Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

Years ended March 31, 2009 and 2010
with Report of Independent Auditors

Yodogawa Steel Works, Ltd.

Consolidated Financial Statements

Years ended March 31, 2009 and 2010

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, 2009 and 2010, and the related consolidated statements of operations, 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, 2009 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 25, 2010

Yodogawa Steel Works, Ltd.

Consolidated Balance Sheets

March 31, 2009 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2009	**2010**	**2010**
Assets			
Current assets:			
Cash and deposits *(Notes 4,5 and 11)*	¥ 14,026	¥ 15,709	$ 168,841
Marketable securities *(Notes 5 and 6)*	10,356	12,003	129,009
Notes and accounts receivable *(Note 5)*:			
Unconsolidated subsidiaries and affiliates *(Note 20)*	8,255	9,992	107,395
Trade	22,948	23,089	248,162
Less allowance for doubtful receivables	(183)	(199)	(2,139)
Inventories *(Note 7)*	31,270	26,329	282,986
Deferred income taxes *(Note 13)*	2,406	1,156	12,425
Other current assets	3,964	2,414	25,946
Total current assets	93,042	90,493	972,625
Property, plant and equipment:			
Land *(Notes 8, 15 and 21)*	18,885	19,006	204,278
Buildings and structures *(Notes 8 and 21)*	50,417	50,701	544,938
Machinery, equipment and vehicles *(Note 8)*	123,712	126,762	1,362,446
Leased assets	15	58	623
Construction in progress	1,850	562	6,040
Less accumulated depreciation	(141,840)	(145,648)	(1,565,434)
Property, plant and equipment, net	53,039	51,441	552,891
Investments and other assets:			
Investments in securities *(Notes 5, 6 and 11)*	24,718	29,333	315,273
Investments in unconsolidated subsidiaries and affiliates *(Note 5)*	4,095	4,646	49,936
Deferred income taxes *(Note 13)*	1,068	898	9,652
Other assets	2,908	3,102	33,340
Total investments and other assets	32,789	37,979	408,201
Total assets *(Note 22)*	¥ 178,870	¥ 179,913	$ 1,933,717

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2009	**2010**	**2010**
Liabilities and net assets			
Current liabilities:			
Current portion of finance lease obligations	¥ 3	¥ 14	$ 150
Notes and accounts payable *(Note 5)*:			
Unconsolidated subsidiaries and affiliates	532	320	3,439
Trade	13,548	16,021	172,195
Construction	1,268	891	9,577
Accrued expenses	3,220	3,095	33,265
Accrued income taxes *(Note 13)*	1,827	106	1,139
Other current liabilities *(Note 11)*	1,335	1,619	17,402
Total current liabilities	21,733	22,066	237,167
Long-term liabilities:			
Accrued retirement benefits for employees *(Note 12)*	7,190	7,323	78,708
Accrued retirement benefits for directors and corporate auditors	74	83	892
Guarantee deposits *(Note 9)*	3,782	3,670	39,445
Lease obligations, less current portion	9	43	462
Negative goodwill	106	112	1,204
Deferred income taxes *(Note 13)*	320	2,117	22,754
Deferred income taxes on land revaluation reserve *(Note 13)*	1,025	1,041	11,189
Other long-term liabilities	22	119	1,279
Total long-term liabilities	12,528	14,508	155,933
Net assets:			
Shareholders' equity *(Note 14)*:			
Common stock:			
Authorized: 753,814,067 shares in 2009 and 2010			
Issued: 184,186,153 shares in 2009 and 2010	23,221	23,221	249,581
Capital surplus	23,764	23,755	255,320
Retained earnings *(Note 23)*	93,061	88,271	948,742
Treasury stock, at cost – 18,475,222 shares in 2009 and 18,479,353 shares in 2010	(7,429)	(7,429)	(79,847)
Total shareholders' equity	132,617	127,818	1,373,796
Valuation and translation adjustments:			
Unrealized holding gain on securities *(Note 6)*	2,567	6,019	64,693
Land revaluation reserve *(Note 15)*	1,334	1,321	14,198
Translation adjustments	(4,547)	(4,199)	(45,131)
Total valuation and translation adjustments	(646)	3,141	33,760
Stock acquisition rights	74	95	1,021
Minority interests	12,564	12,285	132,040
Total net assets	144,609	143,339	1,540,617
Total liabilities and net assets	¥ 178,870	¥ 179,913	$ 1,933,717

