Financial Statements

Years ended March 31,2004 and 2005

Contents

Yodogawa Steel Works, Ltd.

Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

Years ended March 31, 2004 and 2005
with Report of Independent Auditors

Ernst & Young ShinNihon

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. as of March 31, 2004 and 2005, 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, 2004 and 2005, 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, 2005 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 2.

Osaka, Japan
June 29, 2005

Ernst & Young Shin Nihon

Yodogawa Steel Works, Ltd.

Consolidated Balance Sheets

March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Assets			
Current assets:			
Cash and cash equivalents	¥ 19,887	¥ 20,363	$ 189,617
Short-term investments	177	577	5,373
Marketable securities *(Note 3)*	2,158	2,571	23,941
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	11,099	14,227	132,480
Trade	24,475	30,789	286,703
Less allowance for doubtful receivables	(219)	(347)	(3,231)
Inventories	21,580	23,740	221,063
Deferred income taxes *(Note 6)*	673	1,338	12,459
Other current assets	4,537	5,322	49,558
Total current assets	84,367	98,580	917,963
Property, plant and equipment:			
Land *(Note 8)*	23,820	23,037	214,517
Buildings and structures	52,284	52,634	490,120
Machinery, equipment and vehicles	123,615	123,476	1,149,790
Construction in progress	831	457	4,256
Less accumulated depreciation	(131,310)	(133,694)	(1,244,939)
Property, plant and equipment, net	69,240	65,910	613,744
Investments and other assets:			
Investments in securities *(Notes 3 and 4)*	25,451	30,863	287,392
Investments in and advances to unconsolidated subsidiaries and affiliates	3,435	3,191	29,714
Deferred income taxes *(Note 6)*	341	387	3,604
Other assets	2,069	2,108	19,629
Total investments and other assets	31,296	36,549	340,339
Total assets	¥ 184,903	¥ 201,039	$ 1,872,046

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
Liabilities, minority interests and shareholders' equity			
Current liabilities:			
Short-term bank loans *(Note 4)*	¥ 5,828	¥ 4,600	$ 42,835
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	651	897	8,353
Trade	14,024	16,091	149,837
Construction	1,475	1,681	15,653
Accrued expenses	4,089	4,690	43,673
Accrued income taxes *(Note 6)*	1,941	5,624	52,370
Other current liabilities	1,574	2,584	24,061
Total current liabilities	29,582	36,167	336,782
Long-term liabilities:			
Accrued retirement benefits to employees *(Note 5)*	7,146	7,382	68,740
Accrued retirement benefits to directors and statutory auditors *(Note 5)*	419	90	838
Guarantee deposits *(Note 4)*	4,175	4,044	37,657
Deferred income taxes *(Note 6)*	2,358	3,410	31,753
Deferred income taxes on land revaluation reserve *(Notes 6 and 8)*	677	675	6,286
Other long-term liabilities	606	773	7,198
Total long-term liabilities	15,381	16,374	152,472
Minority interests	11,941	13,922	129,640
Contingent liabilities *(Note 11)*			
Shareholders' equity *(Notes 7 and 15)*:			
Common stock:			
Authorized: 753,814,067 shares in 2004 and 2005			
Issued: 184,186,153 shares in 2004 and 2005	23,221	23,221	216,231
Capital surplus	23,611	23,222	216,240
Land revaluation reserve *(Note 8)*	874	871	8,111
Retained earnings *(Note 15)*	80,175	86,300	803,613
Unrealized holding gain on securities *(Note 3)*	7,136	8,335	77,614
Translation adjustments	(3,081)	(2,686)	(25,012)
Treasury stock, at cost – 11,656,456 shares in 2004 and 13,188,866 shares in 2005	(3,937)	(4,687)	(43,645)
Total shareholders' equity	127,999	134,576	1,253,152
Total liabilities, minority interests and shareholders' equity	¥184,903	¥201,039	$1,872,046

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Income

Years ended March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Net sales	¥145,815	¥176,682	$1,645,237
Cost of sales	119,777	140,507	1,308,381
Gross profit	26,038	36,175	336,856
Selling, general and administrative expenses (*Note 9)*	15,712	16,863	157,025
Operating income	10,326	19,312	179,831
Other income (expenses):			
Interest and dividend income	543	426	3,967
Interest expense	(171)	(143)	(1,332)
Gain on sales of investments in securities	227	44	410
Impairment loss on investments in securities *(Note 3)*	(38)	(23)	(214)
Loss on sales or disposal of property, plant and equipment, net	(608)	(209)	(1,946)
Loss on disposal of inventories	(383)	–	–
Equity in loss of an affiliate	(321)	(86)	(801)
Loss on liquidation of a subsidiary	–	(1,461)	(13,605)
Loss on devaluation of real estate held for sale	–	(456)	(4,246)
Other, net	(119)	(315)	(2,934)
Income before income taxes and minority interests	9,456	17,089	159,130
Income taxes *(Note 6)*:			
Current	2,521	6,955	64,764
Deferred	740	(478)	(4,451)
	3,261	6,477	60,313
Income before minority interests	6,195	10,612	98,817
Minority interests in earnings of consolidated subsidiaries	(2,269)	(3,094)	(28,810)
Net income	¥ 3,926	¥ 7,518	$ 70,007

