

**Consolidated Financial Statements**

**Yodogawa Steel Works, Ltd.**

*Years ended March 31, 2011 and 2012  
with Independent Auditor's Report*

Yodogawa Steel Works, Ltd.  
Consolidated Financial Statements  
Years ended March 31, 2011 and 2012

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## Independent Auditor's Report

The Board of Directors  
Yodogawa Steel Works, Ltd.

We have audited the accompanying consolidated financial statements of Yodogawa Steel Works, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yodogawa Steel Works, Ltd. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 26, 2012  
Osaka, Japan

*Ernst & Young ShinNihon LLC*

Yodogawa Steel Works, Ltd.

Consolidated Balance Sheets

March 31, 2011 and 2012

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and deposits ( <i>Notes 3, 5 and 12</i> )	¥ 14,867	¥ 22,724	\$ 276,481
Marketable securities ( <i>Notes 3, 5 and 6</i> )	15,272	11,309	137,596
Notes and accounts receivable ( <i>Notes 4 and 5</i> ):			
Unconsolidated subsidiaries and affiliates ( <i>Note 23</i> )	10,611	12,496	152,038
Trade	21,453	23,081	280,825
Less allowance for doubtful receivables	(235)	(198)	(2,409)
Inventories ( <i>Note 7</i> )	27,783	25,895	315,063
Deferred income taxes ( <i>Note 15</i> )	668	804	9,782
Other current assets ( <i>Note 3</i> )	3,181	4,138	50,346
Total current assets	<u>93,600</u>	<u>100,249</u>	<u>1,219,722</u>
<b>Property, plant and equipment:</b>			
Land ( <i>Notes 8, 18 and 24</i> )	18,817	18,337	223,105
Buildings and structures ( <i>Notes 8 and 24</i> )	50,641	49,885	606,947
Machinery, equipment and vehicles	126,156	124,567	1,515,598
Leased assets	75	85	1,034
Construction in progress	378	478	5,816
Less accumulated depreciation	<u>(148,500)</u>	<u>(149,701)</u>	<u>(1,821,401)</u>
Property, plant and equipment, net ( <i>Note 25</i> )	47,567	43,651	531,099
<b>Investments and other assets:</b>			
Investments in securities ( <i>Notes 5, 6 and 12</i> )	25,299	24,229	294,792
Investments in unconsolidated subsidiaries and affiliates ( <i>Note 25</i> )	4,735	6,114	74,389
Deferred income taxes ( <i>Note 15</i> )	761	546	6,643
Other assets ( <i>Note 12</i> )	<u>3,207</u>	<u>3,167</u>	<u>38,533</u>
Total investments and other assets	34,002	34,056	414,357
Total assets ( <i>Note 25</i> )	<u>¥ 175,169</u>	<u>¥ 177,956</u>	<u>\$ 2,165,178</u>

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
<b>Liabilities and net assets</b>			
Current liabilities:			
Current portion of finance lease obligations	¥ 17	¥ 19	\$ 231
Notes and accounts payable ( <i>Notes 4 and 5</i> ):			
Unconsolidated subsidiaries and affiliates	945	791	9,624
Trade	14,981	14,288	173,841
Construction	1,042	1,333	16,219
Accrued expenses	3,234	3,467	42,183
Accrued income taxes ( <i>Note 15</i> )	561	2,489	30,283
Other current liabilities ( <i>Note 12</i> )	1,899	3,469	42,207
Total current liabilities	<u>22,679</u>	<u>25,856</u>	<u>314,588</u>
Long-term liabilities:			
Accrued retirement benefits for employees ( <i>Note 14</i> )	7,418	6,988	85,023
Accrued retirement benefits for directors and corporate auditors	58	69	840
Guarantee deposits ( <i>Note 10</i> )	3,450	3,282	39,932
Finance lease obligations, less current portion	42	32	389
Negative goodwill ( <i>Note 25</i> )	74	36	438
Deferred income taxes ( <i>Note 15</i> )	1,048	652	7,933
Deferred income taxes on land revaluation reserve ( <i>Note 15</i> )	1,041	919	11,181
Other long-term liabilities	402	406	4,939
Total long-term liabilities	<u>13,533</u>	<u>12,384</u>	<u>150,675</u>
Contingent liabilities ( <i>Note 13</i> )			
Net assets:			
Shareholders' equity ( <i>Note 17</i> ):			
Common stock:			
Authorized: 753,814,067 shares in 2011 and 2012			
Issued: 184,186,153 shares in 2011 and 2012	23,221	23,221	282,528
Capital surplus	23,739	23,497	285,886
Retained earnings ( <i>Note 26</i> )	88,288	90,758	1,104,247
Treasury stock, at cost – 23,913,491 shares in 2011 and 24,976,317 shares in 2012	(9,275)	(9,628)	(117,143)
Total shareholders' equity	<u>125,973</u>	<u>127,848</u>	<u>1,555,518</u>
Accumulated other comprehensive income (loss):			
Unrealized holding gain on securities ( <i>Note 6</i> )	3,995	3,817	46,441
Land revaluation reserve ( <i>Note 18</i> )	1,386	1,561	18,993
Translation adjustments	(4,474)	(5,293)	(64,400)
Total accumulated other comprehensive income	907	85	1,034
Stock acquisition rights	110	119	1,448
Minority interests	11,967	11,664	141,915
Total net assets	<u>138,957</u>	<u>139,716</u>	<u>1,699,915</u>
Total liabilities and net assets	<u>¥ 175,169</u>	<u>¥ 177,956</u>	<u>\$ 2,165,178</u>

*See accompanying notes to consolidated financial statements.*

Yodogawa Steel Works, Ltd.  
Consolidated Statements of Income  
Years ended March 31, 2011 and 2012

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Net sales (Notes 23, 24 and 25)	¥ 144,774	¥ 152,777	\$ 1,858,827
Cost of sales (Note 24)	126,976	132,417	1,611,108
Gross profit	17,798	20,360	247,719
Selling, general and administrative expenses (Notes 17, 19 and 24)	13,574	13,946	169,680
Operating income (Note 25)	4,224	6,414	78,039
Other income (expenses):			
Interest and dividend income	618	795	9,673
Interest expense	(50)	(51)	(620)
Gain on insurance claims	124	85	1,034
Foreign exchange (loss) gain, net	(140)	49	596
Amortization of negative goodwill (Note 25)	38	38	462
Equity in (loss) earnings of an affiliate	(95)	210	2,555
Gain (loss) on revaluation of derivatives	58	(85)	(1,034)
Expenses related to employees seconded to overseas unconsolidated subsidiaries	(55)	(95)	(1,156)
(Loss) gain on sales or disposal of property, plant and equipment, net	(91)	109	1,326
Gain on compensation	-	100	1,217
Loss on impairment of investments in securities (Note 6)	(798)	(53)	(645)
Loss on impairment of fixed assets (Notes 8, 24 and 25)	(51)	(125)	(1,521)
Loss on disaster (Note 9)	(608)	(18)	(219)
Loss on adjustment due to application of accounting standard for asset retirement obligations	(215)	-	-
Other, net (Notes 24 and 25)	36	148	1,800
Income before income taxes and minority interests	2,995	7,521	91,507
Income taxes (Note 15):			
Current	678	2,816	34,262
Deferred	468	229	2,786
	1,146	3,045	37,048
Income before minority interests	1,849	4,476	54,459
Minority interests	(122)	(632)	(7,689)
Net income	¥ 1,727	¥ 3,844	\$ 46,770

*See accompanying notes to consolidated financial statements.*

Yodogawa Steel Works, Ltd.

