

Non-Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

Years ended March 31, 1998 and 1999

with Report of Independent Certified Public Accountants

Yodogawa Steel Works, Ltd.

Non-Consolidated Financial Statements

Years ended March 31, 1998 and 1999

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Non-Consolidated Financial Statements

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Report of Independent Certified Public Accountants on the Non-Consolidated Financial Statements

The Board of Directors and Shareholders
Yodogawa Steel Works, Ltd.

We have examined the non-consolidated balance sheets of Yodogawa Steel Works, Ltd. as of March 31, 1998 and 1999, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying non-consolidated financial statements, expressed in yen present fairly the financial position of Yodogawa Steel Works, Ltd. at March 31, 1998 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 1999 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the non-consolidated financial statements.

Osaka, Japan
June 29, 1999

Yodogawa Steel Works, Ltd.

Non-Consolidated Balance Sheets

March 31, 1998 and 1999

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	1998	1999	1999
Assets			
Current assets:			
Cash and cash equivalents	¥ 10,689	¥ 9,853	\$ 81,734
Short-term investments	30	8,700	72,169
Marketable securities <i>(Note 3)</i>	26,614	31,192	258,747
Notes and accounts receivable:			
Subsidiaries and affiliates	24,042	20,544	170,419
Trade	25,687	20,514	170,170
Less allowance for doubtful receivables	(286)	(196)	(1,626)
Inventories <i>(Note 4)</i>	27,377	27,441	227,632
Trust certificates	999	2,697	22,372
Other current assets	3,809	2,833	23,501
Total current assets	118,961	123,578	1,025,118
Property, plant and equipment, at cost			
<i>(Note 5):</i>			
Land	18,694	18,552	153,895
Buildings and structures	38,156	37,785	313,438
Machinery and equipment	93,547	95,001	788,063
Construction in progress	7,374	9,072	75,255
Less accumulated depreciation	(96,565)	(99,728)	(827,275)
Property, plant and equipment, net	61,206	60,682	503,376
Investments and other assets:			
Investments in securities	1,094	1,068	8,859
Investments in and advances to subsidiaries and affiliates <i>(Note 3)</i>	13,378	13,328	110,560
Other assets	1,486	1,487	12,336
Total investments and other assets	15,958	15,883	131,755
	¥196,125	¥200,143	\$1,660,249

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	1998	1999	1999
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (<i>Note 5</i>)	¥ 8,990	¥ 10,000	\$ 82,953
Notes and accounts payable:			
Subsidiaries and affiliates	2,833	2,330	19,328
Trade	23,718	19,134	158,723
Construction	5,807	2,448	20,307
Accrued expenses	4,232	3,646	30,245
Accrued income taxes (<i>Note 7</i>)	1,774	1,997	16,566
Other current liabilities	1,029	1,111	9,215
Total current liabilities	48,383	40,666	337,337
Long-term liabilities:			
Long-term debt (<i>Note 5</i>)	–	15,000	124,430
Retirement allowances (<i>Note 8</i>)	7,623	7,444	61,750
Guarantee deposits (<i>Note 5</i>)	1,615	1,423	11,805
Total long-term liabilities	9,238	23,867	197,985
Commitments and contingent liabilities (<i>Note 11</i>)			
Shareholders' equity (<i>Note 6</i>):			
Common stock, ¥50 par value:			
Authorized - 800,000,000 shares;			
Issued -			
March 31, 1998 - 230,372,086 shares	23,221	–	–
March 31, 1999 - 222,538,086 shares	–	23,221	192,625
Additional paid-in capital	23,497	23,497	194,915
Legal reserve (<i>Note 12</i>)	2,921	3,089	25,624
Retained earnings (<i>Note 12</i>)	88,865	85,803	711,763
Total shareholders' equity	138,504	135,610	1,124,927
	¥196,125	¥200,143	\$1,660,249

See notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Non-Consolidated Statements of Income

Years ended March 31, 1998 and 1999

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	1998	1999	1999
Net sales	¥140,377	¥121,274	\$1,006,006
Cost of sales	113,674	98,447	816,649
Gross profit	26,703	22,827	189,357
Selling, general and administrative expenses <i>(Note 9)</i>	18,807	17,951	148,909
Operating income	7,896	4,876	40,448
Other income (expenses):			
Interest and dividend income	1,940	1,430	11,862
Interest expense	(571)	(359)	(2,978)
Gain on sales of marketable equity securities	1,479	9	75
Loss on revaluation of marketable equity securities	(2,369)	(1,252)	(10,386)
Gain on sales of property, plant and equipment	72	488	4,048
Loss on sales or disposal of property, plant and equipment	(286)	(682)	(5,657)
Other, net	561	59	489
Income before income taxes	8,722	4,569	37,901
Income taxes <i>(Note 7)</i>	3,587	2,234	18,531
Net income	¥ 5,135	¥ 2,335	\$ 19,370

