>Note 16</i>)			
Net assets:			
Shareholders' equity (<i>Note 12</i>):			
Common stock:			
Authorized: 753,814,067 shares in 2007 and 2008			
Issued: 184,186,153 shares in 2007 and 2008	23,221	23,221	231,770
Capital surplus	23,547	23,776	237,309
Retained earnings (<i>Note 20</i>)	89,393	94,437	942,579
Treasury stock, at cost – 16,655,718 shares in 2007 and 18,473,745 shares in 2008	(6,235)	(7,431)	(74,169)
Total shareholders' equity	129,926	134,003	1,337,489
Valuation and translation adjustments:			
Unrealized holding gain on securities (<i>Note 6</i>)	17,036	8,680	86,635
Land revaluation reserve (<i>Note 13</i>)	1,642	1,422	14,193
Translation adjustments	(1,068)	(1,570)	(15,670)
Total valuation and translation adjustments	17,610	8,532	85,158
Stock acquisition rights	25	49	489
Minority interests	16,436	15,505	154,756
Total net assets	163,997	158,089	1,577,892
Total liabilities and net assets	¥ 229,531	¥ 206,860	\$ 2,064,677

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.
Consolidated Statements of Income

Years ended March 31, 2007 and 2008

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2007	2008	2008
Net sales	¥ 192,319	¥ 207,398	\$ 2,070,047
Cost of sales	162,186	179,150	1,788,102
Gross profit	30,133	28,248	281,945
Selling, general and administrative expenses (Note 14)	17,181	16,992	169,598
Operating income	12,952	11,256	112,347
Other income (expenses):			
Interest and dividend income	804	1,012	10,101
Interest expense	(78)	(101)	(1,008)
Gain on sales of investments in securities (Note 6)	1,245	313	3,124
Loss on impairment of investments in securities (Note 6)	(71)	(569)	(5,679)
Loss on sales or disposal of property, plant and equipment, net	(252)	(407)	(4,062)
Equity in earnings of an affiliate	144	432	4,311
Loss on impairment of fixed assets (Note 7)	(525)	(6)	(60)
Gain on execution of an option on equity securities	–	780	7,785
Amortization of negative goodwill	–	19	190
Loss on devaluation of derivatives	–	(271)	(2,705)
Reversal of allowance for disposal cost	–	19	190
Loss on discontinued products	–	(217)	(2,166)
Other, net	(152)	41	409
Income before income taxes and minority interests	14,067	12,301	122,777
Income taxes (Note 11):			
Current	4,674	3,748	37,409
Deferred	694	65	649
	5,368	3,813	38,058
Income before minority interests	8,699	8,488	84,719
Minority interests	(2,324)	(1,434)	(14,313)
Net income	¥ 6,375	¥ 7,054	\$ 70,406

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2007 and 2008

<i>Millions of yen</i>													
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Land revaluation reserve	Translation adjustments	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2006	184,186,153	¥ 23,221	¥ 23,740	¥ 86,843	¥ (5,592)	¥ 128,212	¥ 17,744	¥ 303	¥ (1,315)	¥ 16,732	¥ -	¥ 14,607	¥ 159,551
Cash dividends	-	-	-	(2,349)	-	(2,349)	-	-	-	-	-	-	(2,349)
Bonuses to directors and corporate auditors	-	-	-	(78)	-	(78)	-	-	-	-	-	-	(78)
Bonuses to employees of an overseas subsidiary	-	-	-	(22)	-	(22)	-	-	-	-	-	-	(22)
Net income	-	-	-	6,375	-	6,375	-	-	-	-	-	-	6,375
Acquisition of treasury stock	-	-	-	-	(645)	(645)	-	-	-	-	-	-	(645)
Disposition of treasury stock	-	-	(193)	-	2	(191)	-	-	-	-	-	-	(191)
Reversal of land revaluation reserve	-	-	-	(1,376)	-	(1,376)	-	-	-	-	-	-	(1,376)
Other changes	-	-	-	-	-	-	(708)	1,339	247	878	25	1,829	2,732
Balance at March 31, 2007	184,186,153	23,221	23,547	89,393	(6,235)	129,926	17,036	1,642	(1,068)	17,610	25	16,436	163,997
Cash dividends	-	-	-	(2,190)	-	(2,190)	-	-	-	-	-	-	(2,190)
Bonuses to directors and corporate auditors of an overseas subsidiary	-	-	-	(10)	-	(10)	-	-	-	-	-	-	(10)
Bonuses to employees of an overseas subsidiary	-	-	-	(30)	-	(30)	-	-	-	-	-	-	(30)
Net income	-	-	-	7,054	-	7,054	-	-	-	-	-	-	7,054
Acquisition of treasury stock	-	-	-	-	(2,185)	(2,185)	-	-	-	-	-	-	(2,185)
Disposition of treasury stock	-	-	229	-	989	1,218	-	-	-	-	-	-	1,218
Reversal of land revaluation reserve	-	-	-	220	-	220	-	-	-	-	-	-	220
Other changes	-	-	-	-	-	-	(8,356)	(220)	(502)	(9,078)	24	(931)	(9,985)
Balance at March 31, 2008	184,186,153	¥ 23,221	¥ 23,776	¥ 94,437	¥ (7,431)	¥ 134,003	¥ 8,680	¥ 1,422	¥ (1,570)	¥ 8,532	¥ 49	¥ 15,505	¥ 158,089

