Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

Years ended March 31, 2008 and 2009
with Report of Independent Auditors

Yodogawa Steel Works, Ltd.

Consolidated Financial Statements

Years ended March 31, 2008 and 2009

Contents

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, 2008 and 2009, 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, 2008 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 2(2), effective the year ended March 31, 2009, the Company and domestic consolidated subsidiaries have applied the "Accounting Standard for Measurement of Inventories."

As described in Note 21(1), the Company has received advance notice from the Japan Fair Trade Commission, directing the Company to cease and desist from violating the Antimonopoly Law and to pay penalties for alleged violations of the Law.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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, 2009

Yodogawa Steel Works, Ltd.

Consolidated Balance Sheets

March 31, 2008 and 2009

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2008	**2009**	**2009**
Assets			
Current assets:			
Cash and deposits *(Note 4)*	¥ 13,058	¥ 14,026	$ 142,787
Marketable securities *(Note 5)*	4,721	10,356	105,426
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates *(Note 19)*	12,916	8,255	84,037
Trade	35,403	22,948	233,615
Less allowance for doubtful receivables	(323)	(183)	(1,863)
Inventories *(Note 6)*	34,596	31,270	318,335
Deferred income taxes *(Note 11)*	1,274	2,406	24,494
Other current assets	4,098	3,964	40,354
Total current assets	105,743	93,042	947,185
Property, plant and equipment:			
Land *(Notes 7, 9 and 13)*	18,799	18,885	192,253
Buildings and structures *(Notes 7 and 9)*	51,617	50,417	513,255
Machinery, equipment and vehicles *(Notes 7 and 9)*	128,170	123,712	1,259,411
Leased assets	–	15	153
Construction in progress	979	1,850	18,833
Less accumulated depreciation	(142,500)	(141,840)	(1,443,958)
Property, plant and equipment, net	57,065	53,039	539,947
Investments and other assets:			
Investments in securities *(Notes 5 and 9)*	36,116	24,718	251,634
Investments in and advances to unconsolidated subsidiaries and affiliates	4,390	4,095	41,688
Deferred income taxes *(Note 11)*	790	1,068	10,872
Other assets	2,756	2,908	29,604
Total investments and other assets	44,052	32,789	333,798
Total assets	¥206,860	¥ 178,870	$ 1,820,930

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
Liabilities and net assets			
Current liabilities:			
Short-term bank loans *(Note 8)*	¥ 702	¥ –	$ –
Current portion of finance lease obligations	–	3	31
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	1,316	532	5,416
Trade	18,343	13,548	137,921
Construction	1,582	1,268	12,908
Accrued expenses	3,931	3,220	32,780
Accrued income taxes *(Note 11)*	2,130	1,827	18,599
Other current liabilities *(Note 9)*	3,521	1,335	13,591
Total current liabilities	31,525	21,733	221,246
Long-term liabilities:			
Accrued retirement benefits for employees *(Note 10)*	7,455	7,190	73,196
Accrued retirement benefits for directors and corporate auditors	69	74	753
Guarantee deposits *(Note 8)*	3,878	3,782	38,501
Finance lease obligations, less current portion	–	9	92
Negative goodwill	122	106	1,079
Deferred income taxes *(Note 11)*	4,425	320	3,258
Deferred income taxes on land revaluation reserve *(Note 11)*	1,105	1,025	10,434
Other long-term liabilities	192	22	224
Total long-term liabilities	17,246	12,528	127,537
Contingent liabilities *(Note 16)*			
Net assets:			
Shareholders' equity *(Note 12)*:			
Common stock:			
Authorized: 753,814,067 shares in 2008 and 2009			
Issued: 184,186,153 shares in 2008 and 2009	23,221	23,221	236,394
Capital surplus	23,776	23,764	241,922
Retained earnings *(Note 21(2))*	94,437	93,061	947,379
Treasury stock, at cost – 18,473,745 shares in 2008 and 18,475,222 shares in 2009	(7,431)	(7,429)	(75,629)
Total shareholders' equity	134,003	132,617	1,350,066
Valuation and translation adjustments:			
Unrealized holding gain on securities *(Note 5)*	8,680	2,567	26,133
Land revaluation reserve *(Note 13)*	1,422	1,334	13,580
Translation adjustments	(1,570)	(4,547)	(46,289)
Total valuation and translation adjustments	8,532	(646)	(6,576)
Stock acquisition rights	49	74	753
Minority interests	15,505	12,564	127,904
Total net assets	158,089	144,609	1,472,147
Total liabilities and net assets	¥ 206,860	¥ 178,870	$ 1,820,930

