

Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

Years ended March 31, 1999 and 2000

with Independent Auditors' Report

Yodogawa Steel Works, Ltd.
Consolidated Financial Statements

Years ended March 31, 1999 and 2000

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Consolidated Financial Statements

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Independent Auditors' Report on Consolidated Financial Statements

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

We have audited the consolidated balance sheets of Yodogawa Steel Works, Ltd. and consolidated subsidiaries as of March 31, 1999 and 2000, the related consolidated statements of income and shareholders' equity for the two years then ended, and the consolidated statement of cash flows for the year ended March 31, 2000, all expressed in yen. Our audits 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 consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Yodogawa Steel Works, Ltd. and consolidated subsidiaries at March 31, 1999 and 2000, the consolidated results of their operations for the two years then ended, and their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, Yodogawa Steel Works, Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation and tax-effect accounting in the preparation of their consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Osaka, Japan
June 29, 2000

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Yodogawa Steel Works, Ltd. under Japanese accounting principles and practices.

Yodogawa Steel Works, Ltd.

Consolidated Balance Sheets

March 31, 1999 and 2000

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 2)</i> |
|---|------------------------|-----------|---|
| | 1999 | 2000 | 2000 |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 37,442 | ¥ 31,578 | \$ 297,485 |
| Short-term investments | 2,520 | 2,163 | 20,377 |
| Marketable securities (Note 3) | 22,354 | 20,704 | 195,045 |
| Notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 20,543 | 12,181 | 114,753 |
| Trade | 21,974 | 32,789 | 308,893 |
| Less allowance for doubtful receivables | (213) | (217) | (2,044) |
| Inventories | 29,872 | 31,732 | 298,935 |
| Deferred income taxes (Note 6) | – | 947 | 8,921 |
| Other current assets | 3,455 | 4,806 | 45,275 |
| Total current assets | 137,947 | 136,683 | 1,287,640 |
| Property, plant and equipment, at cost (Note 4): | | | |
| Land | 20,328 | 22,501 | 211,974 |
| Buildings and structures | 41,602 | 48,051 | 452,671 |
| Machinery and equipment | 112,623 | 120,218 | 1,132,529 |
| Construction in progress | 10,899 | 11,260 | 106,076 |
| Less accumulated depreciation | (114,801) | (125,232) | (1,179,764) |
| Property, plant and equipment, net | 70,651 | 76,798 | 723,486 |
| Investments and other assets: | | | |
| Investments in securities (Note 3) | 1,197 | 2,041 | 19,228 |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 4,032 | 4,443 | 41,856 |
| Deferred income taxes (Note 6) | – | 1,549 | 14,593 |
| Other assets | 1,944 | 2,968 | 27,959 |
| Total investments and other assets | 7,173 | 11,001 | 103,636 |
| Foreign currency translation adjustments | 3,034 | 4,924 | 46,387 |
| | | | |
| Total assets | ¥ 218,805 | ¥ 229,406 | \$ 2,161,149 |

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 2)</i> |
|--|------------------------|-----------|---|
| | 1999 | 2000 | 2000 |
| Liabilities and shareholders' equity | | | |
| Current liabilities: | | | |
| Short-term bank loans (<i>Note 4</i>) | ¥ 10,000 | ¥ 13,330 | \$ 125,577 |
| Current portion of long-term debt (<i>Note 4</i>) | – | 2,570 | 24,211 |
| Notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | 2,248 | 855 | 8,055 |
| Trade | 19,954 | 25,401 | 239,293 |
| Construction | 2,448 | 3,322 | 31,295 |
| Accrued expenses | 3,766 | 3,762 | 35,440 |
| Accrued income taxes | 1,999 | 447 | 4,211 |
| Reserve for losses on restructuring | – | 269 | 2,534 |
| Other current liabilities | 1,842 | 2,439 | 22,978 |
| Total current liabilities | 42,257 | 52,395 | 493,594 |
| Long-term liabilities: | | | |
| Long-term debt (<i>Note 4</i>) | 16,795 | 15,768 | 148,545 |
| Deferred income taxes on land revaluation reserve (<i>Notes 6 and 7</i>) | – | 285 | 2,685 |
| Retirement allowances | 8,003 | 8,603 | 81,046 |
| Guarantee deposits (<i>Note 4</i>) | 1,424 | 1,474 | 13,886 |
| Other long-term liabilities | 433 | 493 | 4,643 |
| Total long-term liabilities | 26,655 | 26,623 | 250,805 |
| Minority interests and other | 11,181 | 13,703 | 129,091 |
| Contingent liabilities (<i>Note 10</i>) | | | |
| Shareholders' equity (<i>Note 5</i>): | | | |
| Common stock, ¥50 par value: | | | |
| Authorized: | | | |
| March 31, 1999 - 792,166,000 shares | | | |
| March 31, 2000 - 781,945,000 shares | | | |
| Issued: | | | |
| March 31, 1999 - 222,538,086 shares | 23,221 | – | – |
| March 31, 2000 - 212,317,086 shares | – | 23,221 | 218,756 |
| Additional paid-in capital | 23,611 | 23,611 | 222,431 |
| Land revaluation reserve (<i>Note 7</i>) | – | 393 | 3,702 |
| Retained earnings (<i>Note 11</i>) | 91,923 | 90,940 | 856,712 |
| Less treasury stock, at cost - 94,737 shares in 1999 and 4,938,831 shares in 2000 | (43) | (1,480) | (13,942) |
| Total shareholders' equity | 138,712 | 136,685 | 1,287,659 |
| Total liabilities and shareholders' equity | ¥ 218,805 | ¥ 229,406 | \$2,161,149 |