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Changes in Net Assets (continued)

Years ended March 31, 2007 and 2008

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Land revaluation reserve	Translation adjustments	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2007	\$ 231,770	\$ 235,023	\$ 892,235	\$(62,232)	\$ 1,296,796	\$ 170,037	\$ 16,389	\$ (10,660)	\$ 175,766	\$ 250	\$ 164,048	\$ 1,636,860
Cash dividends	-	-	(21,858)	-	(21,858)	-	-	-	-	-	-	(21,858)
Bonuses to directors and corporate auditors of an overseas subsidiary	-	-	(100)	-	(100)	-	-	-	-	-	-	(100)
Bonuses to employees of an overseas subsidiary	-	-	(299)	-	(299)	-	-	-	-	-	-	(299)
Net income	-	-	70,406	-	70,406	-	-	-	-	-	-	70,406
Acquisition of treasury stock	-	-	-	(21,808)	(21,808)	-	-	-	-	-	-	(21,808)
Disposition of treasury stock	-	2,286	-	9,871	12,157	-	-	-	-	-	-	12,157
Reversal of land revaluation reserve	-	-	2,195	-	2,195	-	-	-	-	-	-	2,195
Other changes	-	-	-	-	-	(83,402)	(2,196)	(5,010)	(90,608)	239	(9,292)	(99,661)
Balance at March 31, 2008	\$ 231,770	\$ 237,309	\$ 942,579	\$(74,169)	\$ 1,337,489	\$ 86,635	\$ 14,193	\$ (15,670)	\$ 85,158	\$ 489	\$ 154,756	\$ 1,577,892

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows

Years ended March 31, 2007 and 2008

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2007	2008	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 14,067	¥ 12,301	\$ 122,777
Adjustments for:			
Depreciation and amortization	5,269	5,981	59,697
Amortization of negative goodwill	–	(19)	(190)
Equity in earnings of an affiliate	(144)	(432)	(4,311)
Loss on impairment of investments in securities	71	569	5,679
Increase (decrease) in accrued retirement benefits	168	(220)	(2,196)
(Decrease) increase in accrued bonuses	(78)	16	160
Increase (decrease) in allowance for doubtful receivables	139	(50)	(500)
Interest and dividend income	(804)	(1,012)	(10,101)
Interest expense	78	101	1,008
Gain on sales of investments in securities	(1,245)	(313)	(3,124)
Loss on sales or disposal of property, plant and equipment, net	252	407	4,062
Loss on impairment of fixed assets	525	6	60
Increase in notes and accounts receivable	(7,282)	(3,152)	(31,460)
(Increase) decrease in inventories	(4,832)	1,178	11,758
Increase in notes and accounts payable	4,248	81	808
Bonuses to directors, corporate auditors and employees of an overseas subsidiary	(100)	(40)	(399)
Gain on execution of an option on equity securities	–	(780)	(7,785)
Loss on devaluation of derivatives	–	271	2,705
Loss on discontinued products	–	217	2,166
Other	(370)	519	5,180
Subtotal	9,962	15,629	155,994
Interest and dividends received	831	1,082	10,799
Interest paid	(79)	(103)	(1,028)
Income taxes paid	(4,832)	(4,339)	(43,308)
Net cash provided by operating activities	¥ 5,882	¥ 12,269	\$ 122,457

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows (continued)