Consolidated Statements of Comprehensive Income (Loss)

Years ended March 31, 2011 and 2012

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Income before minority interests	¥ 1,849	¥ 4,476	\$ 54,459
Other comprehensive income (loss) <i>(Note 16)</i> :			
Unrealized holding loss on securities	(2,084)	(192)	(2,336)
Land revaluation reserve	–	122	1,484
Translation adjustments	(528)	(1,587)	(19,309)
Share of other comprehensive (loss) income of an affiliate accounted for by the equity method	(4)	44	536
Total other comprehensive loss	(2,616)	(1,613)	(19,625)
Comprehensive (loss) income	¥ (767)	¥ 2,863	\$ 34,834
Comprehensive (loss) income attributable to:			
Shareholders of Yodogawa Steel Works, Ltd.	¥ (572)	¥ 3,003	\$ 36,537
Minority shareholders of consolidated subsidiaries	(195)	(140)	(1,703)

*See accompanying notes to consolidated financial statements.*

# Yodogawa Steel Works, Ltd.

## Consolidated Statements of Changes in Net Assets

Years ended March 31, 2011 and 2012

*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 accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 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
Cash dividends	-	-	-	(1,645)	-	(1,645)	-	-	-	-	-	-	(1,645)
Net income	-	-	-	1,727	-	1,727	-	-	-	-	-	-	1,727
Acquisition of treasury stock	-	-	-	-	(1,877)	(1,877)	-	-	-	-	-	-	(1,877)
Disposition of treasury stock	-	-	(16)	-	31	15	-	-	-	-	-	-	15
Reversal of land revaluation reserve	-	-	-	(65)	-	(65)	-	-	-	-	-	-	(65)
Other changes	-	-	-	-	-	-	(2,024)	65	(275)	(2,234)	15	(318)	(2,537)
Balance at April 1, 2011	184,186,153	¥ 23,221	¥ 23,739	¥ 88,288	¥ (9,275)	¥ 125,973	¥ 3,995	¥ 1,386	¥ (4,474)	¥ 907	¥ 110	¥ 11,967	¥ 138,957
Cash dividends	-	-	-	(1,597)	-	(1,597)	-	-	-	-	-	-	(1,597)
Net income	-	-	-	3,844	-	3,844	-	-	-	-	-	-	3,844
Acquisition of treasury stock	-	-	-	-	(358)	(358)	-	-	-	-	-	-	(358)
Disposition of treasury stock	-	-	0	-	5	5	-	-	-	-	-	-	5
Reversal of land revaluation reserve	-	-	-	(19)	-	(19)	-	-	-	-	-	-	(19)
Transfer to retained earnings from capital surplus	-	-	(242)	242	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	(178)	175	(819)	(822)	9	(303)	(1,116)
Balance at March 31, 2012	184,186,153	¥ 23,221	¥ 23,497	¥ 90,758	¥ (9,628)	¥ 127,848	¥ 3,817	¥ 1,561	¥ (5,293)	¥ 85	¥ 119	¥ 11,664	¥ 139,716



# Yodogawa Steel Works, Ltd.

## Consolidated Statements of Changes in Net Assets (continued)

Years ended March 31, 2011 and 2012

*Thousands of U.S. dollars (Note 2)*

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Land revaluation reserve	Translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2011	\$ 282,528	\$ 288,831	\$ 1,074,194	\$(112,848)	\$ 1,532,705	\$ 48,607	\$ 16,863	\$ (54,435)	\$ 11,035	\$ 1,338	\$ 145,602	\$ 1,690,680
Cash dividends	-	-	(19,431)	-	(19,431)	-	-	-	-	-	-	(19,431)
Net income	-	-	46,770	-	46,770	-	-	-	-	-	-	46,770
Acquisition of treasury stock	-	-	-	(4,356)	(4,356)	-	-	-	-	-	-	(4,356)
Disposition of treasury stock	-	0	-	61	61	-	-	-	-	-	-	61
Reversal of land revaluation reserve	-	-	(231)	-	(231)	-	-	-	-	-	-	(231)
Transfer to retained earnings from capital surplus	-	(2,945)	2,945	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	(2,166)	2,130	(9,965)	(10,001)	110	(3,687)	(13,578)
Balance at March 31, 2012	\$ 282,528	\$ 285,886	\$ 1,104,247	\$(117,143)	\$ 1,555,518	\$ 46,441	\$ 18,993	\$ (64,400)	\$ 1,034	\$ 1,448	\$ 141,915	\$ 1,699,915

*See accompanying notes to consolidated financial statements.*

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2012

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 2,995	¥ 7,521	\$ 91,507
Adjustments for:			
Depreciation and amortization	5,596	4,881	59,387
Amortization of negative goodwill	(38)	(38)	(462)
Equity in loss (earnings) of an affiliate	95	(210)	(2,555)
Increase (decrease) in accrued retirement benefits	113	(264)	(3,212)
Increase in accrued bonuses	25	52	633
Increase (decrease) in allowance for doubtful receivables	32	(69)	(840)
Interest and dividend income	(618)	(795)	(9,673)
Interest expense	50	51	620
(Gain) loss on sales of investments in securities	(10)	18	219
Loss on impairment of investments in securities	798	53	645
Loss (gain) on sales or disposal of property, plant and equipment, net	91	(109)	(1,326)
Loss on impairment of fixed assets	51	125	1,521
Decrease (increase) in notes and accounts receivable	950	(3,673)	(44,689)
(Increase) decrease in inventories	(1,528)	1,521	18,506
Decrease in notes and accounts payable	(378)	(760)	(9,247)
(Gain) loss on revaluation of derivatives	(58)	85	1,034
Other	243	(414)	(5,037)
Subtotal	<u>8,409</u>	<u>7,975</u>	<u>97,031</u>
Insurance claims received	124	85	1,034
Interest and dividends received	673	835	10,159
Interest paid	(49)	(51)	(620)
Income taxes paid	(251)	(871)	(10,597)
Net cash provided by operating activities	<u>¥ 8,906</u>	<u>¥ 7,973</u>	<u>\$ 97,007</u>

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Cash Flows (continued)