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Common stock			
Balance at beginning and end of the year	¥23,221	¥23,221	$ 216,231
Capital surplus			
Balance at beginning of the year	¥23,611	¥23,611	$ 219,862
Add:			
Gain on disposal of treasury stock	1	1	9
Deduct:			
Transfer to retained earnings	–	(390)	(3,631)
Decrease resulting from change in ownership ratio of a consolidated subsidiary	(1)	–	–
Balance at end of the year	¥23,611	¥23,222	$ 216,240
Land revaluation reserve ***(Note 8)***			
Balance at beginning of the year	¥ 929	¥ 874	$ 8,139
Net change during the year	(55)	(3)	(28)
Balance at end of the year	¥ 874	¥ 871	$ 8,111
Retained earnings			
Balance at beginning of the year	¥77,258	¥80,175	$ 746,578
Add:			
Net income	3,926	7,518	70,007
Reversal of land revaluation reserve	43	1	9
Transfer from capital surplus	–	390	3,631
Deduct:			
Cash dividends paid	(972)	(1,701)	(15,839)
Bonuses to directors and statutory auditors	(18)	(57)	(531)
Bonuses to employees of an overseas subsidiary	(22)	(26)	(242)
Decrease resulting from change in ownership ratio of a consolidated subsidiary	(40)	–	–
Balance at end of the year	¥80,175	¥86,300	$ 803,613
Unrealized holding gain on securities ***(Note 3)***			
Balance at beginning of the year	¥ 1,230	¥ 7,136	$ 66,449
Net change during the year	5,906	1,199	11,165
Balance at end of the year	¥ 7,136	¥ 8,335	$ 77,614
Translation adjustments			
Balance at beginning of the year	¥ (2,087)	¥ (3,081)	$ (28,690)
Net change during the year	(994)	395	3,678
Balance at end of the year	¥ (3,081)	¥ (2,686)	$ (25,012)

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows

Years ended March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,456	¥17,089	$159,130
Adjustments for:			
Depreciation and amortization	6,118	5,758	53,618
Equity in loss of an affiliate	321	86	801
Impairment loss on investments in securities	38	23	214
Increase (decrease) in accrued retirement benefits	140	(135)	(1,257)
Increase in accrued bonuses	72	127	1,183
Decrease in allowance for doubtful receivables	(190)	(157)	(1,462)
Interest and dividend income	(543)	(426)	(3,967)
Interest expense	171	143	1,332
Gain on sales of investments in securities	(227)	(44)	(410)
Loss on sales or disposal of property, plant and equipment, net	608	209	1,946
Increase in notes and accounts receivable	(2,025)	(9,356)	(87,122)
Decrease (increase) in inventories	670	(1,631)	(15,188)
(Decrease) increase in notes and accounts payable	(520)	2,280	21,231
Bonus payments to directors, statutory auditors and employees of an overseas subsidiary	(39)	(83)	(773)
Loss on liquidation of a subsidiary	–	1,461	13,605
Loss on devaluation of real estate held for sale	–	456	4,246
Other	294	1,843	17,162
Subtotal	14,344	17,643	164,289
Interest and dividends received	571	451	4,199
Interest paid	(170)	(144)	(1,341)
Income taxes paid	(1,272)	(2,977)	(27,721)
Net cash provided by operating activities	¥13,473	¥14,973	$139,426

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows (continued)

Years ended March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Cash flows from investing activities:			
Increase in time deposits with a maturity of more than three months	¥ (365)	¥ (675)	$ (6,286)
Proceeds from time deposits with a maturity of more than three months	435	175	1,630
Purchases of marketable securities	(1,500)	–	–
Proceeds from sales of marketable securities	1,500	500	4,656
Purchases of property, plant and equipment	(3,656)	(2,765)	(25,747)
Proceeds from sales of property, plant and equipment	120	59	549
Purchases of other assets	(25)	(211)	(1,965)
Purchases of investments in securities	(3,066)	(6,707)	(62,455)
Proceeds from sales of investments in securities	4,279	2,459	22,898
Increase in loans receivable	(1,535)	(3,746)	(34,882)
Collection of loans receivable	1,043	1,312	12,217
Other	8	35	326
Net cash used in investing activities	(2,762)	(9,564)	(89,059)
Cash flows from financing activities:			
Decrease in short-term bank loans	(2,118)	(1,229)	(11,444)
Repayment of long-term loans	(1,100)	–	–
Purchases of treasury stock	(2,689)	(590)	(5,494)
Cash dividends paid to the Company's shareholders	(977)	(1,711)	(15,933)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(1,226)	(1,496)	(13,930)
Other	2	3	28
Net cash used in financing activities	(8,108)	(5,023)	(46,773)
Effect of exchange rate changes on cash and cash equivalents	(203)	90	838
Net increase in cash and cash equivalents	2,400	476	4,432
Cash and cash equivalents at beginning of the year	17,487	19,887	185,185
Cash and cash equivalents at end of the year	¥ 19,887	¥ 20,363	$ 189,617

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements

March 31, 2005

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 are 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, 2004 to the 2005 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 an 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 five 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.