Years ended March 31, 2007 and 2008

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2007	2008	2008
Cash flows from investing activities:			
Investments in time deposits with a maturity of more than three months	¥ (861)	¥ (204)	\$ (2,036)
Proceeds from time deposits with a maturity of more than three months	75	362	3,613
Purchases of marketable securities	–	(2,689)	(26,839)
Proceeds from sales of marketable securities	692	1,407	14,043
Purchases of property, plant and equipment	(3,843)	(3,314)	(33,077)
Proceeds from sales of property, plant and equipment	830	574	5,729
Purchases of intangible fixed assets	(78)	(47)	(469)
Purchases of investments in securities	(6,858)	(4,289)	(42,809)
Proceeds from sales of investments in securities	2,913	4,422	44,136
Proceeds from sale of a hotel business (<i>Note 4</i>)	–	300	2,994
Execution of loans receivable	(769)	(282)	(2,814)
Collection of loans receivable	851	350	3,494
Proceeds from execution of an option on securities	–	780	7,785
Other	5	–	–
Net cash used in investing activities	(7,043)	(2,630)	(26,250)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans	1,024	(309)	(3,084)
Increase (decrease) in secured deposits	7,747	(7,747)	(77,323)
Proceeds from sales of treasury stock	–	1,219	12,167
Purchases of treasury stock	(135)	(2,182)	(21,779)
Cash dividends paid to the Company's shareholders	(2,364)	(2,204)	(21,998)
Cash dividends paid to shareholders of minority interests of consolidated subsidiaries	(1,106)	(1,743)	(17,397)
Net cash provided by (used in) financing activities	5,166	(12,966)	(129,414)
Effect of exchange rate changes on cash and cash equivalents	8	(22)	(220)
Net increase (decrease) in cash and cash equivalents	4,013	(3,349)	(33,427)
Cash and cash equivalents at beginning of the year	16,187	20,200	201,617
Cash and cash equivalents at end of the year (<i>Note 4</i>)	¥ 20,200	¥ 16,851	\$ 168,190

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements

March 31, 2008

1. Summary of Significant Accounting Policies

(a) Basis of preparation

Yodogawa Steel Works, Ltd. (the “Company”) and its domestic subsidiaries maintain their books of account and records in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2007 to the 2008 presentation. Such reclassifications had no effect on consolidated net assets and net income.

(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.

An 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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

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.

(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 credited or charged to income.

The balance sheet accounts of the overseas consolidated subsidiary (except for net assets excluding minority interests) are translated into yen at the rate of exchange in effect at the balance sheet date. The components of net assets excluding minority interests 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 net assets in the accompanying consolidated financial statements.

(d) Cash and 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 into 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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(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, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

(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 estimated 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 or 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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(h) Intangible assets and amortization

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

(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 termination occurs.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(m) Retirement benefits (continued)

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.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over a period of 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 a period of 15 years, which is within the estimated average remaining years of service of the eligible employees.

The directors and corporate auditors of the Company's 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 corporate auditors has been made at an estimated amount based on the Company's or each consolidated subsidiary's internal rules.

(n) Hedge accounting

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

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

2. Changes in Accounting Policies

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation based on an amendment to the Corporation Tax Law of Japan. Tangible fixed assets acquired on or after April 1, 2007 are to be depreciated based on a nil salvage value. As a result, operating income decreased by ¥51 million (\$509 thousand) and income before income taxes and minority interests decreased by ¥53 million (\$529 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

In addition, effective the year ended March 31, 2008, Tangible fixed assets acquired on or prior to March 31, 2007 are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years once they have been fully depreciated to the limits of their respective depreciable amounts. As a result of this change, operating income decreased by ¥548 million (\$5,470 thousand) and income before income taxes and minority interests decreased by ¥555 million (\$5,539 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

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 ¥100.19 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2008. 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 accompanying consolidated balance sheets to cash and cash equivalents shown in the accompanying consolidated statements of cash flows at March 31, 2007 and 2008 is presented as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Cash and time deposits	¥ 13,271	¥13,058	\$ 130,332
Investment trust funds	5,798	3,199	31,929
Beneficiary interests in trusts and other	1,500	1,000	9,981
Time deposits with a maturity of more than three months	(369)	(406)	(4,052)
Cash and cash equivalents	<u>¥ 20,200</u>	<u>¥16,851</u>	<u>\$ 168,190</u>

During the year ended March 31, 2008, a hotel business of a consolidated subsidiary was sold. The assets and liabilities of the hotel business, and the sale value and proceeds from sale are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2008	2008
Current assets	¥ 47	\$ 469
Fixed assets	305	3,044
Current liabilities	(51)	(509)
Loss on sale of a hotel business	(1)	(10)
Sale value	<u>300</u>	<u>2,994</u>
Cash and cash equivalent	<u>-</u>	<u>-</u>
Proceed from sale	<u>¥ 300</u>	<u>\$ 2,994</u>

5. Notes Receivable and Notes Payable

The balance sheet date of the year ended March 31, 2007 fell on a bank holiday. Consequently, notes receivable - trade of ¥1,110 million, notes payable - trade of ¥661 million, and notes payable - construction of ¥149 million with maturity date of March 31, 2007 were included in the respective balances and were settled on the next business day.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Securities

Marketable securities classified as held-to-maturity debt securities at March 31, 2007 and 2008 are summarized as follows:

	2007		
	<i>Millions of yen</i>		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 60	¥ 60	¥ 0
Corporate bonds	300	310	10
	<u>360</u>	<u>370</u>	<u>10</u>
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	10	10	(0)
Corporate bonds	12,203	11,865	(338)
Other	200	199	(1)
	<u>12,413</u>	<u>12,074</u>	<u>(339)</u>
Total	<u>¥12,773</u>	<u>¥12,444</u>	<u>¥(329)</u>
	2008		
	<i>Millions of yen</i>		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 270	¥ 272	¥ 2
Corporate bonds	1,298	1,302	4
	<u>1,568</u>	<u>1,574</u>	<u>6</u>
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	10	10	(0)
Corporate bonds	4,395	4,171	(224)
Other	250	249	(1)
	<u>4,655</u>	<u>4,430</u>	<u>(225)</u>
Total	<u>¥ 6,223</u>	<u>¥ 6,004</u>	<u>¥ (219)</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Securities (continued)

	2008		
	<i>Thousands of U.S. dollars</i>		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	\$ 2,695	\$ 2,715	\$ 20
Corporate bonds	12,955	12,995	40
	<u>15,650</u>	<u>15,710</u>	<u>60</u>
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	100	100	(0)
Corporate bonds	43,867	41,631	(2,236)
Other	2,495	2,485	(10)
	<u>46,462</u>	<u>44,216</u>	<u>(2,246)</u>
Total	<u>\$ 62,112</u>	<u>\$ 59,926</u>	<u>\$ (2,186)</u>

Other securities with determinable market value at March 31, 2007 and 2008 are summarized as follows:

	2007		
	<i>Millions of yen</i>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 12,722	¥ 41,849	¥ 29,127
Other	98	108	10
	<u>12,820</u>	<u>41,957</u>	<u>29,137</u>
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	587	526	(61)
Corporate bonds	990	985	(5)
	<u>1,577</u>	<u>1,511</u>	<u>(66)</u>
Total	<u>¥ 14,397</u>	<u>¥ 43,468</u>	<u>¥ 29,071</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Securities (continued)

	2008		
	<i>Millions of yen</i>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 11,028	¥25,714	¥ 14,686
Corporate bonds	490	496	6
Other	1,110	1,113	3
	<u>12,628</u>	<u>27,323</u>	<u>14,695</u>
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	4,533	3,967	(566)
Total	<u>¥ 17,161</u>	<u>¥31,290</u>	<u>¥ 14,129</u>

	2008		
	<i>Thousands of U.S. dollars</i>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 110,071	\$ 256,652	\$ 146,581
Corporate bonds	4,891	4,951	60
Other	11,079	11,109	30
	<u>126,041</u>	<u>272,712</u>	<u>146,671</u>
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	45,244	39,595	(5,649)
Total	<u>\$ 171,285</u>	<u>\$ 312,307</u>	<u>\$ 141,022</u>

Sales of securities classified as other securities for the years ended March 31, 2007 and 2008 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Sales	¥ 1,781	¥ 204	\$ 2,036
Aggregate gain	1,245	159	1,587
Aggregate loss	-	(0)	(0)

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Securities (continued)

The carrying value of securities without determinable market value at March 31, 2007 and 2008 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Held-to-maturity debt securities:			
Interest-bearing financial bonds	¥ 50	¥ –	\$ –
Other securities:			
Non-marketable equity securities	580	608	6,068
Money trusts	1,701	1,202	11,997
Investment in a limited liability partnership	317	414	4,132
Preferred subscription certificates	1,100	1,100	10,979

The Company recorded a loss on impairment of investments in securities of ¥71 million and ¥569 million (\$5,679 thousand) for the years ended March 31, 2007 and 2008, respectively.

The redemption schedule for other securities with maturities and held-to-maturity debt securities at March 31, 2008 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	¥ 200	¥ 80	¥–	¥ –
Corporate bonds	2,070	–	–	4,400
Other	1,240	10	–	–
Total	¥ 3,510	¥ 90	¥–	¥ 4,400

	<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	\$ 1,996	\$ 798	\$–	\$ –
Corporate bonds	20,661	–	–	43,917
Other	12,376	100	–	–
Total	\$ 35,033	\$ 898	\$–	\$ 43,917

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

7. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries recognized loss on impairment of fixed assets for the years ended March 31, 2007 and 2008 as follows:

Location	Use	Classification	Millions of yen		Thousands of
			2007	2008	U.S. dollars
Miyazaki City, Miyazaki Prefecture	Hotel	Land, buildings and structures, and other	¥ 325	¥ 6	\$ 60
Nishinomiya City, Hyogo Prefecture	Idle assets	Land, buildings and structures, and other	155	–	–
Shirahama Town, Wakayama Prefecture	Idle assets	Land, buildings and structures, and other	39	–	–
Village of Yamanakako, Yamanashi Prefecture	Idle assets	Buildings and structures, and other	6	–	–
Total			¥ 525	¥ 6	\$ 60

The Company and its consolidated subsidiaries group fixed assets by management segment, each of which continuously records cash 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 carrying value of the hotel group to its net recoverable value due to a significant decline in its fair value, and have recorded a related loss on impairment of fixed assets of ¥325 million and ¥6 million (\$60 thousand) in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2008, respectively. The loss on impairment of fixed assets consisted of land of ¥300 million, buildings and structures of ¥22 million, machinery, equipment and vehicles of ¥1 million, and other of ¥2 million for the year ended March 31, 2007, and other of ¥6 million (\$60 thousand) for the year ended March 31, 2008. The recoverable amounts of these assets are measured at estimated selling value which is measured at net realizable value based on appraisals conducted by real estate appraisers.