Years ended March 31, 2011 and 2012

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
<b>Cash flows from investing activities:</b>			
Investments in time deposits with a maturity of more than three months	¥ (929)	¥ (700)	\$ (8,517)
Proceeds from time deposits with a maturity of more than three months	862	813	9,892
Proceeds from sales of marketable securities	800	900	10,950
Purchases of property, plant and equipment	(2,019)	(1,904)	(23,166)
Proceeds from sales of property, plant and equipment	146	323	3,930
Purchases of intangible fixed assets	(33)	(25)	(304)
Purchases of investments in securities	(823)	(920)	(11,193)
Payments for investments in unconsolidated subsidiaries	(245)	(1,180)	(14,357)
Proceeds from sales of investments in securities	146	1,123	13,663
Payment for loans receivable	(462)	(264)	(3,212)
Collection of loans receivable	410	364	4,429
Other	(1)	1	12
Net cash used in investing activities	(2,148)	(1,469)	(17,873)
<b>Cash flows from financing activities:</b>			
Proceeds from sales of treasury stock	14	5	61
Purchases of treasury stock	(1,874)	(355)	(4,319)
Cash dividends paid to the Company's shareholders	(1,656)	(1,609)	(19,577)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(113)	(158)	(1,922)
Other	(14)	(18)	(219)
Net cash used in financing activities	(3,643)	(2,135)	(25,976)
Effect of exchange rate changes on cash and cash equivalents	(55)	(294)	(3,578)
Net increase in cash and cash equivalents	3,060	4,075	49,580
Cash and cash equivalents at beginning of the year	26,690	29,750	361,966
Cash and cash equivalents at end of the year (Note 3)	¥ 29,750	¥ 33,825	\$ 411,546

See accompanying notes to consolidated financial statements.

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements

March 31, 2012

### 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.

#### (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.

All assets and liabilities of the consolidated subsidiaries are revalued on acquisition, if applicable. The difference between the cost of investments in subsidiaries and the equity in their net assets at their respective dates of acquisition is amortized over a period of 5 years on a straight-line basis. Negative goodwill arising from transactions that occurred on or after April 1, 2010 is credited to income when incurred.

The financial statements of certain consolidated subsidiaries 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 their fiscal year end to the Company’s balance sheet date.

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### (c) Foreign currency translation

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

The balance sheet accounts of the overseas consolidated subsidiaries (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.

#### (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.

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### (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 one of the overseas consolidated subsidiaries 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 one of the overseas consolidated subsidiaries 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.

#### (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.

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 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

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 principally 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 principally 10 years, which is within the estimated average remaining years of service of the eligible employees.

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### (n) Retirement benefits (continued)

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 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.

#### (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.

#### *Supplementary Information*

Effective the year ended March 31, 2012, the Company and its consolidated subsidiaries applied "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No.24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 issued on December 4, 2009).

### 2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥82.19 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2012. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.



## Yodogawa Steel Works, Ltd.

### Notes to Consolidated Financial Statements (continued)

#### 3. 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, 2011 and 2012 is presented as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Cash and deposits	¥ 14,867	¥ 22,724	\$ 276,481
Investment trust funds included in “Marketable securities”	14,302	10,303	125,356
Beneficiary interests in trusts included in “Other current assets”	1,000	1,000	12,167
Time deposits with a maturity of more than three months	(419)	(202)	(2,458)
Cash and cash equivalents	<u>¥ 29,750</u>	<u>¥ 33,825</u>	<u>\$ 411,546</u>

#### 4. Notes Receivable and Notes Payable

Although the balance sheet date for the year ended March 31, 2012 fell on a bank holiday, notes receivable, unconsolidated subsidiaries and affiliates of ¥89 million (\$1,083 thousand), notes receivable, trade of ¥759 million (\$9,235 thousand), notes payable, trade of ¥434 million (\$5,280 thousand), and notes payable, construction of ¥44 million (\$535 thousand) with maturity date of March 31, 2012 were excluded from the respective balances but were settled on the next business day.

#### 5. Financial Instruments

##### *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.

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 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.

Investments in securities and marketable 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).

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 5. Financial Instruments (continued)

#### *Overview (continued)*

#### (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.

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 has entered into the line-of-credit agreements with certain financial institutions and its overseas consolidated subsidiary is able to obtain short-term borrowings from certain financial institutions.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**5. Financial Instruments (continued)**

*Overview (continued)*

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

The fair value of financial instruments is based on their quoted market prices, if available. When there are no quoted market prices 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.

***Estimated Fair Value of Financial Instruments***

Carrying value of financial instruments on the consolidated balance sheets, estimated fair value and unrealized loss as of March 31, 2011 and 2012 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.

	<i>Millions of yen</i>		
	<b>2011</b>		
	Carrying value	Estimated fair value	Unrealized loss
<b>Assets:</b>			
Cash and deposits	¥ 14,867	¥ 14,867	¥ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	10,611	10,611	–
Trade	21,453	21,453	–
Marketable securities and investments in securities	32,070	31,659	(411)
<b>Total assets</b>	<b>¥ 79,001</b>	<b>¥ 78,590</b>	<b>¥ (411)</b>
<b>Liabilities:</b>			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	¥ 945	¥ 945	¥ –
Trade	14,981	14,981	–
<b>Total liabilities</b>	<b>¥ 15,926</b>	<b>¥ 15,926</b>	<b>¥ –</b>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Financial Instruments (continued)

*Estimated Fair Value of Financial Instruments (continued)*

	<i>Millions of yen</i>		
	<b>2012</b>		
	<u>Carrying value</u>	<u>Estimated fair value</u>	<u>Unrealized loss</u>
<b>Assets:</b>			
Cash and deposits	¥ 22,724	¥ 22,724	¥ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	12,496	12,496	–
Trade	23,081	23,081	–
Marketable securities and investments in securities	28,293	27,917	(376)
Total assets	<u>¥ 86,594</u>	<u>¥ 86,218</u>	<u>¥ (376)</u>
<b>Liabilities:</b>			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	¥ 791	¥ 791	¥ –
Trade	14,288	14,288	–
Total liabilities	<u>¥ 15,079</u>	<u>¥ 15,079</u>	<u>¥ –</u>
	<i>Thousands of U.S. dollars</i>		
	<b>2012</b>		
	<u>Carrying value</u>	<u>Estimated fair value</u>	<u>Unrealized loss</u>
<b>Assets:</b>			
Cash and deposits	\$ 276,481	\$ 276,481	\$ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	152,038	152,038	–
Trade	280,825	280,825	–
Marketable securities and investments in securities	344,239	339,664	(4,575)
Total assets	<u>\$ 1,053,583</u>	<u>\$ 1,049,008</u>	<u>\$ (4,575)</u>
<b>Liabilities:</b>			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	\$ 9,624	\$ 9,624	\$ –
Trade	173,841	173,841	–
Total liabilities	<u>\$ 183,465</u>	<u>\$ 183,465</u>	<u>\$ –</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**5. Financial Instruments (continued)**

*Estimated Fair Value of Financial Instruments (continued)*

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

*Cash, deposits, notes and accounts receivable*

Since these items are settled in a short period of time, their carrying value approximates the 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 this item is settled in a short period of time, its carrying value approximates the fair value.