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Operations

Years ended March 31, 2009 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2009	**2010**	**2010**
Net sales *(Notes 20, 21 and 22)*	¥ 194,601	¥ 132,419	$ 1,423,248
Cost of sales *(Note 21)*	173,468	117,113	1,258,738
Gross profit	21,133	15,306	164,510
Selling, general and administrative expenses *(Notes 16 and 21)*	15,994	13,305	143,003
Operating income *(Note 22)*	5,139	2,001	21,507
Other income (expenses):			
Interest and dividend income	1,100	633	6,804
Interest expense	(94)	(52)	(559)
Equity in earnings of an affiliate	177	75	806
Foreign exchange gains	268	15	161
Loss on impairment of investments in securities *(Note 6)*	(2,459)	(244)	(2,623)
Loss on sales or disposal of property, plant and equipment, net	(123)	(182)	(1,956)
Loss on impairment of fixed assets *(Notes 8 and 22)*	(214)	(27)	(290)
(Loss) gain on devaluation of derivatives	(41)	82	881
Surcharge levied in relation to violation of the Antimonopoly Law	–	(3,765)	(40,466)
Other, net *(Note 21)*	228	(387)	(4,160)
Income (loss) before income taxes and minority interests	3,981	(1,851)	(19,895)
Income taxes *(Note 13)*:			
Current	3,602	34	365
Deferred	(1,934)	1,325	14,241
	1,668	1,359	14,606
Income (loss) before minority interests	2,313	(3,210)	(34,501)
Minority interests	(893)	(86)	(925)
Net income (loss)	¥ 1,420	¥ (3,296)	$ (35,426)

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2009 and 2010

		Millions of yen											
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Land revaluation reserve	Translation adjustments	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 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
Cash dividends	–	–	–	(1,492)	–	(1,492)	–	–	–	–	–	–	(1,492)
Net loss	–	–	–	(3,296)	–	(3,296)	–	–	–	–	–	–	(3,296)
Acquisition of treasury stock	–	–	–	–	(11)	(11)	–	–	–	–	–	–	(11)
Disposition of treasury stock	–	–	(9)	–	11	2	–	–	–	–	–	–	2
Reversal of land revaluation reserve	–	–	–	(2)	–	(2)	–	–	–	–	–	–	(2)
Other changes	–	–	–	–	–	–	3,452	(13)	348	3,787	21	(279)	3,529
Balance at March 31, 2010	184,186,153	¥ 23,221	¥ 23,755	¥ 88,271	¥ (7,429)	¥ 127,818	¥ 6,019	¥ 1,321	¥ (4,199)	¥ 3,141	¥ 95	¥ 12,285	¥ 143,339

Yodogawa Steel Works, Ltd.

Consolidated Statements of Changes in Net Assets (continued)

Years ended March 31, 2009 and 2010

	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, 2009	$ 249,581	$ 255,417	$ 1,000,225	$ (79,847)	$ 1,425,376	$ 27,590	$ 14,338	$ (48,871)	$ (6,943)	$ 795	$ 135,039	$ 1,554,267
Cash dividends	–	–	(16,036)	–	(16,036)	–	–	–	–	–	–	(16,036)
Net loss	–	–	(35,426)	–	(35,426)	–	–	–	–	–	–	(35,426)
Acquisition of treasury stock	–	–	–	(118)	(118)	–	–	–	–	–	–	(118)
Disposition of treasury stock	–	(97)	–	118	21	–	–	–	–	–	–	21
Reversal of land revaluation reserve	–	–	(21)	–	(21)	–	–	–	–	–	–	(21)
Other changes	–	–	–	–	–	37,103	(140)	3,740	40,703	226	(2,999)	37,930
Balance at March 31, 2010	$ 249,581	$ 255,320	$ 948,742	$ (79,847)	$ 1,373,796	$ 64,693	$ 14,198	$ (45,131)	$ 33,760	$ 1,021	$ 132,040	$ 1,540,617

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows

Years ended March 31, 2009 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2009	**2010**	**2010**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 3,981	¥ (1,851)	$ (19,895)
Adjustments for:			
Depreciation and amortization	6,215	5,899	63,403
Amortization of negative goodwill	(28)	(31)	(333)
Equity in earnings of an affiliate	(177)	(75)	(806)
Increase in accrued retirement benefits	219	89	957
Decrease in accrued bonuses	(268)	(27)	(290)
(Decrease) increase in allowance for doubtful receivables	(147)	39	419
Interest and dividend income	(1,100)	(633)	(6,804)
Interest expense	94	52	559
(Gain) loss on sales of investments in securities	(2)	24	258
Loss on impairment of investments in securities	2,459	244	2,623
Loss on sales or disposal of property, plant and equipment, net	123	182	1,956
Loss on impairment of fixed assets	214	27	290
Decrease (increase) in notes and accounts receivable	16,438	(1,861)	(20,002)
Decrease in inventories	48	5,402	58,061
(Decrease) increase in notes and accounts payable	(5,250)	2,236	24,033
Bonuses to directors, corporate auditors and employees of an overseas subsidiary	(25)	–	–
Loss (gain) on devaluation of derivatives	41	(82)	(881)
Other	(2,710)	4,171	44,829
Subtotal	20,125	13,805	148,377
Interest and dividends received	1,151	689	7,405
Interest paid	(93)	(51)	(548)
Surcharge levied in relation to violation of the Antimonopoly Law	–	(3,765)	(40,466)
Income taxes paid	(3,663)	(1,787)	(19,207)
Net cash provided by operating activities	¥ 17,520	¥ 8,891	$ 95,561