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Income

Years ended March 31, 2008 and 2009

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2008	**2009**	**2009**
Net sales *(Note 19)*	¥ 207,398	¥ 194,601	$ 1,981,075
Cost of sales	179,150	173,468	1,765,937
Gross profit	28,248	21,133	215,138
Selling, general and administrative expenses *(Note 14)*	16,992	15,994	162,822
Operating income	11,256	5,139	52,316
Other income (expenses):			
Interest and dividend income	1,012	1,100	11,198
Interest expense	(101)	(94)	(957)
Equity in earnings of an affiliate	432	177	1,802
Foreign exchange gains	88	268	2,728
Gain on sales of investments in securities	313	2	20
Loss on impairment of investments in securities *(Note 5)*	(569)	(2,459)	(25,033)
Loss on sales or disposal of property, plant and equipment, net	(407)	(123)	(1,252)
Loss on impairment of fixed assets *(Note 7)*	(6)	(214)	(2,179)
Gain on execution of an option on equity securities	780	–	–
Loss on devaluation of derivatives	(271)	(41)	(417)
Reversal of allowance for doubtful receivables	35	150	1,527
Loss on discontinued products	(217)	–	–
Other, net	(44)	76	774
Income before income taxes and minority interests	12,301	3,981	40,527
Income taxes *(Note 11)*:			
Current	3,748	3,602	36,669
Deferred	65	(1,934)	(19,689)
	3,813	1,668	16,980
Income before minority interests	8,488	2,313	23,547
Minority interests	(1,434)	(893)	(9,091)
Net income	¥ 7,054	¥ 1,420	$ 14,456

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2008 and 2009

	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
		Millions of yen											
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
Effect of changes in accounting policies applied to an overseas subsidiary	–	–	–	(36)	–	(36)	–	–	–	–	–	–	(36)
Cash dividends	–	–	–	(2,817)	–	(2,817)	–	–	–	–	–	–	(2,817)
Bonuses to directors and corporate auditors of an overseas subsidiary	–	–	–	(6)	–	(6)	–	–	–	–	–	–	(6)
Bonuses to employees of an overseas subsidiary	–	–	–	(19)	–	(19)	–	–	–	–	–	–	(19)
Net income	–	–	–	1,420	–	1,420	–	–	–	–	–	–	1,420
Acquisition of treasury stock	–	–	–	–	(32)	(32)	–	–	–	–	–	–	(32)
Disposition of treasury stock	–	–	(12)	–	34	22	–	–	–	–	–	–	22
Reversal of land revaluation reserve	–	–	–	82	–	82	–	–	–	–	–	–	82
Other changes	–	–	–	–	–	–	(6,113)	(88)	(2,977)	(9,178)	25	(2,941)	(12,094)
Balance at March 31, 2009	184,186,153	¥ 23,221	¥ 23,764	¥ 93,061	¥ (7,429)	¥ 132,617	¥ 2,567	¥ 1,334	¥ (4,547)	¥ (646)	¥ 74	¥ 12,564	¥ 144,609

Yodogawa Steel Works, Ltd.

Consolidated Statements of Changes in Net Assets (continued)

Years ended March 31, 2008 and 2009

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, 2008	$ 236,394	$ 242,044	$ 961,387	$ (75,649)	$ 1,364,176	$ 88,364	$ 14,476	$ (15,983)	$ 86,857	$ 499	$ 157,844	$ 1,609,376
Effect of changes in accounting policies applied to an overseas subsidiary	–	–	(366)	–	(366)	–	–	–	–	–	–	(366)
Cash dividends	–	–	(28,678)	–	(28,678)	–	–	–	–	–	–	(28,678)
Bonuses to directors and corporate auditors of an overseas subsidiary	–	–	(61)	–	(61)	–	–	–	–	–	–	(61)
Bonuses to employees of an overseas subsidiary	–	–	(193)	–	(193)	–	–	–	–	–	–	(193)
Net income	–	–	14,456	–	14,456	–	–	–	–	–	–	14,456
Acquisition of treasury stock	–	–	–	(326)	(326)	–	–	–	–	–	–	(326)
Disposition of treasury stock	–	(122)	–	346	224	–	–	–	–	–	–	224
Reversal of land revaluation reserve	–	–	834	–	834	–	–	–	–	–	–	834
Other changes	–	–	–	–	–	(62,231)	(896)	(30,306)	(93,433)	254	(29,940)	(123,119)
Balance at March 31, 2009	$ 236,394	$ 241,922	$ 947,379	$ (75,629)	$ 1,350,066	$ 26,133	$ 13,580	$ (46,289)	$ (6,576)	$ 753	$ 127,904	$ 1,472,147