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 loss and gain are charged or credited to income.

The balance sheet accounts of the overseas consolidated subsidiary (except for shareholders' equity) are translated into yen at the rates of exchange in effect at the balance sheet date. 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 and loss, both realized and unrealized, are 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 by the moving average method.

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.

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 five 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 the 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 fifteen 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.

Actuarial gain and loss are amortized in the year 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.

1. Summary of Significant Accounting Policies (continued)

(m) Retirement Benefits (continued)

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 has 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 general meeting of the shareholders held on June 29, 2004, was discontinued.

(n) Hedge Accounting

Gain or loss on derivatives designed as hedging instruments is deferred until the gain or loss on the underlying hedged item is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applicable to the swaps had originally applied to the underlying debt. 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.

2. 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 ¥107.39 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2005. 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.

3. Securities

Marketable securities classified as held-to-maturity debt securities at March 31, 2004 and 2005 are summarized as follows:

	2004		
	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ 86	¥ 87	¥ 1
Other	10	11	1
	96	98	2
Securities whose fair value does not exceed their carrying value:			
Government bonds	1,000	1,000	(0)
Corporate bonds	1,054	1,043	(11)
Other	734	729	(5)
	2,788	2,772	(16)
Total	¥2,884	¥2,870	¥ (14)

	2005		
	Millions of yen		
	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
	281	285	4
Securities whose fair value does not exceed their carrying value:			
Government bonds	10	10	(0)
Other	1,597	1,526	(71)
	1,607	1,536	(71)
Total	¥1,888	¥1,821	¥ (67)

3. Securities (continued)

	2005		
	Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds	$ 652	$ 671	$ 19
Other	1,965	1,983	18
	2,617	2,654	37
Securities whose fair value does not exceed their carrying value:			
Government bonds	93	93	(0)
Other	14,871	14,210	(661)
	14,964	14,303	(661)
Total	$17,581	$16,957	$ (624)

Other securities with determinable market value at March 31, 2004 and 2005 are summarized as follows:

	2004		
	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 8,858	¥20,903	¥12,045
Corporate bonds	98	98	0
	8,956	21,001	12,045
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	376	359	(17)
Corporate bonds	70	70	(0)
	446	429	(17)
Total	¥ 9,402	¥21,430	¥12,028

3. Securities (continued)

	2005		
	Millions of yen		
	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
	10,750	24,863	14,113
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	1,279	1,253	(26)
Government bonds	1,662	1,662	(0)
	2,941	2,915	(26)
Total	¥13,691	¥27,778	¥14,087

	2005		
	Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$ 94,525	$225,934	$ 131,409
Other	5,578	5,587	9
	100,103	231,521	131,418
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	11,910	11,668	(242)
Government bonds	15,476	15,476	(0)
	27,386	27,144	(242)
Total	$ 127,489	$258,665	$ 131,176

3. Securities (continued)

Sales of securities classified as other securities for the years ended March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Sales	¥ 1,728	¥ 593	$ 5,522
Aggregate gain	446	21	196
Aggregate loss	243	35	326

The carrying value of securities without determinable market value at March 31, 2004 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Held-to-maturity debt securities:			
Interest-bearing financial bonds	¥ 40	¥ 50	$ 466
Other securities:			
Non-marketable equity securities	654	619	5,764
Money management funds	2,347	2,021	18,819
Free financial funds	1,000	1,000	9,312
Preferred stock	1,100	1,500	13,968
Preferred subscription certificates	1,500	1,100	10,243

The Company and its consolidated subsidiaries recorded an impairment loss on securities of ¥38 million and ¥23 million ($214 thousand) for the years ended March 31, 2004 and 2005, respectively.

3. Securities (continued)

The redemption schedule for other securities with maturities and held-to-maturity debt securities as of March 31, 2005 is summarized as follows:

	Millions of yen			
	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	1,560	100	–	1,600
Other debt securities	10	250	–	–
Other	–	500	1,000	–
Total	¥ 1,580	¥ 860	¥1,060	¥ 1,600

	Thousands of U.S. dollars			
	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	$ 93	$ 93	$ 559	$ –
Corporate bonds	14,526	931	–	14,899
Other debt securities	93	2,328	–	–
Other	–	4,656	9,312	–
Total	$ 14,712	$ 8,008	$ 9,871	$ 14,899

4. Short-Term Bank Loans, Long-Term Debt and Guarantee Deposits

Short-term bank loans represent overdrafts at average annual interest rates of approximately 0.567% and approximately 0.568% at March 31, 2004 and 2005, respectively.

At March 31, 2005, investments in securities of ¥50 million ($466 thousand) were pledged as collateral for employees' internal deposits of ¥46 million ($428 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 0.53% and 0.59% at March 31, 2004 and 2005, respectively.