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Income

Years ended March 31, 1999 and 2000

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 2)</i> |
|--|------------------------|-----------|---|
| | 1999 | 2000 | 2000 |
| Net sales (<i>Note 12</i>) | ¥ 153,127 | ¥ 153,991 | \$1,450,692 |
| Cost of sales (<i>Note 12</i>) | 126,449 | 130,738 | 1,231,634 |
| Gross profit | 26,678 | 23,253 | 219,058 |
| Selling, general and administrative expenses (<i>Notes 8 and 12</i>) | 20,489 | 19,810 | 186,623 |
| Operating income (<i>Note 12</i>) | 6,189 | 3,443 | 32,435 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,173 | 613 | 5,775 |
| Interest expense | (503) | (645) | (6,076) |
| Gain on sales of marketable equity securities | 9 | 2,479 | 23,354 |
| Loss on revaluation of marketable equity securities | (1,257) | (330) | (3,109) |
| Gain on sales of property, plant and equipment | 489 | 170 | 1,602 |
| Loss on sales or disposal of property, plant and equipment | (697) | (337) | (3,175) |
| Equity in (losses) earnings of affiliates | (348) | 56 | 528 |
| Loss on liquidation of a subsidiary | – | (1,266) | (11,927) |
| Provision for reserve for losses on restructuring | – | (269) | (2,534) |
| Other, net | 256 | (817) | (7,697) |
| Income before income taxes and minority interests | 5,311 | 3,097 | 29,176 |
| Income taxes (<i>Note 6</i>): | | | |
| Current | 2,594 | 1,121 | 10,561 |
| Deferred | – | (271) | (2,553) |
| | 2,594 | 850 | 8,008 |
| Income before minority interests | 2,717 | 2,247 | 21,168 |
| Minority interests in earnings of consolidated subsidiaries | (806) | (600) | (5,652) |
| Net income | ¥ 1,911 | ¥ 1,647 | \$ 15,516 |
| | <i>Yen</i> | | <i>U.S. dollars (Note 2)</i> |
| Amounts per share: | | | |
| Net income | ¥ 8.40 | ¥ 7.71 | \$0.07 |

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 1999 and 2000

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 2)</i> |
|---|------------------------|----------|---|
| | 1999 | 2000 | 2000 |
| Common stock | | | |
| Balance at beginning and end of the year | ¥ 23,221 | ¥ 23,221 | \$218,756 |
| Additional paid-in capital | | | |
| Balance at beginning of the year | ¥ 23,611 | ¥ 23,611 | \$222,431 |
| Add: | | | |
| Transfer from retained earnings | 0 | 0 | 0 |
| Balance at end of the year | ¥ 23,611 | ¥ 23,611 | \$222,431 |
| Retained earnings | | | |
| Balance at beginning of the year | ¥ 95,243 | ¥ 91,923 | \$865,972 |
| Add: | | | |
| Net income | 1,911 | 1,647 | 15,516 |
| Cumulative adjustment arising from initial adoption of tax-effect accounting | – | 1,745 | 16,439 |
| Increase resulting from initial inclusion of subsidiaries in consolidation | – | 1,198 | 11,286 |
| Increase due to merger of an unconsolidated subsidiary | 8 | – | – |
| Deduct: | | | |
| Cash dividends paid | 1,591 | 1,507 | 14,197 |
| Bonuses to directors and statutory auditors | 78 | 76 | 716 |
| Bonuses to employees of an overseas subsidiary | 12 | 7 | 66 |
| Transfer to additional paid-in capital | 0 | 0 | 0 |
| Retirement of treasury stock | 3,558 | 3,983 | 37,522 |
| Balance at end of the year | ¥ 91,923 | ¥ 90,940 | \$856,712 |