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows

Years ended March 31, 2008 and 2009

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2008	**2009**	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 12,301	¥ 3,981	$ 40,527
Adjustments for:			
Depreciation and amortization	5,981	6,215	63,270
Amortization of negative goodwill	(19)	(28)	(285)
Equity in earnings of an affiliate	(432)	(177)	(1,802)
(Decrease) increase in accrued retirement benefits	(220)	219	2,229
Increase (decrease) in accrued bonuses	16	(268)	(2,728)
Decrease in allowance for doubtful receivables	(50)	(147)	(1,496)
Interest and dividend income	(1,012)	(1,100)	(11,198)
Interest expense	101	94	957
Gain on sales of investments in securities	(313)	(2)	(20)
Loss on impairment of investments in securities	569	2,459	25,033
Loss on sales or disposal of property, plant and equipment, net	407	123	1,252
Loss on impairment of fixed assets	6	214	2,179
(Increase) decrease in notes and accounts receivable	(3,152)	16,438	167,342
Decrease in inventories	1,178	48	489
Increase (decrease) in notes and accounts payable	81	(5,250)	(53,446)
Bonuses to directors, corporate auditors and employees of an overseas subsidiary	(40)	(25)	(255)
Gain on execution of an option on equity securities	(780)	–	–
Loss on devaluation of derivatives	271	41	417
Loss on discontinued products	217	–	–
Other	519	(2,710)	(27,588)
Subtotal	15,629	20,125	204,877
Interest and dividends received	1,082	1,151	11,717
Interest paid	(103)	(93)	(947)
Income taxes paid	(4,339)	(3,663)	(37,290)
Net cash provided by operating activities	¥ 12,269	¥ 17,520	$ 178,357

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows (continued)

Years ended March 31, 2008 and 2009

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2008	**2009**	**2009**
Cash flows from investing activities:			
Investments in time deposits with a maturity of more than three months	¥ (204)	¥ (839)	$ (8,541)
Proceeds from time deposits with a maturity of more than three months	362	639	6,505
Purchases of marketable securities	(2,689)	(202)	(2,056)
Proceeds from sales of marketable securities	1,407	1,523	15,504
Purchases of property, plant and equipment	(3,314)	(5,201)	(52,947)
Proceeds from sales of property, plant and equipment	574	185	1,883
Purchases of intangible fixed assets	(47)	(22)	(224)
Purchases of investments in securities	(4,289)	(1,324)	(13,479)
Proceeds from sales of investments in securities	4,422	375	3,818
Proceeds from sale of a hotel business *(Note 4)*	300	–	–
Execution of loans receivable	(282)	(588)	(5,986)
Collection of loans receivable	350	646	6,576
Proceeds from execution of an option on securities	780	–	–
Other	–	9	92
Net cash used in investing activities	(2,630)	(4,799)	(48,855)
Cash flows from financing activities:			
Decrease in short-term bank loans	(309)	(654)	(6,658)
Decrease in secured deposits	(7,747)	–	–
Proceeds from sales of treasury stock	1,219	22	224
Purchases of treasury stock	(2,182)	(29)	(295)
Cash dividends paid to the Company's shareholders	(2,204)	(2,836)	(28,871)
Cash dividends paid to shareholders of minority interests of consolidated subsidiaries	(1,743)	(993)	(10,109)
Other	–	(3)	(31)
Net cash used in financing activities	(12,966)	(4,493)	(45,740)
Effect of exchange rate changes on cash and cash equivalents	(22)	(523)	(5,324)
Net (decrease) increase in cash and cash equivalents	(3,349)	7,705	78,438
Cash and cash equivalents at beginning of the year	20,200	16,851	171,547
Cash and cash equivalents at end of the year *(Note 4)*	¥ 16,851	¥ 24,556	$ 249,985

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements

March 31, 2009

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, 2008 to the 2009 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.

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.

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) Derivatives

Derivatives are measured at fair value.

(g) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are principally stated at the lower of cost or net selling value, cost being determined by the average method. Inventories of the overseas consolidated subsidiary are stated at the lower of cost or net selling value, cost being determined by the moving average method.

(h) Property, plant and equipment and depreciation (except for leased assets)

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.

1. Summary of Significant Accounting Policies (continued)

(h) Property, plant and equipment and depreciation (except for leased assets) (continued)

Supplementary Information

After the revision of the Corporation Tax Law, effective the year ended March 31, 2009, the Company and its domestic subsidiaries reviewed the estimated useful lives of certain machinery and changed them. As a result, operating income decreased by ¥304 million ($3,095 thousand) and income before income taxes and minority interests decreased by ¥312 million ($3,176 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

After the revision of the Corporation Tax Law, 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 and income before income taxes and minority interests decreased by ¥555 million for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(i) Intangible assets and amortization (except for leased assets)

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.

(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.

1. Summary of Significant Accounting Policies (continued)

(k) Leases

Leased assets under finance lease transactions which do not transfer ownership of the leased assets to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life. Among the finance lease transactions which do not transfer ownership of the leased assets to the lessees, those that started on or before March 31, 2008 are accounted for in the same manner as operating leases.