Interest-free deposits and interest-bearing deposits at March 31, 2004, and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Interest-free deposits	¥ 3,683	¥ 3,486	$ 32,461
Interest-bearing deposits	492	558	5,196
	¥ 4,175	¥ 4,044	$ 37,657

The aggregate annual maturities of guarantee deposits subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2006	¥ 2	$ 19
2007	–	–
2008	–	–
2009	–	–
2010	–	–
2011 and thereafter	4,042	37,638
	¥ 4,044	$ 37,657

All interest-bearing deposits are scheduled to mature during the year ending March 31, 2011 and thereafter.

5. 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, 2004 and 2005 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Retirement benefit obligation	¥(13,892)	¥(14,114)	$(131,428)
Plan assets at fair value	4,170	5,809	54,093
Unfunded retirement benefit obligation	(9,722)	(8,305)	(77,335)
Unrecognized actuarial loss	2,975	1,303	12,133
Unrecognized prior service cost	26	20	186
Net retirement benefit obligation	(6,721)	(6,982)	(65,016)
Prepaid pension cost	425	400	3,724
Accrued retirement benefits	¥ (7,146)	¥ (7,382)	$ (68,740)

As allowed 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, 2004 and 2005 are outlined as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Service cost	¥ 608	¥ 795	$ 7,403
Interest cost	330	340	3,166
Expected return on plan assets	(12)	(63)	(587)
Amortization of actuarial loss	302	178	1,658
Amortization of prior service cost	7	7	65
	¥ 1,235	¥ 1,257	$ 11,705

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.

5. Retirement Benefits (continued)

The assumptions used in accounting for the above benefit plans for the years ended March 31, 2004 and 2005 were as follows:

	2004	2005
Discount rate	Principally 2.5%	Principally 2.5%
Expected rates of return on plan assets	Principally 0.0%	Principally 1.5%

The Company and its domestic consolidated subsidiaries recorded accrued retirement benefits to directors and statutory auditors of ¥419 million at March 31, 2004 and the Company's domestic consolidated subsidiaries recorded similar benefits of ¥90 million ($838 thousand) at March 31, 2005.

6. 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 statutory tax rates of approximately 42.0% and 40.5% for the years ended March 31, 2004 and 2005, respectively.

A reconciliation of the statutory tax rates and the effective tax rates for the years ended March 31, 2004 and 2005 as a percentage of income before income taxes and minority interests are as follows:

	2004	2005
Statutory tax rates	42.0%	40.5%
Investment tax credits	(4.5)	(0.5)
Nondeductible expenses	0.5	2.4
Per capita portion of inhabitants' taxes	0.6	0.4
Difference in tax rates applicable to the overseas consolidated subsidiary	(9.9)	(7.5)
Cash dividends received from the overseas consolidated subsidiary	2.2	1.5
Equity in loss of an affiliate	1.6	0.2
Other	2.0	0.9
Effective tax rates	34.5%	37.9%

6. Income Taxes (continued)

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Deferred tax assets:			
Accrued retirement benefits	¥ 2,515	¥ 2,639	$ 24,574
Allowance for doubtful receivables	233	87	810
Accrued bonuses	442	491	4,572
Inventories	141	385	3,585
Foreign tax credit	607	366	3,408
Depreciation	23	–	–
Tax loss carryforwards	335	348	3,241
Other	1,392	1,730	16,110
Gross deferred tax assets	5,688	6,046	56,300
Less valuation allowance	(893)	(775)	(7,217)
Total deferred tax assets	4,795	5,271	49,083
Deferred tax liabilities:			
Dividends from an overseas subsidiary	(113)	(164)	(1,527)
Unrealized holding gain on securities	(4,871)	(5,706)	(53,133)
Land revaluation reserve	(677)	(675)	(6,286)
Reserve for deferred taxation on contributions for acquisition of property	(1,155)	(1,086)	(10,113)
Total deferred tax liabilities	(6,816)	(7,631)	(71,059)
Net deferred tax liabilities	¥(2,021)	¥(2,360)	$(21,976)

7. 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, 2004 and 2005.

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 become exercisable on June 30, 2005 and are scheduled to expire on June 29, 2025.

8. Revaluation of Land

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, 2004 and 2005:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Land revalued at March 31, 2000	¥ (115)	¥ (146)	$ (1,360)
Land revalued at March 31, 2002	(1,081)	(2,203)	(20,514)
	¥(1,196)	¥(2,349)	$(21,874)

9. Research and Development Costs

Research and development costs included in selling, general and administrative expenses were ¥613 million and ¥503 million ($4,684 thousand) for the years ended March 31, 2004 and 2005, respectively.

10. Leases

The following *pro forma* amounts present the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2004 and 2005, 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:

	Millions of yen					
	2004			2005		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 619	¥ 468	¥ 151	¥ 476	¥ 257	¥ 219

	Thousands of U.S dollars		
	2005		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	$4,432	$2,393	$2,039

The related lease payments and depreciation for the years ended March 31, 2004 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Lease payments	¥91	¥80	$745
Depreciation	91	80	745

Depreciation is calculated by the straight-line method over the respective lease terms.