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statement of Cash Flows

Years ended March 31, 1999 and 2000

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars (Note 2)</i> |
|--|----------------------------|---|
| | 2000 | 2000 |
| Cash flows from operating activities | | |
| Income before income taxes and minority interests | ¥ 3,097 | \$ 29,176 |
| Adjustments for: | | |
| Depreciation and amortization | 9,874 | 93,019 |
| Amortization of goodwill arising from consolidation | (61) | (575) |
| Equity in earnings of affiliates | (56) | (528) |
| Loss on revaluation of marketable equity securities | 330 | 3,109 |
| Loss on liquidation of a subsidiary | 1,266 | 11,927 |
| Provision for reserve for losses on restructuring | 269 | 2,534 |
| Increase in retirement allowances | 295 | 2,779 |
| Decrease in accrued bonuses | (84) | (791) |
| Increase in allowance for doubtful receivables | 898 | 8,460 |
| Interest and dividend income | (613) | (5,775) |
| Interest expense | 645 | 6,076 |
| Gain on sales of marketable equity securities | (2,479) | (23,354) |
| Gain on sales of property, plant and equipment | (170) | (1,602) |
| Loss on sales or disposal of property, plant and equipment | 246 | 2,317 |
| Decrease in notes and accounts receivable | 7,204 | 67,866 |
| Increase in inventories | (1,191) | (11,220) |
| Decrease in notes and accounts payable | (7,278) | (68,563) |
| Payments for bonuses to directors, statutory auditors and employees of an overseas subsidiary | (103) | (970) |
| Other | 355 | 3,345 |
| Subtotal | 12,444 | 117,230 |
| Interest and dividend income received | 575 | 5,417 |
| Interest expense paid | (648) | (6,105) |
| Payments for liquidation of a subsidiary | (1,206) | (11,361) |
| Income taxes paid | (2,792) | (26,302) |
| Net cash provided by operating activities | 8,373 | 78,879 |

Yodogawa Steel Works, Ltd.

Consolidated Statement of Cash Flows (continued)

Years ended March 31, 1999 and 2000

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars (Note 2)</i> |
|--|----------------------------|---|
| | 2000 | 2000 |
| Cash flows from investing activities | | |
| Payments for time deposits with a maturity of more than three months | ¥ (7,745) | \$ (72,963) |
| Proceeds from time deposits with a maturity of more than three months | 8,291 | 78,106 |
| Payments for purchases of marketable securities | (2,853) | (26,877) |
| Proceeds from sales of marketable securities | 7,131 | 67,179 |
| Purchases of property, plant, and equipment | (13,945) | (131,371) |
| Proceeds from sales of property, plant, and equipment | 239 | 2,252 |
| Payments for purchases of other assets | (58) | (546) |
| Payments for purchases of investments in securities | (777) | (7,320) |
| Proceeds from sales of investments in securities | 164 | 1,545 |
| Increase in loans receivable | (1,230) | (11,587) |
| Collection of loans receivable | 224 | 2,110 |
| Net cash used in investing activities | (10,559) | (99,472) |
| Cash flows from financing activities | | |
| Increase in short-term bank loans | 200 | 1,884 |
| Issuance of long-term debt | 400 | 3,768 |
| Repayment of long-term debt | (439) | (4,136) |
| Purchases of treasury stock | (3,983) | (37,522) |
| Cash dividends paid to the Company's shareholders | (1,507) | (14,197) |
| Cash dividends paid to minority shareholders of consolidated subsidiaries | (585) | (5,511) |
| Net cash used in financing activities | (5,914) | (55,714) |
| Effect of exchange rate changes on cash and cash equivalents | (484) | (4,560) |
| Net decrease in cash and cash equivalents | (8,584) | (80,867) |
| Cash and cash equivalents at beginning of the year | 37,442 | 352,727 |
| Increase in cash and cash equivalents arising from initial consolidation of subsidiaries | 2,720 | 25,625 |
| Cash and cash equivalents at end of the year | ¥ 31,578 | \$ 297,485 |

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements

March 31, 2000

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements of Yodogawa Steel Works, Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan and have been compiled from those prepared by the Company as required under the Securities and Exchange Law of Japan. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The Company has initially prepared a consolidated statement of cash flows for the year ended March 31, 2000 as required by a recent amendment to the Securities and Exchange Law of Japan.