The carrying value of financial instruments without determinable market value at March 31, 2011 and 2012 is presented as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Unlisted stocks	¥ 304	¥ 297	\$ 3,613
Money trusts	4,303	3,804	46,283
Negotiable certificates of deposit	3,000	2,000	24,334
Investment in a limited liability partnership	361	287	3,492
Preferred stocks	533	857	10,427
<b>Total</b>	<b>¥ 8,501</b>	<b>¥ 7,245</b>	<b>\$ 88,149</b>

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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

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, 2011 and 2012 is as follows:

<i>Millions of yen</i>				
<b>2011</b>				
	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	¥ 14,798	¥ –	¥ –	¥ –
Notes and accounts receivable	32,064	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	70	410	–	–
Corporate bonds	7,900	–	500	2,500
Other marketable securities with maturities				
Other	7,100	–	–	–
Total	<u>¥ 61,932</u>	<u>¥ 410</u>	<u>¥ 500</u>	<u>¥ 2,500</u>
<i>Millions of yen</i>				
<b>2012</b>				
	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	¥ 22,681	¥ –	¥ –	¥ –
Notes and accounts receivable	35,577	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	6	10	20	–
Corporate bonds	5,500	–	500	2,500
Other marketable securities with maturities				
Bonds	–	300	200	–
Other	5,600	–	–	–
Total	<u>¥ 69,364</u>	<u>¥ 310</u>	<u>¥ 720</u>	<u>¥ 2,500</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

5. Financial Instruments (continued)

*Estimated Fair Value of Financial Instruments (continued)*

	<i>Thousands of U.S. dollars</i>			
	<b>2012</b>			
	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	\$ 275,958	\$ –	\$ –	\$ –
Notes and accounts receivable	432,863	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	73	122	243	–
Corporate bonds	66,918	–	6,084	30,417
Other marketable securities with maturities				
Bonds	–	3,650	2,433	–
Other	68,135	–	–	–
Total	<u>\$ 843,947</u>	<u>\$ 3,772</u>	<u>\$ 8,760</u>	<u>\$ 30,417</u>



Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**6. Securities**

Marketable securities classified as held-to-maturity debt securities at March 31, 2011 and 2012 are summarized as follows:

	<i>Millions of yen</i>		
	<b>2011</b>		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 480	¥ 485	¥ 5
Corporate bonds	1,829	1,834	5
	<u>2,309</u>	<u>2,319</u>	<u>10</u>
Securities whose estimated fair value does not exceed their carrying value:			
Corporate bonds	8,827	8,405	(422)
	<u>8,827</u>	<u>8,405</u>	<u>(422)</u>
Total	<u>¥ 11,136</u>	<u>¥ 10,724</u>	<u>¥ (412)</u>

	<i>Millions of yen</i>		
	<b>2012</b>		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 16	¥ 16	¥ 0
Corporate bonds	1,433	1,461	28
	<u>1,449</u>	<u>1,477</u>	<u>28</u>
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	20	20	(0)
Corporate bonds	6,742	6,339	(403)
	<u>6,762</u>	<u>6,359</u>	<u>(403)</u>
Total	<u>¥ 8,211</u>	<u>¥ 7,836</u>	<u>¥ (375)</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Securities (continued)

	<i>Thousands of U.S. dollars</i>		
	<b>2012</b>		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	\$ 195	\$ 195	\$ 0
Corporate bonds	17,435	17,775	340
	<u>17,630</u>	<u>17,970</u>	<u>340</u>
Securities whose estimated fair value does not exceed their carrying value:			
Government bonds	243	243	(0)
Corporate bonds	82,030	77,127	(4,903)
	<u>82,273</u>	<u>77,370</u>	<u>(4,903)</u>
Total	<u>\$ 99,903</u>	<u>\$ 95,340</u>	<u>\$ (4,563)</u>

Other securities with determinable market value at March 31, 2011 and 2012 are summarized as follows:

	<i>Millions of yen</i>		
	<b>2011</b>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 9,847	¥ 16,406	¥ 6,559
Corporate bonds	490	497	7
	<u>10,337</u>	<u>16,903</u>	<u>6,566</u>
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	3,589	3,436	(153)
Corporate bonds	500	500	-
Other	97	95	(2)
	<u>4,186</u>	<u>4,031</u>	<u>(155)</u>
Total	<u>¥ 14,523</u>	<u>¥ 20,934</u>	<u>¥ 6,411</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Securities (continued)

	<i>Millions of yen</i>		
	<b>2012</b>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 8,742	¥ 15,322	¥ 6,580
Corporate bonds	500	503	3
	<u>9,242</u>	<u>15,825</u>	<u>6,583</u>
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	4,561	3,659	(902)
Corporate bonds	501	501	-
Other	98	97	(1)
	<u>5,160</u>	<u>4,257</u>	<u>(903)</u>
Total	<u>¥ 14,402</u>	<u>¥ 20,082</u>	<u>¥ 5,680</u>

	<i>Thousands of U.S. dollars</i>		
	<b>2012</b>		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 106,363	\$ 186,422	\$ 80,059
Corporate bonds	6,084	6,120	36
	<u>112,447</u>	<u>192,542</u>	<u>80,095</u>
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	55,493	44,518	(10,975)
Corporate bonds	6,096	6,096	-
Other	1,192	1,180	(12)
	<u>62,781</u>	<u>51,794</u>	<u>(10,987)</u>
Total	<u>\$ 175,228</u>	<u>\$ 244,336</u>	<u>\$ 69,108</u>

Sales of securities classified as other securities for the years ended March 31, 2011 and 2012 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Sales	¥ 121	¥ 138	\$ 1,679
Aggregate gain	54	37	450
Aggregate loss	(29)	(42)	(511)

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**6. Securities (continued)**

Sales of securities classified as held-to-maturity debt securities for the year ended March 31, 2012 are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2012</b>	<b>2012</b>
Sales	¥ 405	\$ 4,928
Costs of securities sold	401	4,879
Aggregate gain	4	49

The sales of held-to-maturity debt securities by a consolidated subsidiary resulted from the favorable impact of a rise in the price of the Japanese national government bonds.

There were no sales of securities classified as held-to-maturity debt securities for the year ended March 31, 2011.

The Group recorded losses on impairment of investments in securities with determinable market value of ¥231 million and ¥53 million (\$645 thousand) for the years ended March 31, 2011 and 2012, respectively.

**7. Inventories**

The following is a summary of inventories at March 31, 2011 and 2012:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Finished goods	¥ 11,530	¥ 13,112	\$ 159,533
Work in process	3,849	3,427	41,696
Raw materials and supplies	12,404	9,356	113,834
	<b>¥ 27,783</b>	<b>¥ 25,895</b>	<b>\$ 315,063</b>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**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, 2011 and 2012 as follows:

Location	Use	Classification	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
			2011	2012	2012
Kure City, Hiroshima Prefecture	Idle assets	Land	¥ 8	¥ 10	\$ 122
Miyazaki City, Miyazaki Prefecture	Idle assets	Land	–	107	1,302
Gobou City, Wakayama Prefecture	Idle assets	Land	–	5	61
Village of Hakuba, Nagano Prefecture	Idle assets	Land	0	1	12
Ishioka City, Ibaraki Prefecture	Idle assets	Land	1	2	24
Nerima City, Tokyo Prefecture	Idle assets	Buildings	–	0	0
Suzaka City, Nagano Prefecture	Idle assets	Land	0	0	0
Mikuni City, Fukui Prefecture	Idle assets	Land	7	–	–
Hiki District, Saitama Prefecture	Idle assets	Land	35	–	–
<b>Total</b>			<b>¥ 51</b>	<b>¥125</b>	<b>\$ 1,521</b>

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 not utilized in their operations on an individual asset basis.