The related future minimum payments (including the interest portion thereon) subsequent to March 31, 2005 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:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2006	¥ 66	$ 614
2007 and thereafter	153	1,425
	¥219	$2,039

11. Contingent Liabilities

At March 31, 2005, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	*Thousands of U.S. dollars*
Guarantees of housing loans of employees and indebtedness of unconsolidated subsidiaries	¥443	$4,125

12. Derivatives

The Company and its consolidated subsidiaries have entered into various transactions involving derivatives in order to manage risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivatives positions involve the credit risk that the counterparties may default on their obligations. Forward foreign exchange contracts and interest-rate swaps entail the market risk of fluctuation in foreign currency exchange rates and interest rates, respectively. 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 have not entered 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 to report and approve the purpose, nature, counterparties, inherent risk, limit on loss and the level of risk of each transaction. Under their policies governing derivatives, trading is not entered into for speculative purposes.

At March 31, 2004 and 2005, all derivatives positions qualified for the application of deferral hedge accounting and, thus, have not been separately disclosed.

13. Amounts per Share

Amounts per share at March 31, 2004 and 2005 and for the years then ended were as follows:

	Yen		*U.S. dollars*
	2004	2005	2005
Net assets	¥741.41	¥785.36	$7.31
Net income:			
Basic	21.66	43.06	0.40
Diluted	–	43.04	0.40
Cash dividends applicable to the year	8.00	14.00	0.13

Diluted net income has not been presented for the year ended March 31, 2004 since the Company had not issued any potentially dilutive stocks at March 31, 2004.

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 option.

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.

14. 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, 2004 and 2005 are outlined as follows:

Business Segments

	Millions of yen					
	Year ended March 31, 2004					
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	¥130,281	¥ 7,540	¥ 7,994	¥145,815	¥ –	¥145,815
Intergroup sales and transfers	1	–	4,640	4,641	(4,641)	–
Total sales	130,282	7,540	12,634	150,456	(4,641)	145,815
Operating expenses	119,743	7,789	11,650	139,182	(3,693)	135,489
Operating income (loss)	¥ 10,539	¥ (249)	¥ 984	¥ 11,274	¥ (948)	¥ 10,326
II. Assets, depreciation and capital expenditures						
Total assets	¥104,588	¥ 8,517	¥22,990	¥136,095	¥48,808	¥184,903
Depreciation	5,228	375	418	6,021	106	6,127
Capital expenditures	5,617	102	246	5,965	19	5,984

	Millions of yen					
	Year ended March 31, 2005					
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
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	161,235	7,444	12,464	181,143	(4,461)	176,682
Operating expenses	141,666	7,558	11,672	160,896	(3,526)	157,370
Operating income (loss)	¥ 19,569	¥ (114)	¥ 792	¥ 20,247	¥ (935)	¥ 19,312
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

14. Segment Information (continued)

Business Segments (continued)

	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
	Thousands of U.S. dollars					
	Year ended March 31, 2005					
I. Sales and operating income						
Sales to third parties	$ 1,501,397	$ 69,317	$ 74,523	$ 1,645,237	$ –	$ 1,645,237
Intergroup sales and transfers	–	–	41,540	41,540	(41,540)	–
Total sales	1,501,397	69,317	116,063	1,686,777	(41,540)	1,645,237
Operating expenses	1,319,173	70,379	108,688	1,498,240	(32,834)	1,465,406
Operating income (loss)	$ 182,224	$ (1,062)	$ 7,375	$ 188,537	$ (8,706)	$ 179,831
II. Assets, depreciation and capital expenditures						
Total assets	$ 1,045,526	$ 82,158	$ 211,444	$ 1,339,128	$ 532,918	$ 1,872,046
Depreciation	46,252	3,045	3,660	52,957	857	53,814
Capital expenditures	25,384	3,147	2,189	30,720	205	30,925

Geographical Segments

	Japan	Southeast Asia	Total	Eliminations and general corporate assets	Consolidated
	Millions of yen				
	Year ended March 31, 2004				
I. Sales and operating income					
Sales to third parties	¥ 99,717	¥46,098	¥145,815	¥ –	¥145,815
Interarea sales and transfers	79	–	79	(79)	–
Total sales	99,796	46,098	145,894	(79)	145,815
Operating expenses	95,203	40,436	135,639	(150)	135,489
Operating income	¥ 4,593	¥ 5,662	¥ 10,255	¥ 71	¥ 10,326
II. Assets	¥ 114,505	¥26,289	¥140,794	¥44,109	¥184,903

14. Segment Information (continued)

Geographical Segments (continued)

	Millions of yen				
	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	¥ 9,232	¥ 9,960	¥ 19,192	¥ 120	¥ 19,312
II. Assets	¥ 117,610	¥ 31,823	¥ 149,433	¥ 51,606	¥ 201,039