Certain reclassifications of previously reported amounts have been made to the consolidated financial statements for the year ended March 31, 1999 to conform them to the 2000 presentation. Such reclassifications have had no effect on consolidated net income or shareholders' equity.

(b) Basis of Consolidation

As required by a recent amendment to the Securities and Exchange Law, effective April 1, 1999, the accompanying consolidated financial statements include the accounts of the Company and all its 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.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

All assets and liabilities of the subsidiaries are revalued on acquisition, if applicable. The difference, not significant in amount, between the cost of investments in subsidiaries and equity in their net assets at the date of acquisition is amortized over a period of five years on a straight-line basis.

Before the adoption of the new accounting standard, subsidiaries and affiliates included only companies in which the Company held a majority ownership and companies owned 20% to 50% by the Company, respectively.

The financial statements of a consolidated subsidiary whose fiscal year end is December 31 have been included in consolidation on the basis of a full fiscal year after making the appropriate adjustments for significant transactions during the period from its fiscal year end to the Company's balance sheet date.

(c) Foreign Currency Translation

Current monetary assets denominated in foreign currencies are translated into yen at the rates of exchange in effect 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.

Revenue and expense accounts of the foreign consolidated subsidiary and its balance sheet accounts (except for shareholders' equity) are translated into yen at the rate of exchange in effect at the balance sheet date. Components of shareholders' equity are translated at their respective historical rates of exchange.

Translation differences are presented as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

(d) Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of changes in value and which were purchased with an original maturity of three months or less.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(e) Marketable Securities and Investments in Securities

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

(f) Inventories

Inventories are stated at cost principally determined by the last-in, first-out method.

Inventories in foreign consolidated subsidiary are stated at the lower of cost or market, cost being determined by the moving average method.

(g) Property, Plant and Equipment and Depreciation

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 in 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 and its domestic consolidated subsidiary shortened the useful lives of buildings (except for structures attached to the buildings) in accordance with a recent revision to the Corporation Tax Law. The effect of this change in useful lives was to increase depreciation expense by ¥104 million and to decrease operating income and income before income taxes and minority interests by ¥104 million 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 followed.

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

Depreciation of property, plant and equipment at a foreign consolidated subsidiary is calculated by the straight-line method in conformity with the requirements of its country of domicile.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(h) 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, except if 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, which is generally five years.

(i) Bond Issuance Expenses

Bond issuance expenses are charged to income as incurred.

(j) Leases

The Company and its consolidated subsidiaries lease 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 lessees are accounted for as operating leases.

(k) Income Taxes

Up to the fiscal year ended March 31, 1999, deferred income taxes were not provided for timing differences in the recognition of income and expenses for financial and tax reporting purposes.

Effective April 1, 1999, the Company and its consolidated subsidiaries adopted accounting for the interperiod allocation of income taxes in accordance with an amendment to the Securities and Exchange Law. The cumulative effect of this change in method of accounting is reported as “cumulative adjustment arising from initial adoption of tax-effect accounting” in the consolidated statements of shareholders’ equity. The effect of this change was that deferred income taxes - current assets, deferred income taxes - non-current assets, deferred income taxes - non-current liabilities arising from land revaluation, and retained earnings at March 31, 2000 increased by ¥947 million (\$8,921 thousand), ¥1,549 million (\$14,593 thousand), ¥285 million (\$2,685 thousand), and ¥2,041 million (\$19,228 thousand), respectively, and net income for the year then ended increased by ¥296 million (\$2,789 thousand).

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(l) Retirement Allowances and Pension Plans

Employees of the Company and its consolidated subsidiaries 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 directors and statutory auditors of the Company and its domestic subsidiaries are customarily entitled to lump-sum payments under the unfunded retirement allowances plan. Retirement allowances for directors and statutory auditors have been made at estimated amounts based on the Company's internal rules.