(l) 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.

(m) 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.

(n) 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.

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.

1. Summary of Significant Accounting Policies (continued)

(n) Retirement benefits (continued)

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.

(o) 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 hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

2. Changes in Accounting Policies

(1) Depreciation of tangible fixed assets

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 and income before income taxes and minority interests decreased by ¥53 million for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

2. Changes in Accounting Policies (continued)

(2) Measurement of inventories

Previously, the cost method based on the average method was principally adopted for measuring inventories held for sale in the ordinary course of business. Effective the year ended March 31, 2009, the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No.9) has been applied, and now these inventories are principally measured by the lower of cost or net selling value, cost being determined by the average method. As a result, operating income decreased by ¥4,292 million ($43,693 thousand) and income before income taxes and minority interests decreased by ¥4,325 million ($44,029 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(3) Leases

Previously, finance lease transactions which do not transfer ownership of leased assets were accounted for as the accounting treatment for operating lease transactions. However, effective the year ended March 31, 2009, the Company applied “Accounting Standard for Lease Transactions” (ASBJ Statement No.13) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16). Under these accounting standards, transactions are accounted for in the same manner as ordinary sale and purchase transactions.

There was no effect of this change on operating income and income before income taxes and minority interests.

(4) Accounting policies applied to an overseas subsidiary

Effective the year ended March 31, 2009, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No.18) has been applied. As a result, operating income decreased by ¥7 million ($71 thousand) and income before income taxes and minority interests decreased by ¥0 million ($0 thousand) for the year ended March 31, 2009 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 ¥98.23 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2009. 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.

4. Cash and Cash Equivalents

A reconciliation of cash and 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, 2008 and 2009 is presented as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Cash and deposits	¥ 13,058	¥ 14,026	$ 142,787
Investment trust funds	3,199	10,136	103,187
Beneficiary interests in trusts and other	1,000	1,000	10,180
Time deposits with a maturity of more than three months	(406)	(606)	(6,169)
Cash and cash equivalents	¥ 16,851	¥ 24,556	$ 249,985

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:

	Millions of yen
	2008
Current assets	¥ 47
Fixed assets	305
Current liabilities	(51)
Loss on sale of a hotel business	(1)
Sale value	300
Cash and cash equivalent	–
Proceeds from sale	¥ 300

5. Securities

Marketable securities classified as held-to-maturity debt securities at March 31, 2008 and 2009 are summarized as follows:

	2008		
	Millions of yen		
	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
	1,568	1,574	6
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)
	4,655	4,430	(225)
Total	¥ 6,223	¥ 6,004	¥ (219)

	2009		
	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 270	¥ 272	¥ 2
Corporate bonds	1,499	1,499	0
	1,769	1,771	2
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	20	10	(10)
Corporate bonds	6,401	5,254	(1,147)
Other	10	10	(0)
	6,431	5,274	(1,157)
Total	¥ 8,200	¥ 7,045	¥ (1,155)

5. Securities (continued)

	2009		
	Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	$ 2,749	$ 2,769	$ 20
Corporate bonds	15,260	15,260	0
	18,009	18,029	20
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	204	102	(102)
Corporate bonds	65,163	53,486	(11,677)
Other	102	102	(0)
	65,469	53,690	(11,779)
Total	$ 83,478	$ 71,719	$ (11,759)

Other securities with determinable market value at March 31, 2008 and 2009 are summarized as follows:

	2008		
	Millions of yen		
	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
	12,628	27,323	14,695
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	4,533	3,967	(566)
Total	¥ 17,161	¥ 31,290	¥ 14,129

5. Securities (continued)

	2009		
	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 6,551	¥ 11,764	¥ 5,213
Corporate bonds	490	493	3
	7,041	12,257	5,216
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	7,348	6,433	(915)
Other	98	87	(11)
	7,446	6,520	(926)
Total	¥ 14,487	¥ 18,777	¥ 4,290

	2009		
	Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$ 66,690	$ 119,759	$ 53,069
Corporate bonds	4,988	5,019	31
	71,678	124,778	53,100
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	74,804	65,489	(9,315)
Other	998	886	(112)
	75,802	66,375	(9,427)
Total	$ 147,480	$ 191,153	$ 43,673

Sales of securities classified as other securities for the years ended March 31, 2008 and 2009 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Sales	¥ 204	¥ 1,018	$ 10,363
Aggregate gain	159	4	41
Aggregate loss	(0)	(0)	(0)

5. Securities (continued)

The carrying value of securities without determinable market value at March 31, 2008 and 2009 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Held-to-maturity debt securities:			
Interest-bearing financial bonds	¥ –	¥ 1,437	$ 14,629
Other securities:			
Non-marketable equity securities	608	378	3,848
Money trusts	1,202	2,702	27,508
Investment in a limited liability partnership	414	480	4,886
Negotiable certificates of deposit	–	2,000	20,360
Preferred subscription certificates	1,100	1,100	11,198

The Company recorded losses on impairment of investments in securities of ¥569 million and ¥2,459 million ($25,033 thousand) for the years ended March 31, 2008 and 2009, respectively.