	<i>Yen</i>		<i>U.S. dollars (Note 2)</i>
Amounts per share:			
Net income	¥22.46	¥10.26	\$0.09
Cash dividends	7.00	7.00	0.06

See notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Non-Consolidated Statements of Shareholders' Equity

Years ended March 31, 1998 and 1999

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	1998	1999	1999
Common stock			
Balance at beginning of the year	¥21,217	¥23,221	\$192,625
Add:			
Exercise of warrants	2,004	-	-
Balance at end of the year	¥23,221	¥23,221	\$192,625
Additional paid-in capital			
Balance at beginning of the year	¥21,499	¥23,497	\$194,915
Add:			
Exercise of warrants	1,998	-	-
Balance at end of the year	¥23,497	¥23,497	\$194,915
Legal reserve			
Balance at beginning of the year	¥ 2,756	¥ 2,921	\$ 24,231
Add:			
Transfer from retained earnings	165	168	1,393
Balance at end of the year	¥ 2,921	¥ 3,089	\$ 25,624
Retained earnings			
Balance at beginning of the year	¥85,543	¥88,865	\$737,163
Add:			
Net income	5,135	2,335	19,370
Deduct:			
Cash dividends paid	1,583	1,606	13,322
Bonuses to directors and statutory auditors	65	65	539
Transfer to legal reserve	165	168	1,394
Retirement of treasury common stock	-	3,558	29,515
Balance at end of the year	¥88,865	¥85,803	\$711,763

See notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.
Non-Consolidated Statements of Cash Flows

Years ended March 31, 1998 and 1999

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 2)</i>
	1998	1999	1999
Operating activities			
Net income	¥ 5,135	¥ 2,335	\$ 19,370
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,415	5,209	43,210
Reversal of retirement allowances, less payments	(265)	(179)	(1,485)
Gain on sales of property, plant and equipment	(72)	(488)	(4,048)
Loss on sales or disposal of property, plant and equipment	159	416	3,451
Gain on sales of marketable equity securities	(1,479)	(9)	(75)
Loss on revaluation of marketable equity securities	2,369	1,252	10,386
Changes in operating assets and liabilities:			
Notes and accounts receivable	2,802	8,581	71,182
Inventories	(2,617)	(56)	(465)
Other current assets	(328)	1,603	13,297
Notes and accounts payable	843	(5,087)	(42,198)
Accrued expenses	(134)	(586)	(4,861)
Accrued income taxes	(2,112)	223	1,850
Other current liabilities	(1,291)	82	680
Guarantee deposits	(543)	(192)	(1,592)
Net cash provided by operating activities	<u>7,882</u>	<u>13,104</u>	<u>108,702</u>
Investing activities			
Decrease (increase) in short-term investments and marketable securities	27,779	(14,476)	(120,083)
Increase in short-term loans receivable from subsidiaries and affiliates	(180)	(607)	(5,035)
Increase in trust certificates	(96)	(1,698)	(14,085)
Purchases of property, plant, and equipment	(9,461)	(8,678)	(71,987)
Proceeds from sales of property, plant, and equipment	82	779	6,462
(Increase) decrease in investments in securities	(6)	11	91
(Increase) decrease in investments in and advances to subsidiaries and affiliates	(2,755)	30	249
Increase in other assets	(52)	(17)	(141)
Net cash provided by (used in) investing activities	<u>15,311</u>	<u>(24,656)</u>	<u>(204,529)</u>
Financing activities			
Increase in short-term bank loans	1,000	1,010	8,378
Proceeds from exercise of warrants	4,002	-	-
Reduction of principal of long-term debt	(29,528)	-	-
Proceeds from long-term debt	-	14,935	123,890
Cash dividends to shareholders and bonuses to directors and statutory auditors	(1,648)	(1,671)	(13,861)
Retirement of treasury common stock	-	(3,558)	(29,515)
Net cash (used in) provided by financing activities	<u>(26,174)</u>	<u>10,716</u>	<u>88,892</u>
Net decrease in cash and cash equivalents	(2,981)	(836)	(6,935)
Cash and cash equivalents at beginning of the year	<u>13,670</u>	<u>10,689</u>	<u>88,669</u>
Cash and cash equivalents at end of the year	<u>¥ 10,689</u>	<u>¥ 9,853</u>	<u>\$ 81,734</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	¥ 654	¥ 273	\$ 2,265

See notes to non-consolidated financial statements.