(m) Amounts per Share

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

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 ¥ 106.15 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2000. 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. Marketable Securities and Investments in Securities

Information with respect to the book and marketable securities included in current assets, investments in securities at March 31, 2000 is summarized as follows:

| | | <i>Millions of yen</i> | |
|----------------------------|-----------------|------------------------|---------------------|
| | | <u>Book value</u> | <u>Market value</u> |
| Marketable securities: | | | |
| Equity securities | ¥ 16,392 | ¥ 39,164 | |
| Debt securities | 401 | 418 | |
| Other securities | 891 | 876 | |
| | <u>17,684</u> | <u>40,458</u> | |
| Investments in securities: | | | |
| Equity securities | 298 | 457 | |
| Debt securities | 524 | 740 | |
| | <u>822</u> | <u>1,197</u> | |
| | <u>¥ 18,506</u> | <u>¥ 41,655</u> | |

| | | <i>Thousands of U.S. dollars</i> | |
|----------------------------|-------------------|----------------------------------|---------------------|
| | | <u>Book value</u> | <u>Market value</u> |
| Marketable securities: | | | |
| Equity securities | \$ 154,423 | \$ 368,950 | |
| Debt securities | 3,778 | 3,938 | |
| Other securities | 8,393 | 8,252 | |
| | <u>166,594</u> | <u>381,140</u> | |
| Investments in securities: | | | |
| Equity securities | 2,807 | 4,305 | |
| Debt securities | 4,937 | 6,971 | |
| | <u>7,744</u> | <u>11,276</u> | |
| | <u>\$ 174,338</u> | <u>\$ 392,416</u> | |

The corresponding information at March 31, 1999 is disclosed on a non-consolidation basis. See Note 3 to the non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

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

Short-term bank loans at March 31, 1999 represented overdrafts at an annual interest rate of approximately 0.9%. Short-term bank loans at March 31, 2000 represented overdrafts and notes payable to banks. At March 31, 2000, overdrafts and notes payable to banks amounted to ¥12,530 million (\$118,041 thousand) at an annual interest rate of approximately 0.74%, and ¥800 million (\$7,536 thousand) at an annual interest rate of approximately 1.4%, respectively.

Long-term debt at March 31, 1999 and 2000 was as follows:

| | <i>Millions of yen</i> | | <i>Thousands of</i> |
|--|------------------------|----------|---------------------|
| | 1999 | 2000 | <i>U.S. dollars</i> |
| 1.8% unsecured bonds, payable in yen, due 2003 | ¥ 5,000 | ¥ 5,000 | \$ 47,103 |
| 2.0% unsecured bonds, payable in yen, due 2004 | 5,000 | 5,000 | 47,103 |
| Unsecured loans from banks and an insurance company, due from 2001 through 2003, at interest rates ranging from 1.24% to 1.91% | 5,000 | 6,708 | 63,194 |
| 6.3% unsecured bonds, payable in Taiwan dollars, due 2001 | 1,795 | 1,630 | 15,356 |
| | 16,795 | 18,338 | 172,756 |
| Less current portion | – | (2,570) | (24,211) |
| | ¥ 16,795 | ¥ 15,768 | \$ 148,545 |

The aggregate annual maturities of long-term debt subsequent to March 31, 2000 are summarized as follows:

| <u>Year ending March 31,</u> | <i>Millions</i> | <i>Thousands of</i> |
|------------------------------|-----------------|---------------------|
| | <i>of yen</i> | <i>U.S. dollars</i> |
| 2001 | ¥ 2,570 | \$ 24,211 |
| 2002 | 5,740 | 54,075 |
| 2003 | 5,028 | 47,367 |
| 2004 | 5,000 | 47,103 |
| | ¥ 18,338 | \$ 172,756 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

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

The assets pledged as collateral for short-term bank loans at March 31, 2000 were as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|--|----------------------------|--------------------------------------|
| Property, plant and equipment, at net book value | ¥ 30,885 | \$290,956 |

Guarantee deposits consisted 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, 2000 are summarized as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|------------------------------|----------------------------|--------------------------------------|
| <u>Year ending March 31,</u> | | |
| 2001 | ¥ 3 | \$ 28 |
| 2002 | 3 | 28 |
| 2003 | 3 | 28 |
| 2004 | 3 | 28 |
| 2005 | 3 | 28 |
| 2006 and thereafter | 1,459 | 13,746 |
| | ¥ 1,474 | \$ 13,886 |