The redemption schedule for other securities with maturities and held-to-maturity debt securities at March 31, 2009 was 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	¥ 210	¥ 80	¥ –	¥ –
Corporate bonds	3,500	200	100	4,500
Other	4,565	–	–	–
Total	¥ 8,275	¥ 280	¥ 100	¥ 4,500

	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	$ 2,138	$ 814	$ –	$ –
Corporate bonds	35,630	2,036	1,018	45,811
Other	46,473	–	–	–
Total	$ 84,241	$ 2,850	$ 1,018	$ 45,811

6. Inventories

The following is a summary of inventories at March 31, 2008 and 2009:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Finished goods	¥ 12,908	¥ 13,183	$ 134,206
Work in process	4,758	4,608	46,910
Raw materials and supplies	16,930	13,479	137,219
	¥ 34,596	¥ 31,270	$ 318,335

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, 2008 and 2009 as follows:

			Millions of yen		*Thousands of U.S. dollars*
Location	Use	Classification	**2008**	**2009**	**2009**
Miyazaki City, Miyazaki Prefecture	Hotel	Other	¥ 6	¥ –	$ –
Kure City, Hiroshima Prefecture	Idle assets	Land	–	76	774
Kamakura City, Kanagawa Prefecture	Idle assets	Land	–	1	10
Nishiwaki City, Hyogo Prefecture	Golf course	Buildings and structures	–	76	774
Village of Hakuba, Nagano Prefecture	Idle assets	Land	–	2	20
Yaizu City, Shizuoka Prefecture	Idle assets	Land, buildings and structures, and other	–	59	601
Total			¥ 6	¥ 214	$ 2,179

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.

7. Loss on Impairment of Fixed Assets (continued)

Consequently, the Company and its consolidated subsidiaries have written down the carrying value of the hotel group fixed assets for the year ended March 31, 2008 and the golf courses group fixed assets for the year ended March 31, 2009 to their net recoverable value due to a significant decline in their fair value, and have recorded related losses on impairment of fixed assets of ¥6 million and ¥76 million ($774 thousand) for the years ended March 31, 2008 and 2009, respectively. The loss on impairment of fixed assets consisted of other of ¥6 million for the year ended March 31, 2008, and buildings and structures of ¥73 million ($743 thousand), machinery, equipment and vehicles of ¥1 million ($10 thousand), and other of ¥2 million ($21 thousand) for the year ended March 31, 2009. 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 have written down the carrying value of the idle assets owned by the Company and its consolidated subsidiaries for the year ended March 31, 2009, 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 ¥138 million ($1,405 thousand) for the year ended March 31, 2009. This loss on impairment of fixed assets consisted of land of ¥137 million ($1,395 thousand) and other of ¥1 million ($10 thousand). 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.

8. Short-Term Bank Loans and Guarantee Deposits

Short-term bank loans represented overdrafts at an average annual interest rate of approximately 2.39% at March 31, 2008. Short-term bank loans were nil at March 31, 2009.

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 0.90% and 0.86% at March 31, 2008 and 2009, respectively.

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

Interest-free deposits and interest-bearing deposits at March 31, 2008 and 2009 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Interest-free deposits	¥ 3,224	¥ 3,081	$ 31,365
Interest-bearing deposits	654	701	7,136
	¥ 3,878	¥ 3,782	$ 38,501

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, 2008 and 2009 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Lines of credit	¥ 21,400	¥ 21,400	$ 217,856
Credit utilized	–	–	–
Available credit	¥ 21,400	¥ 21,400	$ 217,856

9. Pledged Assets

Assets pledged as collateral for indebtedness at March 31, 2008 and 2009 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Land	¥ 41	¥ –	$ –
Buildings and structures	2,561	–	–
Machinery, equipment and vehicles	1,990	–	–
Investments in securities	69	86	875
	¥ 4,661	¥ 86	$ 875

Indebtedness secured by these assets as collateral was nil at March 31, 2008. At March 31, 2009, indebtedness secured by these assets as collateral was ¥53 million ($540 thousand), a component of other current liabilities.