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows (continued)

Years ended March 31, 2009 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2009	**2010**	**2010**
Cash flows from investing activities:			
Investments in time deposits with a maturity of more than three months	¥ (839)	¥ (520)	$ (5,589)
Proceeds from time deposits with a maturity of more than three months	639	904	9,716
Purchases of marketable securities	(202)	–	–
Proceeds from sales of marketable securities	1,523	210	2,257
Purchases of property, plant and equipment	(5,201)	(4,584)	(49,269)
Proceeds from sales of property, plant and equipment	185	28	301
Purchases of intangible fixed assets	(22)	(47)	(505)
Purchases of investments in securities	(1,324)	(883)	(9,491)
Proceeds from sales of investments in securities	375	146	1,569
Execution of loans receivable	(588)	(586)	(6,298)
Collection of loans receivable	646	634	6,814
Other	9	7	76
Net cash used in investing activities	(4,799)	(4,691)	(50,419)
Cash flows from financing activities:			
Decrease in short-term bank loans	(654)	–	–
Proceeds from sales of treasury stock	22	2	21
Purchases of treasury stock	(29)	(8)	(86)
Cash dividends paid to the Company's shareholders	(2,836)	(1,502)	(16,144)
Cash dividends paid to shareholders of minority interests of consolidated subsidiaries	(993)	(680)	(7,309)
Other	(3)	(12)	(128)
Net cash used in financing activities	(4,493)	(2,200)	(23,646)
Effect of exchange rate changes on cash and cash equivalents	(523)	134	1,440
Net increase in cash and cash equivalents	7,705	2,134	22,936
Cash and cash equivalents at beginning of the year	16,851	24,556	263,930
Cash and cash equivalents at end of the year *(Note 4)*	¥ 24,556	¥ 26,690	$ 286,866

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2010

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, 2009 to the 2010 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 or loss 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 and income before income taxes and minority interests decreased by ¥312 million for the year ended March 31, 2009 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.

(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.

1. Summary of Significant Accounting Policies (continued)

(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.

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) Recognition of revenues and costs of construction contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be adopted for contracts for which the percentage of completion cannot be reliably estimated.

1. Summary of Significant Accounting Policies (continued)

(p) 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

(a) Recognition of revenues and costs of construction contracts

Until the year ended March 31, 2009, revenues and costs of construction contracts were recognized by the completed-contract method. Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have applied "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan ("ASBJ") Statement No.15 issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18 issued on December 27, 2007). Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated. As a result, net sales increased by ¥99 million ($1,064 thousand), operating income increased by ¥15 million ($161 thousand) and loss before income taxes and minority interests decreased by ¥15 million ($161 thousand) for the year ended March 31, 2010 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(b) Retirement benefits

Effective the year ended March 31, 2010, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No.19 issued on July 31, 2008) has been applied. There was no effect of this change on operating income and loss before income taxes and minority interests.

2. Changes in Accounting Policies (continued)

(c) 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 issued on July 5, 2006) 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 and income before income taxes and minority interests decreased by ¥4,325 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(d) 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 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised on March 30, 2007). 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.

(e) 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 Practical Issues Task Force No.18 (“PITF No.18”) issued on May 17, 2006) has been applied. As a result, operating income decreased by ¥7 million and income before income taxes and minority interests decreased by ¥0 million 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 ¥93.04 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2010. 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, 2009 and 2010 is presented as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Cash and deposits	¥ 14,026	¥ 15,709	$ 168,841
Investment trust funds	10,136	11,203	120,411
Beneficiary interests in trusts and other	1,000	500	5,374
Time deposits with a maturity of more than three months	(606)	(722)	(7,760)
Cash and cash equivalents	¥ 24,556	¥ 26,690	$ 286,866

5. Financial Instruments

Effective the year ended March 31, 2010, “Accounting Standard for Financial Instruments” (ASBJ Statement No.10 issued on March 10, 2008) and “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 issued on March 10, 2008) have been applied.

Overview

(a) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries (collectively, the “Group”) primarily utilize cash in hand. In case of a lack of cash in hand, the Group raises funds by bank borrowings and bond issuances. The Group manages temporary cash surpluses through low-risk financial assets. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative purposes. In addition, compound financial instruments that contain embedded derivatives are utilized by the Group in order to manage surplus funds.

5. Financial Instruments (continued)

Overview (continued)

(b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivables, are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from trade receivables denominated in foreign currencies.

Marketable securities and investments in securities are exposed to market risk. The former is composed of mainly held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relationships. The latter is composed of mainly negotiable certificates of deposits and commercial paper.

Trade payables, notes and accounts payable, have payment due dates within six months. The Group is exposed to foreign currency exchange risk arising from trade payables denominated in foreign currencies. In case of financing, the interest rate for short-term borrowings is fixed.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from trade receivables denominated in foreign currencies.