Consequently, the Company and its consolidated subsidiaries have written down the carrying values of the idle assets owned by the Company and its consolidated subsidiaries for the years ended March 31, 2011 and 2012, which are not expected to be utilized in the future, to their respective net recoverable values, and have recorded a related loss on impairment of fixed assets of ¥51 million and ¥125 million (\$1,521 thousand) for the years ended March 31, 2011 and 2012, respectively. This loss on impairment of fixed assets consisted of land of ¥51 million for the year ended March 31, 2011, and land of ¥125 million (\$1,521 thousand) and buildings of ¥0 million (\$0 thousand) for the year ended March 31, 2012. 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.

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 9. Loss on Disaster

In connection with the Great East Japan Earthquake in March 2011, the Group recorded a loss on disaster consisting of fixed costs for manufacturing incurred during suspensions of operations of its plants and a provision for repair expense for property, plant and equipment for the year ended March 31, 2011 and repair expense for property, plant and equipment for the year ended March 31, 2012.

### 10. 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 0.73% and 0.8% at March 31, 2011 and 2012, respectively.

Interest-free deposits and interest-bearing deposits at March 31, 2011 and 2012 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Interest-free deposits	¥ 2,765	¥ 2,581	\$ 31,403
Interest-bearing deposits	685	701	8,529
	<u>¥ 3,450</u>	<u>¥ 3,282</u>	<u>\$ 39,932</u>

### 11. 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, 2011 and 2012 was as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Lines of credit	¥ 20,200	¥ 19,450	\$ 236,647
Credit utilized	—	—	—
Available credit	<u>¥ 20,200</u>	<u>¥ 19,450</u>	<u>\$ 236,647</u>

## Yodogawa Steel Works, Ltd.

### Notes to Consolidated Financial Statements (continued)

#### 12. Pledged Assets

Assets pledged as collateral for indebtedness at March 31, 2011 and 2012 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Cash and deposits	¥ 60	¥ 60	\$ 730
Investments in securities	16	16	195
Other assets	167	167	2,032
	¥ 243	¥ 243	\$ 2,957

Indebtedness secured by these assets as collateral was ¥51 million and ¥52 million (\$633 thousand), a component of other current liabilities at March 31, 2011 and 2012 respectively.

#### 13. Contingent Liabilities

The Company was contingently liable for guarantees of borrowings from financial institutions and others of an unconsolidated subsidiary in the aggregate amount of ¥58 million (\$706 thousand) at March 31, 2012.

#### 14. Retirement Benefits

The Company and its domestic consolidated subsidiaries have two types of defined benefit retirement plans: a defined benefit pension plan and a lump sum payment plan. Moreover, one of overseas consolidated subsidiaries has a defined benefit pension plan. Additional severance payments may also be provided at the time an employee leaves the Company and its domestic consolidated subsidiaries. Furthermore, the Company has adopted a retirement allowance trust.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**14. Retirement Benefits (continued)**

The funded and accrued status of the employees' defined-benefits retirement plans of the Group, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2011 and 2012 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Retirement benefit obligation	¥(12,779)	¥ (12,597)	\$ (153,267)
Plan assets at fair value	3,929	3,768	45,845
Unfunded retirement benefit obligation	(8,850)	(8,829)	(107,422)
Unrecognized actuarial loss	2,134	2,484	30,223
Unrecognized prior service cost	(16)	(15)	(183)
Net retirement benefit obligation	(6,732)	(6,360)	(77,382)
Prepaid pension cost	686	628	7,641
Accrued retirement benefits	¥ (7,418)	¥ (6,988)	\$ (85,023)

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, 2011 and 2012 are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Service cost	¥ 627	¥ 580	\$ 7,057
Interest cost	245	236	2,871
Expected return on plan assets	(88)	(73)	(888)
Amortization of actuarial loss	317	187	2,275
Amortization of prior service cost	—	(2)	(24)
Total	¥ 1,101	¥ 928	\$ 11,291

The retirement benefit expenses of certain domestic consolidated subsidiaries 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, 2011 and 2012 were as follows:

	<b>2011</b>	<b>2012</b>
Discount rate	Principally 2.0%	Principally 2.0%
Expected rates of return on plan assets	Principally 2.1%	Principally 2.0%



# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 15. 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, 2011 and 2012.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2011 as a percentage of income before income taxes and minority interests is as follows:

	<b>2011</b>
Statutory tax rate	40.5 %
Permanently non-deductible expenses	1.0
Per capita portion of inhabitants' taxes	1.8
Difference in tax rates applicable to the overseas consolidated subsidiary	(1.7)
Cash dividends received from the overseas consolidated subsidiary	0.9
Adjustments of accounting standards applied by the overseas consolidated subsidiary	1.1
Foreign tax credit	0.7
Tax loss carryforwards of consolidated subsidiaries	3.9
Valuation allowance	(4.2)
Permanently non-taxable income	(2.7)
Tax credit for research and development costs	(0.6)
Reversal of land revaluation reserve	(0.9)
Equity in loss of an affiliate	(1.2)
Other	(0.3)
Effective tax rate	38.3 %

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2012 was omitted because the difference between these rates was less than 5% of the statutory tax rate.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**15. Income Taxes (continued)**

The significant components of the deferred tax assets and liabilities of the Group at March 31, 2011 and 2012 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
			<i>U.S. dollars</i>
Deferred tax assets:			
Accrued retirement benefits	¥ 2,450	¥ 2,079	\$ 25,295
Allowance for doubtful receivables	98	62	754
Accrued enterprise taxes	68	175	2,129
Accrued bonuses	335	333	4,052
Valuation loss on inventories	170	296	3,601
Foreign tax credits	404	404	4,915
Tax loss carryforwards	783	582	7,081
Loss on impairment of investments in securities and golf-club memberships	914	844	10,269
Loss on impairment of fixed assets	167	147	1,789
Other	1,112	888	10,805
Gross deferred tax assets	6,501	5,810	70,690
Less valuation allowance	(2,768)	(2,399)	(29,189)
Total deferred tax assets	3,733	3,411	41,501
Deferred tax liabilities:			
Dividends from an overseas consolidated subsidiary	(36)	(113)	(1,375)
Unrealized holding gain on securities	(2,358)	(1,782)	(21,681)
Land revaluation reserve	(1,041)	(919)	(11,181)
Reserve for deferred taxation on contributions for acquisition of property	(823)	(694)	(8,444)
Other	(135)	(124)	(1,509)
Total deferred tax liabilities	(4,393)	(3,632)	(44,190)
Net deferred tax liabilities	¥ (660)	¥ (221)	\$ (2,689)

The “Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No.117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate tax effective for fiscal years beginning on or after April 1, 2012.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**15. Income Taxes (continued)**

In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.5% to 37.9% for temporary differences expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.5% to 35.5% for temporary differences expected to be realized during the fiscal year beginning on April 1, 2015 and thereafter.