In addition, the Company and its consolidated subsidiaries wrote down the carrying value of the idle assets owned by the Company for the year ended March 31, 2007, which are not expected to be utilized in the future, to their respective net recoverable value, and have recorded a related loss on impairment of fixed assets of ¥200 million in the accompanying consolidated statement of income for the year ended March 31, 2007. This loss on impairment of fixed assets consisted of land of ¥175 million, and buildings and structures of ¥25 million for the year ended March 31, 2007. The recoverable amounts of these assets are measured at estimated selling value, at a valuation assessed for property tax purposes or at the comparable published land prices as they were not material.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

8. Short-Term Bank Loans and Guarantee Deposits

Short-term bank loans represented overdrafts at average annual interest rates of approximately 3.18% and 2.39% at March 31, 2007 and 2008, respectively.

Guarantee deposits consisted of interest-free deposits, most of which were golf-club membership deposits, and interest-bearing deposits, which were principally deposits from customers at average annual interest rates of 0.58% and 0.90% at March 31, 2007 and 2008, respectively.

Interest-free deposits and interest-bearing deposits at March 31, 2007 and 2008 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Interest-free deposits	¥ 3,386	¥ 3,224	\$ 32,179
Interest-bearing deposits	659	654	6,527
	<u>¥ 4,045</u>	<u>¥ 3,878</u>	<u>\$ 38,706</u>

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, 2007 and 2008 was as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Lines of credit	¥ 21,400	¥ 21,400	\$ 213,594
Credit utilized	-	-	-
Available credit	<u>¥ 21,400</u>	<u>¥ 21,400</u>	<u>\$213,594</u>

9. Pledged Assets

Assets pledged at March 31, 2008 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Land	¥ 41	\$ 409
Buildings and structures	2,561	25,561
Machinery, equipment and vehicles	1,990	19,862
Investments in securities	69	689
	<u>¥ 4,661</u>	<u>\$ 46,521</u>

Indebtedness secured by these assets as collateral was nil at March 31, 2008.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

10. Retirement Benefits

The funded and accrued status of the employees' defined benefit pension plans of the Company and its consolidated subsidiaries, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2007 and 2008 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Retirement benefit obligation	¥(14,693)	¥(13,967)	\$(139,405)
Plan assets at fair value	7,567	5,634	56,233
Unfunded retirement benefit obligation	(7,126)	(8,333)	(83,172)
Unrecognized actuarial (gain) loss	(38)	1,773	17,696
Unrecognized prior service cost	10	-	-
Net retirement benefit obligation	(7,154)	(6,560)	(65,476)
Prepaid pension cost	596	895	8,933
Accrued retirement benefits	¥ (7,750)	¥ (7,455)	\$ (74,409)

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

The components of retirement benefit expenses for the years ended March 31, 2007 and 2008 are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Service cost	¥ 683	¥ 740	\$ 7,386
Interest cost	331	331	3,304
Expected return on plan assets	(105)	(223)	(2,226)
Amortization of actuarial loss	6	14	140
Amortization of prior service cost	7	7	70
	¥ 922	¥ 869	\$ 8,674

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, 2007 and 2008 were as follows:

	2007	2008
Discount rate	Principally 2.5%	Principally 2.5%
Expected rates of return on plan assets	Principally 1.4%	Principally 3.2%

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

11. 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, 2007 and 2008.

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31, 2007 and 2008 as a percentage of income before income taxes and minority interests is as follows:

	2007	2008
Statutory tax rate	40.5%	40.5%
Investment tax credits	(1.3)	(0.3)
Permanently non-deductible expenses	0.3	0.4
Per capita portion of inhabitants' taxes	0.5	0.4
Difference in tax rates applicable to the overseas consolidated subsidiary	(6.6)	(4.1)
Cash dividends received from the overseas consolidated subsidiary	1.3	2.4
Tax exemption of the overseas consolidated subsidiary	(1.4)	(0.5)
Equity in earnings of an affiliate	(0.4)	(1.5)
Tax loss carryforwards of a consolidated subsidiary	1.1	(2.0)
Taxation on deemed dividends	1.0	–
Valuation allowance	3.3	7.0
Permanently non-taxable income	–	(1.0)
Reversal of land revaluation reserve	–	(10.1)
Other	(0.1)	(0.2)
Effective tax rates	38.2%	31.0%