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, 2008 and 2009 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Retirement benefit obligation	¥ (13,967)	¥ (13,647)	$ (138,929)
Plan assets at fair value	5,634	4,249	43,256
Unfunded retirement benefit obligation	(8,333)	(9,398)	(95,673)
Unrecognized actuarial loss	1,773	3,171	32,281
Net retirement benefit obligation	(6,560)	(6,227)	(63,392)
Prepaid pension cost	895	963	9,804
Accrued retirement benefits	¥ (7,455)	¥ (7,190)	$ (73,196)

As permitted under the accounting standards 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, 2008 and 2009 are outlined as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Service cost	¥ 740	¥ 746	$ 7,595
Interest cost	331	335	3,410
Expected return on plan assets	(223)	(127)	(1,293)
Amortization of actuarial loss	14	194	1,975
Amortization of prior service cost	7	–	–
	¥ 869	¥ 1,148	$ 11,687

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, 2008 and 2009 were as follows:

	2008	**2009**
Discount rates	Principally 2.5%	Principally 2.0%
Expected rates of return on plan assets	Principally 3.2%	Principally 2.4%

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, 2008 and 2009.

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

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

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2009 was omitted because the difference between these rates was less than 5% of the statutory tax rate.

11. Income Taxes (continued)

The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2008 and 2009 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Deferred tax assets:			
Accrued retirement benefits	¥ 2,533	¥ 2,448	$ 24,921
Allowance for doubtful receivables	131	70	713
Accrued bonuses	444	335	3,410
Valuation loss on inventories	179	2,148	21,867
Foreign tax credits	111	–	–
Loss on guarantee resulting from liquidation of an overseas affiliate	–	385	3,919
Tax loss carryforwards	955	955	9,722
Loss on impairment of investments in securities and golf-club memberships	963	963	9,804
Loss on impairment of fixed assets	87	150	1,527
Other	1,003	835	8,501
Gross deferred tax assets	6,406	8,289	84,384
Less valuation allowance	(2,378)	(2,585)	(26,316)
Total deferred tax assets	4,028	5,704	58,068
Deferred tax liabilities:			
Dividends from an overseas subsidiary	(76)	(160)	(1,629)
Unrealized holding gain on securities	(5,379)	(1,369)	(13,937)
Land revaluation reserve	(1,105)	(1,025)	(10,434)
Reserve for deferred taxation on contributions for acquisition of property	(934)	(887)	(9,030)
Other	–	(134)	(1,364)
Total deferred tax liabilities	(7,494)	(3,575)	(36,394)
Net deferred tax (liabilities) assets	¥ (3,466)	¥ 2,129	$ 21,674

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.

The Company's legal reserve was nil at March 31, 2009 and 2008.

12. Shareholders' Equity (continued)

Stock options

Stock option expenses charged to income for the years ended March 31, 2008 and 2009 amounted to ¥23 million and ¥24 million ($244 thousand), respectively.

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

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.

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 15, 2008. Under the terms of this plan, up to 60,000 shares of common stock were granted at ¥1 ($0.01) per share. The options became exercisable on July 31, 2008 and are scheduled to expire on June 29, 2028.

12. Shareholders' Equity (continued)

Treasury stock

Movements in treasury stock during the years ended March 31, 2008 and 2009 are summarized as follows:

	Thousands of Shares			
	2008			
	March 31, 2007	Increase	Decrease	March 31, 2008
Treasury stock	16,655	3,856	2,038	18,473
	Thousands of Shares			
	2009			
	March 31, 2008	Increase	Decrease	March 31, 2009
Treasury stock	18,473	70	68	18,475

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."

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, 2008 and 2009:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Land revalued at March 31, 2000	¥ (199)	¥ (179)	$ (1,822)
Land revalued at March 31, 2002	(992)	(747)	(7,605)
	¥ (1,191)	¥ (926)	$ (9,427)

14. Research and Development Costs

Research and development costs included in selling, general and administrative expenses totaled ¥515 million and ¥562 million ($5,721 thousand) for the years ended March 31, 2008 and 2009, respectively.

15. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2008 and 2009, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased assets to the Company and its consolidated subsidiaries (currently accounted for as operating leases) were capitalized:

	Millions of yen					
	2008			**2009**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 413	¥ 265	¥ 148	¥ 278	¥ 205	¥ 73

	Thousands of U.S dollars		
	2009		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	$ 2,830	$ 2,087	$ 743

The related lease payments and depreciation for the years ended March 31, 2008 and 2009 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	**2009**	**2009**
Lease payments	¥ 86	¥ 75	$ 764
Depreciation	86	75	764

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 assets for the years ended March 31, 2008 and 2009.

15. Leases (continued)

The related future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 under finance leases other than those which transfer the ownership of the leased assets to the Company and its consolidated subsidiaries are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2010	¥ 45	$ 458
2011 and thereafter	28	285
	¥ 73	$ 743

16. Contingent Liabilities

At March 31, 2009, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	*Thousands of U.S. dollars*
Guarantee of bank loan of an overseas unconsolidated subsidiary	¥ 25	$ 255

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 and the market risk that loss may incur resulting from fluctuation in foreign currency exchange markets and others. 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 enter into foreign currency forward exchange contracts only for hedging purposes and 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.