The effect of the announced reduction of the effective statutory tax rate was to increase net deferred tax assets (after netting deferred tax liabilities) by ¥30 million (\$365 thousand), increase unrealized holding gain on securities by ¥280 million (\$3,407 thousand) and decrease income taxes-deferred by ¥250 million (\$3,042 thousand) as of and for the year ended March 31, 2012. In addition, the impact also decreased deferred income taxes on land revaluation reserve by ¥129 million (\$1,570 thousand) and increased land revaluation reserve by ¥166 million (\$2,020 thousand) as of March 31, 2012.

**16. Other Comprehensive Loss**

Reclassification adjustments and tax effects of other comprehensive loss for the year ended March 31, 2012 are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2012</b>	<b>2012</b>
Unrealized holding loss on securities:		
Loss arising during the year	¥ (842)	\$ (10,245)
Reclassification adjustments	75	913
Before tax effect	(767)	(9,332)
Tax effect	575	6,996
Total	(192)	(2,336)
Land revaluation reserve:		
Tax effect	122	1,484
Translation adjustments:		
Amount arising during the year	(1,587)	(19,309)
Share of other comprehensive income of an affiliate accounted for by the equity method:		
Amount arising during the year	44	536
Total	¥ (1,613)	\$ (19,625)

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 17. 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 legal reserve of the Company was nil at March 31, 2011 and 2012.

#### *Stock options*

Stock option expenses charged to income for the years ended March 31, 2011 and 2012 amounted to ¥29 million and ¥19 million (\$231 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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**17. 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, 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.

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.

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, 2010. Under the terms of this plan, up to 102,000 shares of common stock were granted at ¥1 (\$0.01) per share. The options became exercisable on July 30, 2010 and are scheduled to expire on June 29, 2030.

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, 2011. Under the terms of this plan, up to 98,000 shares of common stock were granted at ¥1 (\$0.01) per share. The options became exercisable on August 2, 2011 and are scheduled to expire on June 29, 2031.

*Treasury stock*

Movements in treasury stock during the years ended March 31, 2011 and 2012 are summarized as follows:

		<i>Number of shares</i>		
		<b>2011</b>		
	<u>April 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2011</u>
Treasury stock	18,479,353	5,497,138	63,000	23,913,491
		<i>Number of shares</i>		
		<b>2012</b>		
	<u>April 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2012</u>
Treasury stock	23,913,491	1,073,702	10,876	24,976,317

# Yodogawa Steel Works, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 18. 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, 2011 and 2012:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Land revalued at March 31, 2000	¥ (255)	¥ (280)	\$ (3,407)
Land revalued at March 31, 2002	(454)	(521)	(6,339)
	¥ (709)	¥ (801)	\$ (9,746)

A certain portion of land revalued at March 31, 2000 and 2002 is related to real estate for investment and rental at March 31, 2011 in the amounts of ¥14 million and ¥125 million, respectively.

A certain portion of land revalued at March 31, 2000 and 2002 is related to real estate for investment and rental at March 31, 2012 in the amounts of ¥15 million (\$183 thousand) and ¥196 million (\$2,385 thousand), respectively.

### 19. Research and Development Costs

Research and development costs included in selling, general and administrative expenses totaled ¥456 million and ¥457 million (\$5,560 thousand) for the years ended March 31, 2011 and 2012, respectively.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**20. Leases**

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2011 and 2012, 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 Group (currently accounted for as operating leases) were capitalized:

	<i>Millions of yen</i>					
	<b>2011</b>			<b>2012</b>		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥ 62	¥ 51	¥ 11	¥ 31	¥ 27	¥ 4

  

	<i>Thousands of U.S dollars</i>		
	<b>2012</b>		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	\$ 377	\$ 329	\$ 48

The related lease payments and depreciation for the years ended March 31, 2011 and 2012 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Lease payments	¥ 16	¥ 11	\$ 134
Depreciation	16	11	134

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, 2011 and 2012.

The related future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 under finance leases other than those which transfer the ownership of the leased assets to the Group are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2013	¥ 2
2014 and thereafter	2	24
	<u>¥ 4</u>	<u>\$ 48</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**21. Derivatives**

The open currency-related derivatives positions not designated as hedging instruments at March 31, 2012 are as follows:

Type of transaction	Thousands of New Taiwan dollars	Millions of yen			Thousands of U.S. dollars	
	Contract value (notional principal amount)	Contract value over one year	Estimated Fair Value	Unrealized Gain	Estimated Fair Value	Unrealized Gain
Over-the-counter transactions						
Forward foreign exchange contracts: Selling USD	TWD 174,802	TWD –	¥ 2	¥ 2	\$ 24	\$ 24

Fair value is based on the prices obtained from a financial institution.

The open currency-related derivatives positions designated as hedging instruments at March 31, 2011 and 2012 are as follows:

Method of hedge accounting	Hedge transactions and major hedged items	Millions of yen					
		2011			2012		
		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	¥ 518	¥ –	¥ –	¥ 719	¥ –	¥ –

  

Method of hedge accounting	Hedge transactions and major hedged items	Thousands of U.S. dollars		
		2012		
		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	\$ 8,748	\$ –	\$ –

The fair value of forward foreign exchange contracts that qualify for deferral hedge accounting is included in the carrying value of hedged accounts receivable.



## Yodogawa Steel Works, Ltd.

### Notes to Consolidated Financial Statements (continued)

#### 22. Amounts per Share

Amounts per share at March 31, 2011 and 2012 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>2011</b>	<b>2012</b>	<b>2012</b>
Net assets	¥ 791.65	¥ 803.55	\$ 9.77
Net income:			
Basic	10.57	24.07	0.29
Diluted	10.55	24.01	0.29
Cash dividends	10.00	10.00	0.12

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 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.

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.