	Yodogawa Steel Works, Ltd.		
Income taxes	5,699	2,010	16,674

See notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements

March 31, 1998 and 1999

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

Yodogawa Steel Works, Ltd. (the “Company”) maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted in Japan. The accompanying non-consolidated financial statements have been compiled from the financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan. Accordingly, the accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Non-consolidated statements of cash flows have been prepared for the purpose of inclusion in these financial statements, although such statements are not currently required in Japan.

Certain reclassifications of previously reported amounts have been made to conform the non-consolidated balance sheet and statement of cash flows for the year ended March 31, 1998 to the 1999 presentation. Such reclassifications had no effect on non-consolidated net income or shareholders’ equity.

(b) Foreign Currency Translation

Current monetary assets denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. Other assets 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 losses and gains are charged or credited to income.

(c) Marketable Securities and Investments in Securities

Marketable securities are stated at the lower of cost or market, cost being determined by the moving average method.

Securities other than marketable securities are stated at cost determined by the moving average method.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(d) Inventories

Finished goods, work in process and raw materials are stated at cost principally determined by the last-in, first-out method. Supplies are stated at cost determined by the first-in, first-out method.

Real estate held for sale is stated at cost determined by the specific identification method.

(e) Property, Plant and Equipment and Depreciation

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

Depreciation of property, plant and equipment is calculated by the declining-balance method over the useful lives of the respective assets as prescribed by the Corporation Tax Law, except that the straight-line method is applied to buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998.

Effective April 1, 1998, the Company shortened the useful lives of buildings (except for the structures attached to the buildings) as a result of a revision to the Corporation Tax Law. The effect of this change in useful lives increased depreciation expense by ¥104 million (\$863 thousand) and decreased operating income and income before income taxes by ¥104 million (\$863 thousand) for the year ended March 31, 1999 from the amounts which would have been recorded if the useful lives applied in the previous year had been used.

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

(f) Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(g) Research and Development Expenses

Research and development expenses are charged to income as incurred.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(h) Bond Issuance Expenses

Bond issuance expenses are charged to income as incurred.

(i) Leases

The Company leases certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company are accounted for as operating leases.

(j) Income Taxes

Income taxes are calculated on taxable income and charged to income on an accrual basis. Deferred income taxes pertaining to timing differences between financial and tax reporting are not provided.

(k) Retirement Allowances and Pension Plans

Employees of the Company are covered by an employees' retirement allowances plan and an employees' pension plan. The employees' retirement allowances plan provides for a lump-sum payment determined by reference to the basic salary, length of service and conditions under which the termination occurs. The employees' pension plan, which is a funded non-contributory plan, partially covers the benefits under the employees' retirement allowances plan to employees who retire after fifteen or more years of service.

Retirement allowances are stated at the amount which would be required to be paid if all employees covered by the retirement allowances plan voluntarily terminated their employment at the balance sheet date, less the assets of the pension fund.

The Company's officers, including the directors and statutory auditors, are customarily entitled to lump-sum payments under the unfunded retirement allowances plan. Retirement allowances for these officers have been made at estimated amounts based on the Company's internal rules.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(1) Amounts per Share

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥120.55 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 1999. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Marketable Securities and Investments in Subsidiaries and Affiliates

Information with respect to the book and market value of the marketable securities included in current assets and investments in subsidiaries and affiliates at March 31, 1998 and 1999 is summarized as follows:

	<i>Millions of yen</i>				<i>Thousands of U.S. dollars</i>	
	1998		1999		1999	
	Book value	Market value	Book value	Market value	Book value	Market value
Marketable securities	¥19,819	¥41,894	¥18,702	¥37,245	\$155,139	\$308,959
Investments in subsidiaries and affiliates	11,310	20,120	11,310	13,120	93,820	108,835

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

4. Inventories

Inventories at March 31, 1998 and 1999 were as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	1998	1999	U.S. dollars
Finished goods	¥16,282	¥16,282	\$135,064
Work in process	3,838	3,692	30,626
Raw materials and supplies	7,073	7,283	60,415
Real estate held for sale	184	184	1,527
	¥27,377	¥27,441	\$227,632

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

Short-term bank loans represent overdrafts at annual interest rates of approximately 1.590% and 0.9% at March 31, 1998 and 1999, respectively.