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Income Taxes (continued)

The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2007 and 2008 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2007</u>	<u>2008</u>	<u>2008</u>
Deferred tax assets:			
Accrued retirement benefits	¥ 2,758	¥ 2,533	\$ 25,282
Allowance for doubtful receivables	99	131	1,308
Accrued bonuses	437	444	4,432
Valuation loss on inventories	190	179	1,787
Foreign tax credits	132	111	1,108
Tax loss carryforwards	1,004	955	9,532
Loss on impairment of investments in securities and golf-club memberships	862	963	9,612
Loss on impairment of fixed assets	1,524	87	868
Other	1,000	1,003	10,010
Gross deferred tax assets	<u>8,006</u>	<u>6,406</u>	<u>63,939</u>
Less valuation allowance	<u>(2,380)</u>	<u>(2,378)</u>	<u>(23,735)</u>
Total deferred tax assets	5,626	4,028	40,204
Deferred tax liabilities:			
Dividends from an overseas subsidiary	(132)	(76)	(759)
Unrealized holding gain on securities	(11,778)	(5,379)	(53,688)
Land revaluation reserve	(2,384)	(1,105)	(11,029)
Reserve for deferred taxation on contributions for acquisition of property	(992)	(934)	(9,322)
Total deferred tax liabilities	<u>(15,286)</u>	<u>(7,494)</u>	<u>(74,798)</u>
Net deferred tax liabilities	<u>¥ (9,660)</u>	<u>¥ (3,466)</u>	<u>\$ (34,594)</u>

12. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

In accordance with the former Commercial Code of Japan ("the Code"), 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, up to 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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

12. Shareholders' Equity (continued)

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.

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, 2006. Under the terms of this plan, up to 53,000 shares of common stock were granted at ¥1 (\$0.01) per share. The options became exercisable on August 1, 2006 and are scheduled to expire on June 29, 2026.

In accordance with the Law, a stock option plan for certain directors and executive officers of the Company was approved at a meeting of the Board of Directors held on July 17, 2007. Under the terms of this plan, up to 43,000 shares of common stock were granted at ¥1 (\$0.01) per share. The options became exercisable on August 2, 2007 and are scheduled to expire on June 29, 2027.

Treasury stock

Movements in treasury stock during the years ended March 31, 2007 and 2008 are summarized as follows:

<i>Thousands of Shares</i>				
2007				
	<u>March 31, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2007</u>
Treasury stock	14,748	1,910	3	16,655

<i>Thousands of Shares</i>				
2008				
	<u>March 31, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2008</u>
Treasury stock	16,655	3,856	2,038	18,473

13. 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 net assets 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."

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

13. Land Revaluation (continued)

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, 2007 and 2008:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2008	2008
Land revalued at March 31, 2000	¥ (187)	¥ (199)	\$ (1,986)
Land revalued at March 31, 2002	(1,313)	(992)	(9,901)
	¥ (1,500)	¥ (1,191)	\$ (11,887)

14. Research and Development Costs

Research and development costs included in selling, general and administrative expenses totaled ¥553 million and ¥515 million (\$5,140 thousand) for the years ended March 31, 2007 and 2008, respectively.

15. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2007 and 2008, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (currently accounted for as operating leases) were capitalized:

	<i>Millions of yen</i>					
	2007			2008		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 410	¥ 195	¥ 215	¥ 413	¥ 265	¥ 148
	<i>Thousands of U.S dollars</i>					
	2008					
	Acquisition costs	Accumulated depreciation	Net book value			
Machinery, equipment and vehicles	\$ 4,122	\$ 2,645	\$ 1,477			

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

15. Leases (continued)

The related lease payments and depreciation for the years ended March 31, 2007 and 2008 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2007</u>	<u>2008</u>	<u>2008</u>
Lease payments	¥ 78	¥ 86	\$ 858
Depreciation	78	86	858

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 leased property for the years ended March 31, 2007 and 2008.

The related future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 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>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2009	¥ 74	\$ 739
2010 and thereafter	74	738
	<u>¥148</u>	<u>\$1,477</u>

16. Contingent Liabilities

At March 31, 2008, the Company and its consolidated subsidiaries had the following contingent liabilities:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Guarantee of bank loan of an overseas unconsolidated subsidiary	¥ 22	\$ 220

Since January 24, 2008, the Company has been investigated by the Japan Fair Trade Commission due to suspicion of being involved in a price cartel regarding galvanized steel coils and painted steel coils with certain other participants. The Company and certain other participants may incur losses; however, the losses cannot be estimated with certainty at this time. Consequently, the Company cannot determine the related impact on its consolidated financial statements due to this event at this time.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