	Thousands of U.S. dollars				
	Year ended March 31, 2005				
	Japan	Southeast Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income					
Sales to third parties	$ 1,073,498	$ 571,739	$ 1,645,237	$ –	$ 1,645,237
Interarea sales and transfers	149	–	149	(149)	–
Total sales	1,073,647	571,739	1,645,386	(149)	1,645,237
Operating expenses	987,680	478,992	1,466,672	(1,266)	1,465,406
Operating income	$ 85,967	$ 92,747	$ 178,714	$ 1,117	$ 179,831
II. Assets	$ 1,095,167	$ 296,331	$ 1,391,498	$ 480,548	$ 1,872,046

14. 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, 2004 and 2005 are summarized as follows:

	Millions of yen		
	Year ended March 31, 2004		
	Asia	Other	Total
Overseas sales	¥45,657	¥ 6,963	¥ 52,620
Consolidated net sales	–	–	145,815
Overseas sales as a percentage of consolidated net sales	31.3%	4.8%	36.1%

	Millions of yen		
	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%

	Thousands of U.S. dollars		
	Year ended March 31, 2005		
	Asia	Other	Total
Overseas sales	$415,877	$216,100	$ 631,977
Consolidated net sales	–	–	1,645,237

15. 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, 2005, were approved at a meeting of the shareholders held on June 29, 2005:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends of ¥9 (U.S.$0.08) per share	¥1,579	$14,703

Non-Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

Years ended March 31, 2004 and 2005
with Report of Independent Auditors

ERNST & YOUNG SHINNIHON

Report of Independent Auditors

The Board of Directors
Yodogawa Steel Works, Ltd.

We have audited the accompanying non-consolidated balance sheets of Yodogawa Steel Works, Ltd. as of March 31, 2004 and 2005, and the related non-consolidated statements of income and shareholders' equity 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 financial position of Yodogawa Steel Works, Ltd. at March 31, 2004 and 2005, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2005 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 2.

Osaka, Japan
June 29, 2005

Ernst & Young Shin Nihon

Yodogawa Steel Works, Ltd.

Non-Consolidated Balance Sheets

March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Assets			
Current assets:			
Cash and cash equivalents	¥ 15,225	¥ 15,635	$ 145,591
Short-term investments	–	500	4,656
Marketable securities	2,124	2,571	23,941
Notes and accounts receivable:			
Subsidiaries and affiliates	15,890	19,625	182,745
Trade	14,977	17,786	165,621
Less allowance for doubtful receivables	(24)	(3)	(28)
Inventories *(Note 4)*	17,790	15,764	146,792
Deferred income taxes *(Note 6)*	568	1,182	11,007
Short-term loans receivable	7,179	7,339	68,340
Other current assets	1,036	620	5,772
Total current assets	74,765	81,019	754,437
Property, plant and equipment:			
Land	12,184	11,353	105,717
Buildings and structures	39,897	39,989	372,372
Machinery, equipment and vehicles	95,531	96,099	894,860
Construction in progress	531	62	577
Less accumulated depreciation	(108,189)	(110,195)	(1,026,119)
Property, plant and equipment, net	39,954	37,308	347,407
Investments and other assets:			
Investments in securities	24,359	29,718	276,730
Investments in and advances to subsidiaries and affiliates *(Note 3)*	18,873	18,835	175,389
Allowance for loss on investment in a subsidiary	–	(1,547)	(14,406)
Other assets	1,315	1,380	12,850
Total investments and other assets	44,547	48,386	450,563
Total assets	¥159,266	¥166,713	$ 1,552,407

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans *(Note 5)*	¥ 5,800	¥ 4,600	$ 42,835
Notes and accounts payable:			
Subsidiaries and affiliates	1,536	1,158	10,783
Trade	11,083	11,807	109,945
Construction	1,237	1,634	15,216
Accrued expenses	3,090	3,301	30,738
Accrued income taxes *(Note 6)*	1,138	3,788	35,273
Other current liabilities	799	1,706	15,886
Total current liabilities	24,683	27,994	260,676
Long-term liabilities:			
Accrued retirement benefits to employees	5,248	5,144	47,900
Accrued retirement benefits to directors and statutory auditors	297	–	–
Guarantee deposits *(Note 5)*	964	1,025	9,545
Deferred income taxes *(Note 6)*	2,416	2,803	26,101
Other long-term liabilities	–	207	1,928
Total long-term liabilities	8,925	9,179	85,474
Contingent liabilities *(Note 10)*			
Shareholders' equity *(Note 7)*:			
Common stock:			
Authorized: 753,814,067 shares in 2004 and 2005			
Issued: 184,186,153 shares in 2004 and 2005	23,221	23,221	216,231
Capital surplus	23,497	23,498	218,810
Retained earnings *(Note 12)*	74,651	77,913	725,514
Unrealized holding gain on securities *(Note 3)*	7,015	8,216	76,506
Treasury stock, at cost – 7,564,251 shares in 2004 and 8,735,702 shares in 2005	(2,726)	(3,308)	(30,804)
Total shareholders' equity	125,658	129,540	1,206,257
Total liabilities and shareholders' equity	¥159,266	¥166,713	$1,552,407