Information regarding the method of hedge accounting is found in Note 1(p).

(c) Risk management for financial instruments

Regarding trade receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer. In addition, the Company and its domestic consolidated subsidiaries are making efforts to identify and mitigate risks of bad debts from customers who have financial difficulties.

The overseas consolidated subsidiary requests customers to issue non-cancelable letters of credit to hedge credit risk.

The Group only acquires held-to-maturity debt securities and commercial paper issued by companies with high credit ratings or sound credit profiles. Accordingly, the Group believes that the credit risk deriving from such securities is insignificant. The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

5. Financial Instruments (continued)

Overview (continued)

(c) Risk management for financial instruments (continued)

For trade receivables denominated in foreign currencies, the Group enters into forward foreign exchange contracts to hedge the risks arising from fluctuations in foreign exchanges rates.

For marketable securities and investments in securities, the Group periodically reviews the fair value of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether or not securities other than those classified as held-to-maturity debt securities should be maintained taking into account their fair value and relationships with the issuers.

The Group has 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.

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis and maintains adequate solvency to manage liquidity risk. In order to provide for unexpected cash requirements, the Company enters into the line-of-credit agreements with certain financial institutions and its overseas consolidated subsidiary is able to obtain short-term borrowings by certain financial institutions.

(d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

5. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheet as of March 31, 2010 and unrealized loss are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2010		
	Carrying value	Estimated fair value	Unrealized loss
Assets:			
Cash and deposits	¥ 15,709	¥ 15,709	¥ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	9,992	9,992	–
Trade	23,089	23,089	–
Marketable securities and investments in securities	30,917	30,527	(390)
Total assets	¥ 79,707	¥ 79,317	¥ (390)
Liabilities:			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	¥ 320	¥ 320	¥ –
Trade	16,021	16,021	–
Total liabilities	¥ 16,341	¥ 16,341	¥ –

	Thousands of U.S. dollars		
	2010		
	Carrying value	Estimated fair value	Unrealized loss
Assets:			
Cash and deposits	$ 168,841	$ 168,841	$ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	107,395	107,395	–
Trade	248,162	248,162	–
Marketable securities and investments in securities	332,298	328,106	(4,192)
Total assets	$ 856,696	$ 852,504	$ (4,192)
Liabilities:			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	$ 3,439	$ 3,439	$ –
Trade	172,195	172,195	–
Total liabilities	$ 175,634	$ 175,634	$ –

5. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Calculation method of estimated fair value of financial instruments is as follows:

Cash and deposits and notes and accounts receivable
Since these items are settled in a short period of time, their carrying value approximates fair value.

Marketable securities and investments in securities
The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 6.

Notes and accounts payable
Since these items are settled in a short period of time, their carrying value approximates the fair value.

The carrying value of financial instruments without determinable market value at March 31, 2010 is presented as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2010	
Investments in unconsolidated subsidiaries and affiliates	¥ 4,646	$ 49,936
Unlisted stocks	728	7,824
Money trusts	3,704	39,811
Negotiable certificates of deposit	4,500	48,366
Investment in a limited liability partnership	387	4,160
Preferred subscription certificates	1,100	11,823
Total	¥ 15,065	$ 161,920

Because no quoted market price is available, it is extremely difficult to determine the fair value. Therefore, the above financial instruments are not included as part of the amounts presented in the preceding fair value of financial instruments table.

5. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

The redemption schedule for monetary assets and investments by maturity dates at March 31, 2010 are as follows:

	Millions of yen			
	2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 15,647	¥ –	¥ –	¥ –
Notes and accounts receivable	33,081	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	0	480	–	–
Corporate bonds	3,800	200	500	3,500
Other marketable securities with maturities				
Other	8,000	–	–	–
Total	¥ 60,528	¥ 680	¥ 500	¥ 3,500

	Thousands of U.S. dollars			
	2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	$ 168,175	$ –	$ –	$ –
Notes and accounts receivable	355,557	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	0	5,159	–	–
Corporate bonds	40,843	2,150	5,374	37,618
Other marketable securities with maturities				
Other	85,984	–	–	–
Total	$ 650,559	$ 7,309	$ 5,374	$ 37,618

6. Securities

Marketable securities classified as held-to-maturity debt securities at March 31, 2009 and 2010 are summarized as follows:

	Millions of yen		
	2009		
	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)

	Millions of yen		
	2010		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 481	¥ 485	¥ 4
Corporate bonds	2,000	2,008	8
	2,481	2,493	12
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	–	–	–
Corporate bonds	5,192	4,790	(402)
Other	–	–	–
	5,192	4,790	(402)
Total	¥ 7,673	¥ 7,283	¥ (390)