Long-term debt at March 31, 1998 and 1999 was as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	1998	1999	U.S. dollars
1.8% unsecured bonds, payable in yen, due 2002	¥ —	¥ 5,000	\$ 41,477
2.0% unsecured bonds, payable in yen, due 2003	—	5,000	41,477
Unsecured loans from banks and an insurance company, due 2001 with an interest rate of 1.72%	—	5,000	41,476
	¥ —	¥ 15,000	\$ 124,430

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

5. Short-Term Bank Loans, Long-Term Debt and Guarantee Deposits (continued)

The aggregate annual maturities of long-term debt subsequent to March 31, 1999 are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
<u>Year ending March 31.</u>		
2002	¥ 5,000	\$ 41,477
2003	5,000	41,477
2004	5,000	41,476
	¥ 15,000	\$ 124,430

The assets pledged as collateral for short-term bank loans at March 31, 1998 and 1999 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	1998	1999	1999
Property, plant and equipment, at net book value	¥28,118	¥26,527	\$220,050

Guarantee deposits consist principally of guarantee deposits from tenants at annual interest rates from 1% to 4%. The aggregate annual maturities of guarantee deposits subsequent to March 31, 1999 are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
<u>Year ending March 31.</u>		
2000	¥ 3	\$ 25
2001	3	25
2002	3	25
2003	3	25
2004	3	25
2005 and thereafter	1,408	11,680
	¥ 1,423	\$ 11,805

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

6. Shareholders' Equity

The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash dividends and other cash appropriations from retained earnings be transferred to the legal reserve until such reserve equals 25% of common stock. The legal reserve may be used to reduce or eliminate a deficit or may be transferred to common stock through suitable shareholders' and directors' action, but is not available for the payment of dividends.

7. Income Taxes

Income taxes applicable to the Company comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 51.4% for 1998 and 47.4% for 1999. The effective tax rates reflected in the accompanying non-consolidated statements of income differ from the statutory tax rates primarily due to the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effect of permanent non-deductible expenses.

8. Retirement Allowances and Pension Plans

The charges to income for retirement allowances and pension plans for the years ended March 31, 1998 and 1999 were as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	1998	1999	<i>U.S. dollars</i>
Provision for retirement allowances	¥901	¥881	\$7,308
Pension costs	334	323	2,679

The assets of the pension fund at March 31, 1998 and 1999 were as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	1998	1999	<i>U.S. dollars</i>
	¥2,847	¥2,812	\$23,326

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

9. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 1998 and 1999 were as follows:

<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
1998	1999	1999
¥549	¥669	\$5,550

10. Leases

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 1998 and 1999, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company (which are currently accounted for as operating leases) were capitalized:

	<i>Millions of yen</i>						<i>Thousands of U.S. dollars</i>		
	1998			1999			1999		
	Acquisi- tion costs	Accumu- lated depreci- ation	Net book value	Acquisi- tion cost	Accumu- lated depreci- ation	Net book value	Acquisi- tion costs	Accumu- lated depreci- ation	Net book value
Machinery and equipment	¥322	¥171	¥151	¥286	¥144	¥142	\$2,372	\$1,194	\$1,178

The related lease payments and depreciation expense for the years ended March 31, 1998 and 1999 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	1998	1999	1999
Lease payments	¥67	¥62	\$514
Depreciation expense	67	62	514

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

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

10. Leases (continued)

Future minimum payments (including the interest portion thereon) subsequent to March 31, 1999 under finance leases other than those which transfer the ownership of the leased property to the Company are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
<u>Year ending March 31,</u>		
2000	¥ 59	\$ 489
2001 and thereafter	83	689
	¥142	\$1,178

11. Commitments and Contingent Liabilities

The Company enters into forward foreign currency exchange contracts, interest rate swap agreements, and other agreements to manage its risk exposure to fluctuations in foreign currency exchange rates and interest rates. At March 31, 1999, no such contracts or agreements remained open.

At March 31, 1999, the Company had the following contingent liabilities:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
As guarantor of housing loans of employees and indebtedness of a subsidiary	¥230	\$1,908

12. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 1999, were approved at a shareholders' meeting held on June 29, 1999:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends of ¥3.5 (\$0.03) per share	¥779	\$6,462
Transfer to legal reserve	84	697
Bonuses to directors and statutory auditors	60	498