5. Shareholders' Equity

The Commercial Code 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. At March 31, 2000, ¥3,250 million (\$30,617 thousand) of retained earnings of the Company was designated as a legal reserve.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 47.4% for 1999 and 42.0% for 2000. The effective tax rates reflected in the accompanying 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.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2000 as a percentage of income before income taxes and minority interests is as follows:

| | |
|--|--------------|
| Statutory tax rate | 42.0% |
| Investment tax credit | (18.5) |
| Income not taxable for tax purposes | (5.8) |
| Excess allowance for doubtful receivables | 13.0 |
| Unrecognized deferred tax assets for tax loss carryforward of subsidiaries | 2.7 |
| Differences in tax rates applicable to foreign subsidiaries | (12.2) |
| Cash dividends received from foreign subsidiaries | 6.1 |
| Other | 2.8 |
| Effective tax rate | <u>30.1%</u> |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Income Taxes (continued)

Effective April 1, 1999, the Company and its consolidated subsidiaries commenced the interperiod allocation of income taxes. Deferred income taxes reflect the tax effect of the temporary differences between the amounts of the assets and liabilities recorded for financial and tax reporting purposes. The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries as of March 31, 2000 are summarized as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|--|----------------------------|--------------------------------------|
| Deferred tax assets - current: | | |
| Accrued enterprise tax | ¥ 55 | \$ 518 |
| Accrued bonuses | 162 | 1,526 |
| Reserve for losses on restructuring | 113 | 1,065 |
| Loss on valuation of securities investment trusts | 177 | 1,667 |
| Investment tax credit | 288 | 2,713 |
| Loss on valuation of inventories | 92 | 867 |
| Allowance for doubtful receivables | 400 | 3,768 |
| Tax loss carryforward of subsidiaries | 85 | 801 |
| Other | 60 | 565 |
| | 1,432 | 13,490 |
| Less valuation allowance | (485) | (4,569) |
| Total deferred tax assets - current | ¥ 947 | \$ 8,921 |
| Deferred tax assets - non-current: | | |
| Retirement allowances for employees | ¥ 1,567 | \$14,762 |
| Retirement allowances for directors and statutory auditors | 571 | 5,379 |
| Allowances for doubtful receivables | 123 | 1,159 |
| Depreciation | 200 | 1,884 |
| Other | 51 | 481 |
| Reserve for deferred taxation on contributions for acquisition of property | (963) | (9,072) |
| Total deferred tax assets - non-current | ¥ 1,549 | \$14,593 |
| Deferred tax liabilities - non-current: | | |
| Land revaluation reserve | ¥ (285) | \$ (2,685) |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

7. Revaluation of Land

At March 31, 2000, Hakuyo Sangyo Co., Ltd., a domestic consolidated subsidiary, revalued its land held for business use in accordance with the "Law on Land Revaluation." The difference on the land revaluation has been accounted for as land revaluation reserve under shareholders' equity at the net amount of tax effect and the allocation to minority interests. The method followed for this land revaluation was determined in accordance with the "Enforcement Act Concerning Land Revaluation." The related book value before and after the revaluation was as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|-------------------------------|----------------------------|--------------------------------------|
| As of March 31, 2000: | | |
| Book value before revaluation | ¥ 1,019 | \$ 9,600 |
| Book value after revaluation | 2,375 | 22,374 |

8. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 1999 and 2000 were as follows:

| <i>Millions of yen</i> | | <i>Thousands of U.S. dollars</i> |
|------------------------|-------|--------------------------------------|
| 1999 | 2000 | 2000 |
| ¥ 717 | ¥ 679 | \$6,397 |

9. Leases

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2000, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property of the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized:

| | <i>Millions of yen</i> | | | | | | <i>Thousands of U.S. dollars</i> | | |
|------------------------------------|-------------------------|---------------|-----------------------|-------------------|---------------|------------------------|----------------------------------|---------------|---------|
| | 1999 | | | 2000 | | | 2000 | | |
| | Accumu- lated | Net | Acquisi- tion cost | Accumu- lated | Net | Acquisi- tion costs | depreci-ati on | Net | |
| | depreci-ati on costs | book value | depreci-ati on | depreci-ati on | book value | depreci-ati on | depreci-ati on | book value | |
| Machiner y and equipme nt | ¥ 536 | ¥ 264 | ¥ 272 | ¥ 544 | ¥ 264 | ¥ 280 | \$5,125 | \$2,487 | \$2,638 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