#### 23. Transactions with Related Parties

Transactions and balances with related parties as of and for the years ended March 31, 2011 and 2012 are summarized as follows:

		<i>Transactions</i>		<i>Thousands of</i>
Name of affiliated company	Type of transaction	<i>Millions of yen</i>		<i>U.S. dollars</i>
		<b>2011</b>	<b>2012</b>	<b>2012</b>
	Sales	¥ 27,279	¥ 30,560	\$ 371,821
		<i>Balances</i>		
Sadoshima Corporation	Account name	<i>Millions of yen</i>		<i>Thousands of</i>
		<b>2011</b>	<b>2012</b>	<b>2012</b>
	Notes and accounts receivable	¥ 9,989	¥ 11,086	\$ 134,883

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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**24. Investment, Rental and Idle Properties**

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, 2011 and 2012 and the corresponding fair value of rental properties and idle properties are as follows:

	<i>Millions of yen</i>			Fair value <b>2011</b>
	Carrying value		2011	
	<b>2010</b>	<b>Net change</b>		
Rental properties and idle properties	¥ 4,874	¥ (129)	¥ 4,745	¥ 9,006
Properties of which a part are used as rental properties	5,002	(115)	4,887	11,796
<b>Total</b>	<b>¥ 9,876</b>	<b>¥ (244)</b>	<b>¥ 9,632</b>	<b>¥ 20,802</b>

	<i>Millions of yen</i>			Fair value <b>2012</b>
	Carrying value		2012	
	<b>2011</b>	<b>Net change</b>		
Rental properties and idle properties	¥ 4,745	¥ (319)	¥ 4,426	¥ 8,620
Properties of which a part are used as rental properties	4,887	(69)	4,818	9,641
<b>Total</b>	<b>¥ 9,632</b>	<b>¥ (388)</b>	<b>¥ 9,244</b>	<b>¥ 18,261</b>

	<i>Thousands of U.S. dollars</i>			Fair value <b>2012</b>
	Carrying value		2012	
	<b>2011</b>	<b>Net change</b>		
Rental properties and idle properties	\$ 57,732	\$ (3,881)	\$ 53,851	\$ 104,879
Properties of which a part are used as rental properties	59,460	(840)	58,620	117,301
<b>Total</b>	<b>\$ 117,192</b>	<b>\$ (4,721)</b>	<b>\$ 112,471</b>	<b>\$ 222,180</b>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**24. 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 for the year ended March 31, 2011 included decreases mainly due to impairment loss recognized in the amount of ¥9 million, translation adjustments in the amount of ¥35 million, disposal of buildings in the amount of ¥29 million and depreciation of buildings in the amount of ¥170 million.

The components of net change in carrying value for the year ended March 31, 2012 included decreases mainly due to impairment loss recognized in the amount of ¥125 million (\$1,521 thousand), translation adjustments in the amount of ¥99 million (\$1,205 thousand) and depreciation of buildings in the amount of ¥160 million (\$1,947 thousand).

Fair value of domestic rental properties are 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 obtained previously and adjusted as appropriately.

Fair value of rental properties in Taiwan is measured based on the property prices announced by the government.

Revenues, costs and expenses relevant to investment, rental and idle properties for the years ended March 31, 2011 and 2012 are as follows:

<i>Millions of yen</i>			
<b>2011</b>			
Rental revenues	Rental costs	Difference	Other gain (loss), net on sales and others
¥ 1,048	¥ 617	¥ 431	¥ (39)
<i>Millions of yen</i>			
<b>2012</b>			
Rental revenues	Rental costs	Difference	Other gain (loss), net on sales and others
¥ 850	¥ 598	¥ 252	¥ 66
<i>Thousands of U.S. dollars</i>			
<b>2012</b>			
Rental revenues	Rental costs	Difference	Other gain (loss), net on sales and others
\$ 10,342	\$ 7,276	\$ 3,066	\$ 803

## Yodogawa Steel Works, Ltd.

### Notes to Consolidated Financial Statements (continued)

#### **24. Investment, Rental and Idle Properties (continued)**

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 income.

#### **25. Segment Information**

##### **i) Outline of segment information**

The reportable segments of the Group are components for which discrete financial information is available, and whose operating results are regularly reviewed by the Board of Directors of the Company in order to make decisions about resource allocation and to assess business performance.

The Group's business units are divided by the similarity of the products or services sold by each business unit. Each business unit develops its own strategies and operates its businesses independently.

Therefore, the Group consists four reportable segments based on business units: "Steel Sheet Segment," "Roll Segment," "Grating Segment" and "Real Estate Segment."

The "Steel Sheet Segment" engages in the manufacture and sale of cold rolled steel, polished hoop steel, hot dip galvanizing steel sheets, painted hot dip galvanizing steel sheets, other construction materials, building materials and exterior products and others and in designing and engineering of construction work. The "Roll Segment" engages in the manufacture and sale of rolls for iron, steel and non-ferrous products and others. The "Grating Segment" engages in the manufacture and sales of gratings. The "Real Estate Segment" engages in the sale, purchase and lease of real estate such as buildings and car parking lots.

##### **ii) Calculation methods used for net sales, income or loss, assets and other items of each reportable segment**

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 1. In addition, segment income (loss) is adjusted to be consistent with operating income in the consolidated statements of income.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

25. Segment Information (continued)

iii) Information on net sales, income or loss, assets and other items of each reportable segment

Information by reportable segment for the years ended March 31, 2011 and 2012 are as follows:

	<i>Millions of yen</i>								
	Year ended March 31, 2011								
	Reportable Segments					Adjustments and eliminations			Consolidated
Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Sub-Total	Other	Total	and eliminations		
Net sales									
Sales to third parties	¥ 133,463	¥ 4,147	¥ 3,261	¥ 1,023	¥ 141,894	¥ 2,880	¥ 144,774	¥ –	¥ 144,774
Inter-segment sales and transfers	1	–	–	493	494	2,637	3,131	(3,131)	–
Total	¥ 133,464	¥ 4,147	¥ 3,261	¥ 1,516	¥ 142,388	¥ 5,517	¥ 147,905	¥ (3,131)	¥ 144,774
Segment income (loss)	¥ 4,163	¥ 284	¥ (1)	¥ 823	¥ 5,269	¥ 49	¥ 5,318	¥ (1,094)	¥ 4,224
Segment assets	¥ 95,056	¥ 4,401	¥ 3,381	¥ 8,666	¥ 111,504	¥ 6,951	¥ 118,455	¥ 56,714	¥ 175,169
Other items									
Depreciation and amortization	¥ 4,746	¥ 420	¥ 91	¥ 96	¥ 5,353	¥ 178	¥ 5,531	¥ 65	¥ 5,596
Investment in an affiliate accounted for by the equity method	2,920	–	284	2	3,206	–	3,206	–	3,206
Increase in property, plant and equipment and intangible assets	1,875	109	198	17	2,199	99	2,298	26	2,324