17. Derivatives

The Company and its consolidated subsidiaries enter into various transactions involving derivatives in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates, interest rates and share prices. Compound financial instruments that contain embedded derivatives are also utilized by the Company and its consolidated subsidiaries in order to manage surplus funds. 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. In addition, though compound financial instruments are subject to market risk where the value of those instruments decreases due to fluctuation, credit risk is deemed to be low as the Company and its consolidated subsidiaries do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

The Company and its consolidated subsidiaries have established policies for approving and reporting the purpose, nature, counterparty, 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, 2007 and 2008, all open derivatives positions qualified for the application of deferral hedge accounting and, thus, disclosure of fair value information has been omitted. Disclosure of fair value information on compound financial instruments, which can not be declassified and fair value of embedded derivatives can not be determined, has been omitted and fair value of compound financial instruments as a whole has been included in fair value information on securities presented in Note 6.

18. Amounts per Share

Amounts per share at March 31, 2007 and 2008 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	<u>2007</u>	<u>2008</u>	<u>2008</u>
Net assets	¥ 880.42	¥ 860.00	\$ 8.58
Net income:			
Basic	37.65	41.98	0.42
Diluted	37.61	41.93	0.42
Cash dividends	12.00	17.00	0.17

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

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

18. Amounts per Share (continued)

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 acquisition rights.

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.

19. 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, 2007 and 2008 are outlined as follows:

Business Segments

	<i>Millions of yen</i>					
	Year ended March 31, 2007					
	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	¥175,568	¥ 8,437	¥ 8,314	¥192,319	¥ -	¥192,319
Intersegment sales and transfers	-	-	6,141	6,141	(6,141)	-
Net sales	175,568	8,437	14,455	198,460	(6,141)	192,319
Operating expenses	163,316	8,550	12,757	184,623	(5,256)	179,367
Operating income (loss)	<u>¥ 12,252</u>	<u>¥ (113)</u>	<u>¥ 1,698</u>	<u>¥ 13,837</u>	<u>¥ (885)</u>	<u>¥ 12,952</u>
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	¥123,504	¥ 9,641	¥16,635	¥149,780	¥79,751	¥229,531
Depreciation and amortization	4,524	304	339	5,167	122	5,289
Loss on impairment of fixed assets	-	-	325	325	200	525
Capital expenditures	4,528	271	456	5,255	25	5,280

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

19. Segment Information (continued)

Business Segments (continued)

<i>Millions of yen</i>						
Year ended March 31, 2008						
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	¥187,191	¥12,630	¥7,577	¥207,398	¥-	¥207,398
Intersegment sales and transfers	1	-	5,818	5,819	(5,819)	-
Net sales	187,192	12,630	13,395	213,217	(5,819)	207,398
Operating expenses	176,998	11,990	12,070	201,058	(4,916)	196,142
Operating income	¥10,194	¥640	¥1,325	¥12,159	¥(903)	¥11,256

II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	¥115,778	¥15,937	¥18,821	¥150,536	¥56,324	¥206,860
Depreciation and amortization	5,047	436	404	5,887	114	6,001
Loss on impairment of fixed assets	-	-	6	6	-	6
Capital expenditures	1,731	312	755	2,798	203	3,001

<i>Thousands of U.S. dollars</i>						
Year ended March 31, 2008						
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	\$1,868,360	\$126,061	\$75,626	\$2,070,047	\$-	\$2,070,047
Intersegment sales and transfers	10	-	58,070	58,080	(58,080)	-
Net sales	1,868,370	126,061	133,696	2,128,127	(58,080)	2,070,047
Operating expenses	1,766,623	119,673	120,471	2,006,767	(49,067)	1,957,700
Operating income	\$101,747	\$6,388	\$13,225	\$121,360	\$(9,013)	\$112,347
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	\$1,155,584	\$159,068	\$187,853	\$1,502,505	\$562,172	\$2,064,677
Depreciation and amortization	50,374	4,352	4,032	58,758	1,138	59,896
Loss on impairment of fixed assets	-	-	60	60	-	60
Capital expenditures	17,277	3,114	7,536	27,927	2,026	29,953

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

19. Segment Information (continued)

As described in Note 2, in accordance with the 2007 revision of the Corporation Tax Law, effective the year ended March 31, 2008, the method of accounting for depreciation of tangible fixed assets acquired on or after April 1, 2007 has been changed to the procedure stipulated in the revised law. As a result, operating expenses in the Steel sheet products segment, the Electric furnace products segment and the Other segment for the year ended March 31, 2008 increased by ¥39 million (\$389 thousand), ¥8 million (\$80 thousand) and ¥4 million (\$40 thousand), respectively, and operating income decreased by the same amounts from the corresponding amounts which would have been recorded under the method applied in the previous year.