9. Leases (continued)

The related lease payments and depreciation for the years ended March 31, 1999 and 2000 were as follows:

| | <i>Millions of yen</i> | | <i>Thousands of</i> |
|----------------------|------------------------|-------|---------------------|
| | 1999 | 2000 | <i>U.S. dollars</i> |
| Lease payments | ¥ 100 | ¥ 100 | \$942 |
| Depreciation expense | 100 | 100 | 942 |

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

The related future minimum payments (including the interest portion thereon) subsequent to March 31, 2000 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|------------------------------|----------------------------|--------------------------------------|
| <u>Year ending March 31,</u> | | |
| 2001 | ¥ 101 | \$ 951 |
| 2002 and thereafter | 179 | 1,687 |
| | ¥ 280 | \$ 2,638 |

10. Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries enter 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, 2000, no such contracts or agreements remained open.

The corresponding information at March 31, 1999 is disclosed on a non-consolidation basis. See Note 11 to the non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingent Liabilities (continued)

At March 31, 2000, the Company and its consolidated subsidiaries 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 unconsolidated subsidiaries | ¥ 553 | \$ 5,210 |
| Trade notes receivable discounted with banks | 2,627 | 24,748 |

11. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of a variety of steel products such as steel sheets, construction materials, prefabricated structures and home furnishings, steel rolls and billets, and gratings. The Company also engages in other activities such as real estate rental and engineering.

The business and geographical segments information of the Company and its consolidated subsidiaries for the years ended March 31, 1999 and 2000 are outlined as follows:

Business Segments

| | Year ended March 31, 1999 | | | | | Consolidated |
|---|---------------------------|---------------------------------|----------|-----------|--|--------------|
| | <i>Millions of yen</i> | | | | | |
| | Steel sheet products | Electric furnace products | Other | Total | Eliminations and general corporate assets | |
| I. Sales and operating income | | | | | | |
| Sales to third parties | ¥ 137,251 | ¥ 13,064 | ¥ 2,812 | ¥ 153,127 | ¥ – | ¥ 153,127 |
| Intergroup sales and transfers | – | – | 1,857 | 1,857 | (1,857) | – |
| Total sales | 137,251 | 13,064 | 4,669 | 154,984 | (1,857) | 153,127 |
| Operating expenses | 130,831 | 13,391 | 3,520 | 147,742 | (804) | 146,938 |
| Operating income (loss) | ¥ 6,420 | ¥ (327) | ¥ 1,149 | ¥ 7,242 | ¥ (1,053) | ¥ 6,189 |
| II. Assets, depreciation and capital expenditures | | | | | | |
| Total assets | ¥ 125,836 | ¥ 14,678 | ¥ 11,441 | ¥ 151,955 | ¥ 66,850 | ¥ 218,805 |
| Depreciation | 5,491 | 819 | 249 | 6,559 | 177 | 6,736 |
| Capital expenditures | 2,373 | 1,344 | 164 | 3,881 | 220 | 4,101 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Segment Information (continued)

| Year ended March 31, 2000 | | | | | | |
|--|-------------------------|---------------------------------|-----------|-------------|--|--------------|
| <i>Millions of yen</i> | | | | | | |
| | Steel sheet products | Electric furnace products | Other | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | | |
| Sales to third parties | ¥ 136,700 | ¥ 11,705 | ¥ 5,586 | ¥ 153,991 | ¥ – | ¥ 153,991 |
| Intergroup sales and transfers | 1 | – | 12,180 | 12,181 | (12,181) | – |
| Total sales | 136,701 | 11,705 | 17,766 | 166,172 | (12,181) | 153,991 |
| Operating expenses | 132,969 | 12,047 | 16,732 | 161,748 | (11,200) | 150,548 |
| Operating income (loss) | ¥ 3,732 | ¥ (342) | ¥ 1,034 | ¥ 4,424 | ¥ (981) | ¥ 3,443 |
| II. Assets, depreciation and capital expenditures | | | | | | |
| Total assets | ¥ 129,237 | ¥ 12,750 | ¥ 21,735 | ¥ 163,722 | ¥ 65,684 | ¥ 229,406 |
| Depreciation | 8,548 | 801 | 412 | 9,761 | 113 | 9,874 |
| Capital expenditures | 12,224 | 159 | 442 | 12,825 | 166 | 12,991 |
| Year ended March 31, 2000 | | | | | | |
| <i>Thousands of U.S. dollars</i> | | | | | | |
| | Steel sheet products | Electric furnace products | Other | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | | |
| Sales to third parties | \$1,287,800 | \$110,268 | \$52,624 | \$1,450,692 | \$ – | \$1,450,692 |
| Intergroup sales and transfers | 10 | – | 114,743 | 114,753 | (114,753) | – |
| Total sales | 1,287,810 | 110,268 | 167,367 | 1,565,445 | (114,753) | 1,450,692 |
| Operating expenses | 1,252,652 | 113,490 | 157,626 | 1,523,768 | (105,511) | 1,418,257 |
| Operating income (loss) | \$ 35,158 | \$ (3,222) | \$ 9,741 | \$ 41,677 | \$ (9,242) | \$ 32,435 |
| II. Assets, depreciation and capital expenditures | | | | | | |
| Total assets | \$1,217,494 | \$120,113 | \$204,758 | \$1,542,365 | \$ 618,784 | \$2,161,149 |
| Depreciation | 80,528 | 7,546 | 3,881 | 91,955 | 1,064 | 93,019 |
| Capital expenditures | 115,158 | 1,498 | 4,164 | 120,820 | 1,563 | 122,383 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Segment Information (continued)