17. Derivatives (continued)

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, 2008 and 2009, 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 marketable securities classified as held-to-maturity debt securities presented in Note 5.

18. Amounts per Share

Amounts per share at March 31, 2008 and 2009 and for the years then ended were as follows:

	Yen		*U.S. dollars*
	2008	**2009**	**2009**
Net assets	¥ 860.00	¥ 796.39	$ 8.11
Net income:			
Basic	41.98	8.57	0.09
Diluted	41.93	8.56	0.09
Cash dividends	17.00	10.00	0.10

Amounts per share of net assets are computed based on 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 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. Transactions with Related Parties

Effective the year ended March 31, 2009, the Company has adopted a new accounting standard, “Accounting Standard for Related Party Disclosures” (ASBJ Statement No.11) and “Guidance on Accounting Standard for Related Party Disclosures” (ASBJ Guidance No. 13). There was no change to the scope of disclosures as a result of the adoption of this accounting standard.

Transactions and balances with related parties as of and for the years ended March 31, 2008 and 2009 were summarized as follows:

Name of affiliated company	*Transactions*			
		Millions of yen		*Thousands of U.S. dollars*
	Type of transaction	**2008**	**2009**	**2009**
Sadoshima Corporation	Sales	¥ 34,752	¥ 32,704	$ 332,933
	Balances			
		Millions of yen		*Thousands of U.S. dollars*
	Account name	**2008**	**2009**	**2009**
	Notes and accounts receivable	¥ 11,822	¥ 7,706	$ 78,449

The Company owns 50.0% of the voting rights of Sadoshima Corporation a steel product wholesaler for the Company whose board members are the same as that of the Company.

20. 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, 2008 and 2009 are outlined as follows:

20. Segment Information (continued)

Business Segments

	Millions of yen					
	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

	Millions of yen					
	Year ended March 31, 2009					
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	¥175,563	¥12,469	¥ 6,569	¥194,601	¥ –	¥194,601
Intersegment sales and transfers	1	–	4,378	4,379	(4,379)	–
Net sales	175,564	12,469	10,947	198,980	(4,379)	194,601
Operating expenses	170,977	11,849	10,165	192,991	(3,529)	189,462
Operating income	¥ 4,587	¥ 620	¥ 782	¥ 5,989	¥ (850)	¥ 5,139
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	¥100,802	¥ 9,874	¥17,019	¥127,695	¥51,175	¥178,870
Depreciation and amortization	5,145	624	359	6,128	107	6,235
Loss on impairment of fixed assets	135	–	76	211	3	214
Capital expenditures	2,957	766	148	3,871	35	3,906

20. 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, 2009					
I. Sales and operating income:						
Sales to third parties	$1,787,264	$126,937	$ 66,874	$1,981,075	$ –	$1,981,075
Intersegment sales and transfers	10	–	44,569	44,579	(44,579)	–
Net sales	1,787,274	126,937	111,443	2,025,654	(44,579)	1,981,075
Operating expenses	1,740,578	120,625	103,482	1,964,685	(35,926)	1,928,759
Operating income	$ 46,696	$ 6,312	$ 7,961	$ 60,969	$ (8,653)	$ 52,316
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	$1,026,183	$100,519	$173,257	$1,299,959	$ 520,971	$1,820,930
Depreciation and amortization	52,377	6,352	3,655	62,384	1,089	63,473
Loss on impairment of fixed assets	1,374	–	774	2,148	31	2,179
Capital expenditures	30,103	7,798	1,507	39,408	356	39,764

As described in Note 2(1), 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 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, ¥8 million and ¥4 million, 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.

As described in Note 1(h), effective the year ended March 31, 2008, tangible fixed assets acquired on or prior to March 31, 2007 have been 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, ¥87 million and ¥29 million, 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.

20. Segment Information (continued)

Business Segments (continued)

As described in Note 2(2), previously, the cost method based on the average method was principally adopted for measuring inventories held for sale in the ordinary course of business. Effective the year ended March 31, 2009, "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9) has been applied, and now these inventories are principally measured by the lower of cost or net selling value, cost being determined by the average method. As a result, operating expenses in the steel sheet products segment and the electric furnace products segment for the year ended March 31, 2009 increased by ¥4,195 million ($42,706 thousand) and ¥97 million ($987 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.

As described in Note 2(4), effective the year ended March 31, 2009, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18) has been applied. As a result, operating expenses in the steel sheet products segment for the year ended March 31, 2009 increased by ¥7 million ($71 thousand) 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.