See accompanying notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Non-Consolidated Statements of Income

Years ended March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Net sales	¥89,651	¥104,581	$973,843
Cost of sales	72,430	82,322	766,570
Gross profit	17,221	22,259	207,273
Selling, general and administrative expenses *(Note 8)*	12,867	13,206	122,972
Operating income	4,354	9,053	84,301
Other income (expenses):			
Interest and dividend income	1,652	2,018	18,791
Interest expense	(64)	(61)	(568)
Gain on sales of investments in securities, net	227	28	261
Loss on sales or disposal of property, plant and equipment, net	(558)	(217)	(2,021)
Loss on disposal of inventories	(381)	–	–
Provision of allowance for loss on investment in a subsidiary	–	(1,547)	(14,405)
Loss on devaluation of real estate held for sale	–	(456)	(4,246)
Other, net	(139)	(162)	(1,509)
Income before income taxes	5,091	8,656	80,604
Income taxes *(Note 6)*:			
Current	1,398	4,642	43,226
Deferred	683	(1,045)	(9,731)
	2,081	3,597	33,495
Net income	¥ 3,010	¥ 5,059	$ 47,109

See accompanying notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Non-Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2005

	Millions of yen		*Thousands of U.S. dollars (Note 2)*
	2004	2005	2005
Common stock			
Balance at beginning and end of the year	¥23,221	¥23,221	$216,231
Capital surplus			
Balance at beginning of the year	¥23,497	¥23,497	$218,801
Add:			
Gain on disposal of treasury stock	0	1	9
Balance at end of the year	¥23,497	¥23,498	$218,810
Retained earnings			
Balance at beginning of the year	¥72,645	¥74,651	$695,139
Add:			
Net income	3,010	5,059	47,109
Deduct:			
Cash dividends paid	(1,004)	(1,797)	(16,734)
Balance at end of the year	¥74,651	¥77,913	$725,514
Unrealized holding gain on securities *(Note 3)*			
Balance at beginning of the year	¥ 1,205	¥ 7,015	$ 65,323
Net change during the year	5,810	1,201	11,183
Balance at end of the year	¥ 7,015	¥ 8,216	$ 76,506

See accompanying notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements

March 31, 2005

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying non-consolidated financial statements of Yodogawa Steel Works, Ltd. (the "Company") 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 are compiled from the non-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 non-consolidated financial statements for the year ended March 31, 2004 to the 2005 presentation. Such reclassifications had no effect on non-consolidated net income or shareholders' equity.

(b) 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 loss and gain are charged or credited to income.

(c) 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.

1. Summary of Significant Accounting Policies (continued)

(d) 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 and loss, both realized and unrealized, are 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 are classified as other securities and investments in subsidiaries and an affiliate are carried at cost. Cost of securities sold is determined by the moving average method.

(e) Inventories

Finished goods, work-in-process and raw materials such as steel sheets, building materials and raw materials for rolls are stated at cost determined by the average method.

Finished goods and work-in-process such as rolled products and real estate held for sale are stated at cost determined by the specific identification method.

Supplies are stated at cost determined by the first-in, first-out method.

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated on the basis of cost.

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.

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

Buildings and structures	3 to 60 years
Machinery, equipment and vehicles	3 to 17 years

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

1. Summary of Significant Accounting Policies (continued)

(g) 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.

(h) Allowance for Doubtful Receivables

The Company provides an allowance for doubtful receivables at an amount calculated based on the Company's historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(i) 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 five years.

(j) Leases

The Company leases 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 Company are accounted for as operating leases.

(k) 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.

1. Summary of Significant Accounting Policies (continued)

(l) Retirement Benefits

Employees of the Company are covered by an employees' retirement benefit plan and an employees' pension plan. The employees' retirement benefit plan provides for a lump-sum payment determined by reference to the basic salary, length of service and conditions under which the termination occurs. The employees' pension plan, which is a funded non-contributory plan, partially covers the benefits under the employees' retirement benefit plan to employees who retire after fifteen 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. 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 and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

The directors and statutory auditors of the Company were customarily entitled to lump-sum payments under the unfunded retirement benefit plan. Up to the year ended March 31, 2004, the provision for retirement benefits for directors and statutory auditors was made at an estimated amount based on the Company's internal rules. The Company has 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 general meeting of the shareholders held on June 29, 2004, was discontinued.

(m) Allowance for Loss on Investments

The Company provides an allowance for loss on investments in subsidiaries and affiliates in order to provide for future losses on such investments at the amount of the estimated losses to be borne by the Company. This estimate is based on a consideration of the financial condition of the relevant subsidiaries and affiliates.

1. Summary of Significant Accounting Policies (continued)

(n) Hedge Accounting

Gain or loss on derivatives designed as hedging instruments is deferred until the gain or loss on the underlying hedged item is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt. 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.