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

25. Segment Information (continued)

		<i>Millions of yen</i>								
		Year ended March 31, 2012								
		Reportable Segments							Adjustments and eliminations	Consolidated
		Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Sub-Total	Other	Total		
Net sales										
Sales to third parties		¥ 140,660	¥ 5,053	¥ 3,147	¥ 886	¥ 149,746	¥ 3,031	¥ 152,777	¥ -	¥ 152,777
Inter-segment sales and transfers		-	-	-	479	479	2,759	3,238	(3,238)	-
Total		¥ 140,660	¥ 5,053	¥ 3,147	¥ 1,365	¥ 150,225	¥ 5,790	¥ 156,015	¥ (3,238)	¥ 152,777
Segment income (loss)		¥ 6,383	¥ 519	¥ (141)	¥ 706	¥ 7,467	¥ 52	¥ 7,519	¥ (1,105)	¥ 6,414
Segment assets		¥ 99,804	¥ 4,498	¥ 3,263	¥ 8,559	¥ 116,124	¥ 7,034	¥ 123,158	¥ 54,798	¥ 177,956
Other items										
Depreciation and amortization		¥ 4,109	¥ 347	¥ 118	¥ 85	¥ 4,659	¥ 161	¥ 4,820	¥ 61	¥ 4,881
Investment in an affiliate accounted for by the equity method		3,117	-	301	2	3,420	-	3,420	-	3,420
Increase in property, plant and equipment and intangible assets		1,711	366	27	19	2,123	62	2,185	29	2,214
		<i>Thousands of U.S. dollars</i>								
		Year ended March 31, 2012								
		Reportable Segments							Adjustments and eliminations	Consolidated
		Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Sub-Total	Other	Total		
Net sales										
Sales to third parties		\$ 1,711,400	\$ 61,480	\$ 38,289	\$ 10,780	\$ 1,821,949	\$ 36,878	\$ 1,858,827	\$ -	\$ 1,858,827
Inter-segment sales and transfers		-	-	-	5,828	5,828	33,569	39,397	(39,397)	-
Total		\$ 1,711,400	\$ 61,480	\$ 38,289	\$ 16,608	\$ 1,827,777	\$ 70,447	\$ 1,898,224	\$ (39,397)	\$ 1,858,827
Segment income (loss)		\$ 77,661	\$ 6,315	\$ (1,716)	\$ 8,590	\$ 90,850	\$ 633	\$ 91,483	\$ (13,444)	\$ 78,039
Segment assets		\$ 1,214,308	\$ 54,727	\$ 39,701	\$ 104,137	\$ 1,412,873	\$ 85,582	\$ 1,498,455	\$ 666,723	\$ 2,165,178
Other items										
Depreciation and amortization		\$ 49,994	\$ 4,222	\$ 1,436	\$ 1,034	\$ 56,686	\$ 1,959	\$ 58,645	\$ 742	\$ 59,387
Investment in an affiliate accounted for by the equity method		37,924	-	3,662	25	41,611	-	41,611	-	41,611
Increase in property, plant and equipment and intangible assets		20,818	4,453	328	231	25,830	755	26,585	353	26,938

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**25. Segment Information (continued)**

Net sales categorized by country and region based on locations of customers within the Group for the years ended March 31, 2011 and 2012 are summarized as follows:

<i>Millions of yen</i>			
<b>2011</b>			
Japan	Taiwan	Other	Total
¥ 88,338	¥ 21,582	¥ 34,854	¥ 144,774

<i>Millions of yen</i>			
<b>2012</b>			
Japan	Taiwan	Other	Total
¥ 98,561	¥ 23,993	¥ 30,223	¥ 152,777

<i>Thousands of U.S. dollars</i>			
<b>2012</b>			
Japan	Taiwan	Other	Total
\$ 1,199,185	\$ 291,921	\$ 367,721	\$ 1,858,827

Property, plant and equipment, net, categorized by geographical area at March 31, 2011 and 2012 are summarized as follows:

<i>Millions of yen</i>			
<b>2011</b>			
Japan	Taiwan	Other	Total
¥ 35,994	¥ 11,573	¥ –	¥ 47,567

<i>Millions of yen</i>			
<b>2012</b>			
Japan	Taiwan	Other	Total
¥ 33,949	¥ 9,635	¥ 67	¥ 43,651

<i>Thousands of U.S. dollars</i>			
<b>2012</b>			
Japan	Taiwan	Other	Total
\$ 413,055	\$ 117,229	\$ 815	\$ 531,099

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

25. Segment Information (continued)

Net sales to major customers for the years ended March 31, 2011 and 2012 are as follows:

Customer name	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	Related Segments
	2011	2012	2012	
Sadoshima Corporation	¥ 27,279	¥ 30,560	\$ 371,821	“Steel Sheet Segment,” “Grating Segment,” “Real Estate Segment” and “Other”

Loss on impairment of fixed assets by reportable segment for the years ended March 31, 2011 and 2012 are summarized as follows:

	<i>Millions of yen</i>						
	Year ended March 31, 2011						
	Reportable Segments					Adjustments and eliminations	Total
Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other			
Loss on impairment of fixed assets	¥ 9	¥ –	¥ –	¥ –	¥ 0	¥ 42	¥ 51

	<i>Millions of yen</i>						
	Year ended March 31, 2012						
	Reportable Segments					Adjustments and eliminations	Total
Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other			
Loss on impairment of fixed assets	¥ –	¥ –	¥ –	¥ –	¥ 0	¥ 125	¥ 125

	<i>Thousands of U.S. dollars</i>						
	Year ended March 31, 2012						
	Reportable Segments					Adjustments and eliminations	Total
Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other			
Loss on impairment of fixed assets	\$ –	\$ –	\$ –	\$ –	\$ 0	\$ 1,521	\$ 1,521



Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**25. Segment Information (continued)**

The amortization and balance of negative goodwill by reportable segment as of and for the years ended March 31, 2011 and 2012:

<i>Millions of yen</i>							
Year ended March 31, 2011							
Reportable Segments							
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Amortization	¥ 13	¥ 0	¥ 0	¥ –	¥ 21	¥ 4	¥ 38
Balance at the year end	39	0	1	–	24	10	74

<i>Millions of yen</i>							
Year ended March 31, 2012							
Reportable Segments							
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Amortization	¥ 14	¥ 0	¥ 0	¥ –	¥ 21	¥ 3	¥ 38
Balance at the year end	26	0	1	–	3	6	36

<i>Thousands of U.S. dollars</i>							
Year ended March 31, 2012							
Reportable Segments							
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Amortization	\$ 170	\$ 0	\$ 0	\$ –	\$ 256	\$ 36	\$ 462
Balance at the year end	316	0	12	–	37	73	438

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

**25. Segment Information (continued)**

Negative goodwill credited to income by reportable segment for the years ended March 31, 2011 and 2012 are summarized as follows:

		<i>Millions of yen</i>						
		Year ended March 31, 2011						
		Reportable Segments					Adjustments and eliminations	Total
		Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other		
Negative goodwill credited to income		¥ 5	¥ 0	¥ 0	¥ –	¥ 1	¥ 2	¥ 8

  

		<i>Millions of yen</i>						
		Year ended March 31, 2012						
		Reportable Segments					Adjustments and eliminations	Total
		Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other		
Negative goodwill credited to income		¥ 3	¥ 0	¥ 0	¥ –	¥ 0	¥ 1	¥ 4

  

		<i>Thousands of U.S. dollars</i>						
		Year ended March 31, 2012						
		Reportable Segments					Adjustments and eliminations	Total
		Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other		
Negative goodwill credited to income		\$ 37	\$ 0	\$ 0	\$ –	\$ 0	\$ 12	\$ 49

Negative goodwill was credited to income for the years ended March 31, 2011 and 2012 due to purchases of a subsidiary's shares and recorded under other, net, as part of other expenses in the consolidated statements of income.

**26. 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, 2012, was approved at a meeting of the Board of Directors held on May 11, 2012:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends of ¥5 (\$0.06) per share	¥ 802	\$ 9,758