6. Securities (continued)

	Thousands of U.S. dollars		
	2010		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	$ 5,170	$ 5,213	$ 43
Corporate bonds	21,496	21,582	86
	26,666	26,795	129
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	–	–	–
Corporate bonds	55,804	51,483	(4,321)
Other	–	–	–
	55,804	51,483	(4,321)
Total	$ 82,470	$ 78,278	$ (4,192)

Other securities with determinable market value at March 31, 2009 and 2010 are summarized as follows:

	Millions of yen		
	2009		
	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

6. Securities (continued)

	Millions of yen		
	2010		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 12,232	¥ 21,474	¥ 9,242
Corporate bonds	490	493	3
	12,722	21,967	9,245
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	1,264	1,181	(83)
Other	98	96	(2)
	1,362	1,277	(85)
Total	¥ 14,084	¥ 23,244	¥ 9,160

	Thousands of U.S. dollars		
	2010		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$ 131,470	$ 230,804	$ 99,334
Corporate bonds	5,267	5,299	32
	136,737	236,103	99,366
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	13,586	12,693	(893)
Other	1,053	1,032	(21)
	14,639	13,725	(914)
Total	$ 151,376	$ 249,828	$ 98,452

Sales of securities classified as other securities for the years ended March 31, 2009 and 2010 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Sales	¥ 1,018	¥ –	$ –
Aggregate gain	4	–	–
Aggregate loss	(0)	–	–

6. Securities (continued)

The Company recorded losses on impairment of investments in securities with determinable market value of ¥2,195 million and ¥235 million ($2,526 thousand) for the years ended March 31, 2009 and 2010, respectively.

7. Inventories

The following is a summary of inventories at March 31, 2009 and 2010:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Finished goods	¥ 13,183	¥ 11,464	$ 123,216
Work in process	4,608	3,873	41,627
Raw materials and supplies	13,479	10,992	118,143
	¥ 31,270	¥ 26,329	$ 282,986

8. 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, 2009 and 2010 as follows:

			Millions of yen		*Thousands of U.S. dollars*
Location	Use	Classification	**2009**	**2010**	**2010**
Kure City, Hiroshima Prefecture	Idle assets	Land	¥ 76	¥ 1	$ 11
Kamakura City, Kanagawa Prefecture	Idle assets	Land	1	–	–
Nishiwaki City, Hyogo Prefecture	Golf course	Buildings and structures, and other	76	–	–
Village of Hakuba, Nagano Prefecture	Idle assets	Land	2	0	0
Yaizu City, Shizuoka Prefecture	Idle assets	Land, buildings and structures, and other	59	–	–
Kawaguchi City, Saitama Prefecture	Idle assets	Land, buildings and structures	–	16	172
Suzaka City, Nagano Prefecture	Idle assets	Land	–	10	107
Total			¥ 214	¥ 27	$ 290

8. Loss on Impairment of Fixed Assets (continued)

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

Consequently, the Company and its consolidated subsidiaries have written down the carrying value of the 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 ¥76 million for the year ended March 31, 2009. The loss on impairment of fixed assets consisted of buildings and structures of ¥73 million, machinery, equipment and vehicles of ¥3 million 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 years ended March 31, 2009 and 2010, 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 and ¥27 million ($290 thousand) for the years ended March 31, 2009 and 2010, respectively. This loss on impairment of fixed assets consisted of land of ¥137 million and other of ¥1 million for the year ended March 31, 2009, and land of ¥22 million ($236 thousand) and buildings and structures of ¥5 million ($54 thousand) for the year ended March 31, 2010. 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.

9. Guarantee Deposits

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 0.86% and 1.00% at March 31, 2009 and 2010, respectively.

Interest-free deposits and interest-bearing deposits at March 31, 2009 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Interest-free deposits	¥ 3,081	¥ 2,988	$ 32,115
Interest-bearing deposits	701	682	7,330
	¥ 3,782	¥ 3,670	$ 39,445

10. Line-of-credit Agreements

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, 2009 and 2010 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Lines of credit	¥ 21,400	¥ 20,700	$ 222,485
Credit utilized	–	–	–
Available credit	¥ 21,400	¥ 20,700	$ 222,485

11. Pledged Assets

Assets pledged as collateral for indebtedness at March 31, 2009 and 2010 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Cash and deposits	¥ –	¥ 60	$ 645
Investments in securities	86	16	172
	¥ 86	¥ 76	$ 817

Indebtedness secured by these assets as collateral was ¥53 million and ¥49 million ($527 thousand), a component of other current liabilities at March 31, 2009 and 2010, respectively.