In addition, effective the year ended March 31, 2008, tangible fixed assets acquired on or prior to March 31, 2007 are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years once they have been fully depreciated to the limits of their respective depreciable amounts. As a result, operating expenses in the Steel sheet products segment, the Electric furnace products segment and the Other segment for the year ended March 31, 2008 increased by ¥433 million (\$4,322 thousand), ¥87 million (\$868 thousand) and ¥29 million (\$289 thousand), respectively, and operating income decreased by the same amounts from the corresponding amounts which would have been recorded under the method applied in the previous year.

Geographical Segments

	<i>Millions of yen</i>				
	Year ended March 31, 2007				
	Japan	Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:					
Sales to third parties	¥124,692	¥67,627	¥192,319	¥ –	¥192,319
Intersegment sales and transfers	1,042	–	1,042	(1,042)	–
Net sales	125,734	67,627	193,361	(1,042)	192,319
Operating expenses	119,056	61,417	180,473	(1,106)	179,367
Operating income	¥ 6,678	¥ 6,210	¥ 12,888	¥ 64	¥ 12,952
II. Total assets	¥120,865	¥37,030	¥157,895	¥71,636	¥229,531

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

19. Segment Information (continued)

Geographical Segments (continued)

<i>Millions of yen</i>					
Year ended March 31, 2008					
	Japan	Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:					
Sales to third parties	¥131,775	¥ 75,623	¥207,398	¥ –	¥207,398
Intersegment sales and transfers	16	–	16	(16)	–
Net sales	131,791	75,623	207,414	(16)	207,398
Operating expenses	122,766	72,490	195,256	886	196,142
Operating income	<u>¥ 9,025</u>	<u>¥ 3,133</u>	<u>¥ 12,158</u>	<u>¥ (902)</u>	<u>¥ 11,256</u>
II. Total assets	¥126,253	¥ 33,930	¥160,183	¥ 46,677	¥206,860

<i>Thousands of U.S. dollars</i>					
Year ended March 31, 2008					
	Japan	Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:					
Sales to third parties	\$1,315,251	\$754,796	\$2,070,047	\$ –	\$2,070,047
Intersegment sales and transfers	160	–	160	(160)	–
Net sales	1,315,411	754,796	2,070,207	(160)	2,070,047
Operating expenses	1,225,332	723,525	1,948,857	8,843	1,957,700
Operating income	<u>\$ 90,079</u>	<u>\$ 31,271</u>	<u>\$ 121,350</u>	<u>\$ (9,003)</u>	<u>\$ 112,347</u>
II. Total assets	\$1,260,136	\$338,656	\$1,598,792	\$465,885	\$2,064,677

The principal country in the Asia segment is Taiwan.

As described in Note 2, in accordance with the 2007 revision of the Corporation Tax Law, effective the year ended March 31, 2008, the method of accounting for depreciation of tangible fixed assets acquired on or after April 1, 2007 has been changed to the procedure stipulated in the revised law. As a result, operating expenses in the Japan segment for the year ended March 31, 2008 increased by ¥51 million (\$509 thousand) and operating income decreased by the same amount from the corresponding amounts which would have been recorded under the method applied in the previous year.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

19. Segment Information (continued)

Geographical Segments (continued)

In addition, effective the year ended March 31, 2008, tangible fixed assets acquired on or prior to March 31, 2007 are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years once they have been fully depreciated to the limits of their respective depreciable amounts. As a result, operating expenses in the Japan segment for the year ended March 31, 2008 increased by ¥548 million (\$5,470 thousand) and operating income decreased by the same amount from the corresponding amounts which would have been recorded under the method applied in the previous year.

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiary, for the years ended March 31, 2007 and 2008 are summarized as follows:

	<i>Millions of yen</i>			
	Year ended March 31, 2007			
	Asia	North America	Other	Total
Overseas sales	¥ 48,889	¥ 20,267	¥9,822	¥ 78,978
Consolidated net sales				192,319
Overseas sales as a percentage of consolidated net sales	25.4%	10.5%	5.1%	41.0%
	<i>Millions of yen</i>			
	Year ended March 31, 2008			
	Asia	Other	Total	
Overseas sales	¥ 56,812	¥32,938	¥ 89,750	
Consolidated net sales			207,398	
Overseas sales as a percentage of consolidated net sales	27.4%	15.9%	43.3%	
	<i>Thousands of U.S. dollars</i>			
	Year ended March 31, 2008			
	Asia	Other	Total	
Overseas sales	\$567,043	\$ 328,755	\$ 895,798	
Consolidated net sales			2,070,047	

For the year ended March 31, 2008, overseas sales in the North America area were included in those in the Other area as overseas sales in the North America area as a percentage of consolidated net sales was less than 10%. Overseas sales in the North America area for the year ended March 31, 2008 were ¥13,959 million (\$139,325 thousand).

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

20. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at a meeting of the Board of Directors held on May 15, 2008:

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Cash dividends of ¥11 (\$0.11) per share	¥ 1,835	\$ 18,315