2. 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 ¥107.39 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2005. 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.

3. Securities

Information with respect to the carrying value and fair value of, and unrealized gain on, securities with determinable fair value included in investments in and advances to subsidiary at March 31, 2004 and 2005 is summarized as follows:

	Millions of yen					
	2004			2005		
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
Investment in a subsidiary	¥11,310	¥21,527	¥10,217	¥11,310	¥22,944	¥11,634

	Thousands of U.S. dollars		
	2005		
	Carrying value	Fair value	Unrealized gain
Investment in a subsidiary	$105,317	$213,651	$108,334

4. Inventories

Inventories at March 31, 2004 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Finished goods	¥ 9,813	¥ 8,001	$ 74,504
Work-in-process	2,652	2,813	26,194
Raw materials and supplies	4,805	4,066	37,862
Real estate held for sale	520	884	8,232
	¥17,790	¥15,764	$146,792

5. Short-Term Bank Loans and Guarantee Deposits

Short-term bank loans represent overdrafts at average annual interest rates of 0.561% and 0.568% at March 31, 2004 and 2005, respectively.

Guarantee deposits consisted of interest-free deposits, most of which were from tenants, and interest-bearing deposits, which were principally deposits from customers at an average annual interest rate of 0.5% at March 31, 2004 and 2005.

Interest-free deposits and interest-bearing deposits at March 31, 2004 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Interest-free deposits	¥575	¥ 614	$5,718
Interest-bearing deposits	389	411	3,827
	¥964	¥1,025	$9,545

The aggregate annual maturities of guarantee deposits subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2006	¥ 2	$ 19
2007	–	–
2008	–	–
2009	–	–
2010	–	–
2011 and thereafter	1,023	9,526
	¥1,025	$9,545

All interest-bearing deposits are scheduled to mature during the year ending March 31, 2011 and thereafter.

6. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 42.0% and 40.5% for the years ended March 31, 2004 and 2005, respectively.

Reconciliations of the statutory tax rates and the effective tax rates for the years ended March 31, 2004 and 2005 have been omitted since the differences between these rates are within 5% of the statutory tax rates.

The significant components of deferred tax assets and liabilities of the Company at March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Deferred tax assets:			
Accrued retirement benefits	¥ 1,886	¥ 1,920	$ 17,879
Accrued bonuses	372	418	3,892
Allowance for doubtful receivables	8	5	47
Foreign tax credit	607	366	3,408
Loss on devaluation of securities	847	832	7,747
Allowance for loss on investment in a subsidiary	–	626	5,829
Other	361	890	8,288
Total deferred tax assets	4,081	5,057	47,090
Deferred tax liabilities:			
Unrealized holding gain on securities	(4,774)	(5,592)	(52,072)
Reserve for deferred taxation on contributions for acquisition of property	(1,155)	(1,086)	(10,112)
Total deferred tax liabilities	(5,929)	(6,678)	(62,184)
Net deferred tax liabilities	¥ (1,848)	¥(1,621)	$(15,094)

7. 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 non-consolidated balance sheets and statements of shareholders' equity. The Company's legal reserve amounted to nil at March 31, 2004 and 2005.

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.

8. Research and Development Costs

Research and development costs included in selling, general and administrative expenses were ¥328 million and ¥157 million ($1,462 thousand) for the years ended March 31, 2004 and 2005, respectively.

9. Leases

The following *pro forma* amounts present the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2004 and 2005, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company (which are currently accounted for as operating leases) were capitalized:

	Millions of yen					
	2004			2005		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 261	¥ 204	¥57	¥ 227	¥ 169	¥58

	Thousands of U.S. dollars		
	2005		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	$2,114	$1,574	$540

The related lease payments and depreciation for the years ended March 31, 2004 and 2005 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2004	2005	2005
Lease payments	¥55	¥45	$419
Depreciation	55	45	419

Depreciation is calculated by the straight-line method over the respective lease terms.

The related future minimum payments (including the interest portion thereon) subsequent to March 31, 2005 under finance leases other than those which transfer the ownership of the leased property to the Company are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2006	¥ 25	$233
2007 and thereafter	33	307
	¥ 58	$540

10. Contingent Liabilities

At March 31, 2005, the Company had the following contingent liabilities:

	Millions of yen	*Thousands of U.S. dollars*
Guarantees of housing loans of employees and indebtedness of a subsidiary	¥153	$1,423

11. Amounts per Share

Amounts per share at March 31, 2004 and 2005 and for the years then ended were as follows:

	Yen		*U.S. dollars*
	2004	2005	2005
Net assets	¥711.25	¥738.03	$6.87
Net income:			
Basic	16.38	28.45	0.26
Diluted	–	28.44	0.26
Cash dividends applicable to the year	8.00	14.00	0.13

Diluted net income has not been presented for the year ended March 31, 2004 since the Company had not issued any potentially dilutive stocks at March 31, 2004.

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 the 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.

12. Subsequent Event

See Note 15 to the consolidated financial statements.