12. 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, 2009 and 2010 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Retirement benefit obligation	¥ (13,647)	¥ (13,200)	$ (141,874)
Plan assets at fair value	4,249	4,496	48,323
Unfunded retirement benefit obligation	(9,398)	(8,704)	(93,551)
Unrecognized actuarial loss	3,171	2,184	23,474
Net retirement benefit obligation	(6,227)	(6,520)	(70,077)
Prepaid pension cost	963	803	8,631
Accrued retirement benefits	¥ (7,190)	¥ (7,323)	$ (78,708)

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, 2009 and 2010 are outlined as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Service cost	¥ 746	¥ 566	$ 6,083
Interest cost	335	255	2,741
Expected return on plan assets	(127)	(74)	(795)
Amortization of actuarial loss	194	370	3,977
Total	¥ 1,148	¥ 1,117	$ 12,006

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, 2009 and 2010 were as follows:

	2009	**2010**
Discount rate	Principally 2.0%	Principally 2.0%
Expected rates of return on plan assets	Principally 2.4%	Principally 1.8%

13. 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, 2009 and 2010.

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. It has not been provided for the year ended March 31, 2010 due to the recording of a loss before income taxes and minority interests.

The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2009 and 2010 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Deferred tax assets:			
Accrued retirement benefits	¥ 2,448	¥ 2,423	$ 26,043
Allowance for doubtful receivables	70	78	838
Accrued bonuses	335	325	3,493
Valuation loss on inventories	2,148	135	1,451
Foreign tax credits	–	402	4,321
Loss on guarantee resulting from liquidation of an overseas affiliate	385	–	–
Tax loss carryforwards	955	1,580	16,982
Loss on impairment of investments in securities and golf-club memberships	963	984	10,576
Loss on impairment of fixed assets	150	146	1,569
Other	835	953	10,243
Gross deferred tax assets	8,289	7,026	75,516
Less valuation allowance	(2,585)	(2,783)	(29,912)
Total deferred tax assets	5,704	4,243	45,604
Deferred tax liabilities:			
Dividends from an overseas subsidiary	(160)	(25)	(269)
Unrealized holding gain on securities	(1,369)	(3,287)	(35,329)
Land revaluation reserve	(1,025)	(1,041)	(11,189)
Reserve for deferred taxation on contributions for acquisition of property	(887)	(856)	(9,200)
Other	(134)	(138)	(1,483)
Total deferred tax liabilities	(3,575)	(5,347)	(57,470)
Net deferred tax assets (liabilities)	¥ 2,129	¥ (1,104)	$ (11,866)

14. 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 2010.

Stock options

Stock option expenses charged to income for the years ended March 31, 2009 and 2010 amounted to ¥24 million and ¥25 million ($269 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.

14. Shareholders' Equity (continued)

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, 2009. Under the terms of this plan, up to 69,000 shares of common stock were granted at ¥1 ($0.01) per share. The options became exercisable on July 31, 2009 and are scheduled to expire on June 29, 2029.

Treasury stock

Movements in treasury stock during the years ended March 31, 2009 and 2010 are summarized as follows:

	Thousands of Shares			
	2009			
	March 31, 2008	Increase	Decrease	March 31, 2009
Treasury stock	18,473	70	68	18,475

	Thousands of Shares			
	2010			
	March 31, 2009	Increase	Decrease	March 31, 2010
Treasury stock	18,475	26	22	18,479

15. 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, 2009 and 2010:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Land revalued at March 31, 2000	¥ (179)	¥ (223)	$ (2,397)
Land revalued at March 31, 2002	(747)	(435)	(4,675)
	¥ (926)	¥ (658)	$ (7,072)

A certain portion of land revalued at March 31, 2000 and 2002 is related to real estate for investment, rental and idle properties at March 31, 2010 in the amount of ¥7 million ($75 thousand) and ¥46 million ($494 thousand), respectively.

16. Research and Development Costs

Research and development costs included in selling, general and administrative expenses totaled ¥562 million and ¥488 million ($5,245 thousand) for the years ended March 31, 2009 and 2010, respectively.

17. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2009 and 2010, 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					
	2009			**2010**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 278	¥ 205	¥ 73	¥ 90	¥ 62	¥ 28

	Thousands of U.S dollars		
	2010		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	$ 967	$ 666	$ 301

The related lease payments and depreciation for the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2009	**2010**	**2010**
Lease payments	¥ 75	¥ 45	$ 484
Depreciation	75	45	484

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, 2009 and 2010.

17. Leases (continued)

The related future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 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*
2011	¥ 16	$ 172
2012 and thereafter	12	129
	¥ 28	$ 301

18. Derivatives

The open currency-related derivatives positions designated as hedging instruments at March 31, 2010 are as follows:

		Millions of yen			*Thousands of U.S. dollars*		
		2010			**2010**		
Method of hedge accounting	Hedge transactions and major hedged items	Contract value (notional principal amount)	contract value over one year	Estimated fair value	Contract value (notional principal amount)	contract value over one year	Estimated fair value
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:						
	Selling:						
	USD Accounts receivable	¥ 488	¥ –	¥ –	$ 5,245	$ –	$ –
	Total	¥ 488	¥ –	¥ –	$ 5,245	$ –	$ –

The fair value of forward foreign exchange contracts that qualify for deferral hedge accounting is included in the carrying value of hedged accounts receivable. Fair value is based on the prices obtained from financial institutions.