As described in Note 1(h), the Company and its domestic subsidiaries had reviewed the estimated useful lives of certain machinery and changed them after a revision of the Corporation Tax Law, which was effective the year ended March 31, 2009. 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, 2009 increased by ¥284 million ($2,891 thousand), ¥19 million ($194 thousand) and ¥1 million ($10 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.

20. Segment Information (continued)

Geographical Segments

	Millions of yen				
	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	¥ 9,025	¥ 3,133	¥ 12,158	¥ (902)	¥ 11,256
II. Total assets	¥ 126,253	¥ 33,930	¥ 160,183	¥ 46,677	¥ 206,860

	Millions of yen				
	Year ended March 31, 2009				
	Japan	Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:					
Sales to third parties	¥ 125,501	¥ 69,100	¥ 194,601	¥ –	¥ 194,601
Intersegment sales and transfers	15	512	527	(527)	–
Net sales	125,516	69,612	195,128	(527)	194,601
Operating expenses	122,164	66,976	189,140	322	189,462
Operating income	¥ 3,352	¥ 2,636	¥ 5,988	¥ (849)	¥ 5,139
II. Total assets	¥ 112,100	¥ 25,745	¥ 137,845	¥ 41,025	¥ 178,870

	Thousands of U.S. dollars				
	Year ended March 31, 2009				
	Japan	Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:					
Sales to third parties	$1,277,624	$ 703,451	$1,981,075	$ –	$ 1,981,075
Intersegment sales and transfers	153	5,212	5,365	(5,365)	–
Net sales	1,277,777	708,663	1,986,440	(5,365)	1,981,075
Operating expenses	1,243,653	681,828	1,925,481	3,278	1,928,759
Operating income	$ 34,124	$ 26,835	$ 60,959	$ (8,643)	$ 52,316
II. Total assets	$1,141,199	$ 262,089	$1,403,288	$ 417,642	$ 1,820,930

20. Segment Information (continued)

Geographical Segments (continued)

The principal country in the Asia segment is Taiwan.

As described in Note 2(1), 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 expenses in the Japan segment for the year ended March 31, 2008 increased by ¥51 million 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.

As described in Note 1(h), effective the year ended March 31, 2008, tangible fixed assets acquired on or prior to March 31, 2007 have been 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 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.

As described in Note 2(2), previously, the cost method based on the average method was principally adopted for measuring inventories held for sale in the ordinary course of business. Effective the year ended March 31, 2009, "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9) has been applied, and now these inventories are principally measured by the lower of cost or net selling value, cost being determined by the average method. As a result, operating expenses in the Japan segment for the year ended March 31, 2009 increased by ¥4,292 million ($43,693 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.

As described in Note 2(4), effective the year ended March 31, 2009, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18) has been applied. As a result, operating expenses in the Asia segment for the year ended March 31, 2009 increased by ¥7 million ($71 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.

20. Segment Information (continued)

Geographical Segments (continued)

As described in Note 1(h), the Company and its domestic subsidiaries had reviewed the estimated useful lives of certain machinery and changed them after the revision of the Corporation Tax Law, which was effective the year ended March 31, 2009. As a result, operating expenses in the Japan segment for the year ended March 31, 2009 increased by ¥304 million ($3,095 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, 2008 and 2009 are summarized as follows:

	Millions of yen		
	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%

	Millions of yen		
	Year ended March 31, 2009		
	Asia	Other	Total
Overseas sales	¥ 52,043	¥ 32,852	¥ 84,895
Consolidated net sales			194,601
Overseas sales as a percentage of consolidated net sales	26.7%	16.9%	43.6%

	Thousands of U.S. dollars		
	Year ended March 31, 2009		
	Asia	Other	Total
Overseas sales	$529,807	$334,440	$ 864,247
Consolidated net sales			1,981,075

21. Subsequent Events

(1) On January 24, 2008, the Japan Fair Trade Commission ("JFTC") began an investigation on alleged price cartel activity involving galvanized steel coils and painted steel coils between the Company and certain other participants. On November 11, 2008, the JFTC charged the Company with violating the Antimonopoly Law (the "Law") by unfairly restricting sales transactions. On December 8, 2008, the Tokyo District Public Prosecutors Office opened proceedings against the Company based on the accusation filed by the JFTC.

On June 24, 2009, the Company received advance notice from the JFTC, directing the Company to cease and desist from violating the Law, specifically Article 3 (prohibition of unfair restriction of transactions), and to pay penalties of ¥3,675 million ($37,412 thousand) for past alleged violations of the Law with regard to hot-dip galvanized steel sheets and coils (including pre-painted products), for common sales transactions involving general-purpose products and made-to-order products for manufacturers of light-weight ceiling foundation materials and building materials.

(2) 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, 2009, was approved at a meeting of the Board of Directors held on May 15, 2009:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends of ¥4 ($0.04) per share	¥ 667	$ 6,790