19. Amounts per Share

Amounts per share at March 31, 2009 and 2010 and for the years then ended were as follows:

	Yen		*U.S. dollars*
	2009	**2010**	**2010**
Net assets	¥ 796.39	¥ 790.30	$ 8.49
Net income (loss):			
Basic	8.57	(19.89)	(0.21)
Diluted	8.56	–	–
Cash dividends	10.00	10.00	0.11

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 (loss) per share is computed based on the net income (loss) attributable 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.

Diluted net income per share for the year ended March 31, 2010 has not been presented since the Company and consolidated subsidiaries recorded a net loss for the year, although there were potentially dilutive shares outstanding as of March 31, 2010.

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.

20. Transactions with Related Parties

Transactions and balances with related parties as of and for the years ended March 31, 2009 and 2010 are summarized as follows:

Transactions

Name of affiliated company	Type of transaction	*Millions of yen* 2009	*Millions of yen* 2010	*Thousands of U.S. dollars* 2010
Sadoshima Corporation	Sales	¥ 32,704	¥ 25,348	$ 272,442

Balances

Name of affiliated company	Account name	*Millions of yen* 2009	*Millions of yen* 2010	*Thousands of U.S. dollars* 2010
Sadoshima Corporation	Notes and accounts receivable	¥ 7,706	¥ 9,330	$ 100,279

The Company owns 50.0% of the voting rights of Sadoshima Corporation, a steel product wholesaler for the Company. Certain of its board members serve concurrently as board members of the Company. Selling prices of products are determined based on price negotiations each fiscal year, after considering market prices, overall costs and the Company's proposals regarding desired prices.

21. Investment, Rental and Idle Properties

Effective the year ended March 31, 2010, "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20 issued on November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23 issued on November 28, 2010) have been applied.

The Company and certain consolidated subsidiaries own office buildings, land, and parking lots as rental properties and idle properties mainly in Osaka Prefecture, other domestic areas and Taiwan.

The carrying value in the consolidated balance sheets at March 31, 2009 and 2010 and its corresponding fair value of rental properties and idle properties are as follows:

	Millions of yen			
	Carrying value			Fair value
	2009	**Net change**	**2010**	**2010**
Rental properties and idle properties	¥ 4,871	¥ 3	¥ 4,874	¥ 9,082
Properties of which a part are used as rental properties	5,089	(87)	5,002	14,472
Total	¥ 9,960	¥ (84)	¥ 9,876	¥ 23,554

	Thousands of U.S. dollars			
	Carrying value			Fair value
	2009	**Net change**	**2010**	**2010**
Rental properties and idle properties	$ 52,354	$ 32	$ 52,386	$ 97,614
Properties of which a part are used as rental properties	54,697	(935)	53,762	155,546
Total	$ 107,051	$ (903)	$ 106,148	$ 253,160

21. Investment, Rental and Idle Properties (continued)

The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.

The components of net change in carrying value included increases mainly due to acquisitions of land in the amount of ¥91 million ($978 thousand) and translation adjustments in the amount of ¥43 million ($462 thousand) and decreases mainly due to impairment loss recognized in the amount of ¥27 million ($290 thousand) and sales in the amount of ¥14 million ($150 thousand) and depreciation of buildings in the amount of ¥173 million ($1,859 thousand).

Fair value of domestic rental properties at March 31, 2010 is principally measured based on the real-estate appraisal assessed by the external real-estate appraiser. However, unless the appraisal or indicators that are regarded to reflect the fair value of the properties appropriately change significantly since the date of acquisition or the date of the latest appraisal, the Company and certain domestic consolidated subsidiaries measure the fair value of the properties based on such appraisal or indicators.

Fair value of rental properties in Taiwan at March 31, 2010 is measured based on the property price announced by the government.

Revenues, costs and expenses relevant to investment, rental and idle properties for the year ended March 31, 2010 are as follows:

Millions of yen			
2010			
Rental revenues	Rental costs	Difference	Other expenses
¥ 1,144	¥ 626	¥ 518	¥ (25)

Thousands of U.S. dollars			
2010			
Rental revenues	Rental costs	Difference	Other expenses
$ 12,296	$ 6,728	$ 5,568	$ (269)

The rental revenues and rental costs for certain properties of which only a part are used as rental properties are not included in the above table because the Company and certain consolidated subsidiaries use a portion of these properties for the purposes of rendering services and conducting management activities. The rental revenues are recorded under net sales or other income and the rental costs are recorded under cost of sales, selling, general and administrative expenses or other, net, as part of other expenses, in the consolidated statements of operations.

22. 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 consolidated subsidiaries for the years ended March 31, 2009 and 2010 are outlined as follows:

Business Segments

	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

22. Segment Information (continued)

Business Segments (continued)

	Millions of yen					
	Year ended March 31, 2010					
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	¥119,314	¥ 8,126	¥ 4,979	¥132,419	¥ –	¥132,419
Intersegment sales and transfers	0	–	2,986	2,986	(2,986)	–
Net sales	119,314	8,126	7,965	135,405	(2,986)	132,419
Operating expenses	118,190	7,693	6,946	132,829	(2,411)	130,418
Operating income	¥ 1,124	¥ 433	¥ 1,019	¥ 2,576	¥ (575)	¥ 2,001
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	¥ 97,078	¥ 7,897	¥17,158	¥122,133	¥57,780	¥179,913
Depreciation and amortization	4,938	540	320	5,798	101	5,899
Loss on impairment of fixed assets	17	–	10	27	0	27
Capital expenditures	5,075	340	52	5,467	18	5,485

	Thousands of U.S. dollars					
	Year ended March 31, 2010					
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:						
Sales to third parties	$1,282,395	$ 87,339	$ 53,514	$1,423,248	$ –	$1,423,248
Intersegment sales and transfers	0	–	32,094	32,094	(32,094)	–
Net sales	1,282,395	87,339	85,608	1,455,342	(32,094)	1,423,248
Operating expenses	1,270,314	82,685	74,656	1,427,655	(25,914)	1,401,741
Operating income	$ 12,081	$ 4,654	$ 10,952	$ 27,687	$ (6,180)	$ 21,507
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	$1,043,401	$ 84,877	$184,415	$1,312,693	$ 621,024	$1,933,717
Depreciation and amortization	53,074	5,804	3,439	62,317	1,086	63,403
Loss on impairment of fixed assets	183	–	107	290	0	290
Capital expenditures	54,547	3,654	559	58,760	193	58,953

22. Segment Information (continued)

Business Segments (continued)

As described in Note 2(a), effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have applied "Accounting Standard for Construction Contracts" (ASBJ Statement No.15 issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18 issued on December 27, 2007). As a result, sales to third parties and operating income in the steel sheet products segment for the year ended March 31, 2010 increased by ¥99 million ($1,064 thousand), and ¥15 million ($161 thousand), respectively, from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 2(c), previously, the cost method based on the average method was principally applied 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 issued on July 5, 2006) 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 and ¥97 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 2(e), 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 issued on May 17, 2006) 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 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, ¥19 million and ¥1 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.

22. Segment Information (continued)

Geographical Segments (continued)

	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

	Millions of yen				
	Year ended March 31, 2010				
	Japan	Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:					
Sales to third parties	¥ 93,147	¥ 39,272	¥ 132,419	¥ –	¥ 132,419
Intersegment sales and transfers	13	–	13	(13)	–
Net sales	93,160	39,272	132,432	(13)	132,419
Operating expenses	90,716	39,140	129,856	562	130,418
Operating income	¥ 2,444	¥ 132	¥ 2,576	¥ (575)	¥ 2,001
II. Total assets	¥ 107,375	¥ 25,331	¥ 132,706	¥ 47,207	¥ 179,913

	Thousands of U.S. dollars				
	Year ended March 31, 2010				
	Japan	Asia	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income:					
Sales to third parties	$ 1,001,150	$ 422,098	$ 1,423,248	$ –	$ 1,423,248
Intersegment sales and transfers	140	–	140	(140)	–
Net sales	1,001,290	422,098	1,423,388	(140)	1,423,248
Operating expenses	975,022	420,679	1,395,701	6,040	1,401,741
Operating income	$ 26,268	$ 1,419	$ 27,687	$ (6,180)	$ 21,507
II. Total assets	$ 1,154,074	$ 272,259	$ 1,426,333	$ 507,384	$ 1,933,717

22. Segment Information (continued)

Geographical Segments (continued)

The principal country in the Asia segment is Taiwan.

As described in Note 2(a), effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have applied "Accounting Standard for Construction Contracts" (ASBJ Statement No.15 issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18 issued on December 27, 2007). As a result, sales to third parties and operating income in the Japan segment for the year ended March 31, 2010 increased by ¥99 million ($1,064 thousand) and ¥15 million ($161 thousand), respectively, from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 2(c), previously, the cost method based on the average method was principally applied 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 issued on July 5, 2006) 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 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(e), 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 issued on May 17, 2006) has been applied. As a result, operating expenses in the Asia segment for the year ended March 31, 2009 increased by ¥7 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), 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 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.

22. Segment Information (continued)

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, 2009 and 2010 are summarized as follows:

	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%

	Millions of yen		
	Year ended March 31, 2010		
	Asia	Other	Total
Overseas sales	¥ 32,886	¥ 15,752	¥ 48,638
Consolidated net sales			132,419
Overseas sales as a percentage of consolidated net sales	24.8%	11.9%	36.7%

	Thousands of U.S. dollars		
	Year ended March 31, 2010		
	Asia	Other	Total
Overseas sales	$353,461	$169,303	$ 522,764
Consolidated net sales			1,423,248

23. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2010, was approved at a meeting of the Board of Directors held on May 14, 2010:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends of ¥5 ($0.05) per share	¥ 834	$ 8,964