Business Segments (continued)

As mentioned in Note 1, the Company and its domestic consolidated subsidiary shortened the useful lives of buildings. The effect of this change on the above information for the year ended March 31, 1999 was to increase operating expenses for steel sheet products, electric furnace products and other by ¥ 72 million, ¥ 11 million and ¥ 21 million, respectively, over the amounts which would have been recorded if the useful lives applied in the previous year had been followed.

Geographical Segments

| | Year ended March 31, 1999 | | | | |
|-------------------------------|---------------------------|-------------------|-----------|--|--------------|
| | <i>Millions of yen</i> | | | | |
| | Japan | Southeast Asia | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | |
| Sales to third parties | ¥ 120,308 | ¥ 32,819 | ¥ 153,127 | ¥ – | ¥ 153,127 |
| Interarea sales and transfers | 1,664 | – | 1,664 | (1,664) | – |
| Total sales | 121,972 | 32,819 | 154,791 | (1,664) | 153,127 |
| Operating expenses | 117,241 | 31,361 | 148,602 | (1,664) | 146,938 |
| Operating income | ¥ 4,731 | ¥ 1,458 | ¥ 6,189 | ¥ – | ¥ 6,189 |
| II. Assets | ¥ 139,080 | ¥ 24,159 | ¥ 163,239 | ¥ 55,566 | ¥ 218,805 |

| | Year ended March 31, 2000 | | | | |
|-------------------------------|---------------------------|-------------------|-----------|--|--------------|
| | <i>Millions of yen</i> | | | | |
| | Japan | Southeast Asia | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | |
| Sales to third parties | ¥ 122,955 | ¥ 31,036 | ¥ 153,991 | ¥ – | ¥ 153,991 |
| Interarea sales and transfers | 4,797 | – | 4,797 | (4,797) | – |
| Total sales | 127,752 | 31,036 | 158,788 | (4,797) | 153,991 |
| Operating expenses | 126,387 | 28,958 | 155,345 | (4,797) | 150,548 |
| Operating income | ¥ 1,365 | ¥ 2,078 | ¥ 3,443 | ¥ – | ¥ 3,443 |
| II. Assets | ¥ 150,040 | ¥ 23,735 | ¥ 173,775 | ¥ 55,631 | ¥ 229,406 |

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

11. Segment Information (continued)

Geographical Segments (continued)

| | Year ended March 31, 2000 | | | | |
|-------------------------------|----------------------------------|-------------------|------------------|--|------------------|
| | <i>Thousands of U.S. dollars</i> | | | | |
| | Japan | Southeast Asia | Total | Eliminations and general corporate assets | Consolidated |
| I. Sales and operating income | | | | | |
| Sales to third parties | \$1,158,313 | \$292,379 | \$1,450,692 | \$ – | \$1,450,692 |
| Interarea sales and transfers | 45,191 | – | 45,191 | (45,191) | – |
| Total sales | 1,203,504 | 292,379 | 1,495,883 | (45,191) | 1,450,692 |
| Operating expenses | 1,190,645 | 272,803 | 1,463,448 | (45,191) | 1,418,257 |
| Operating income | <u>\$ 12,859</u> | <u>\$ 19,576</u> | <u>\$ 32,435</u> | <u>\$ –</u> | <u>\$ 32,435</u> |
| II. Assets | \$1,413,471 | \$223,599 | \$1,637,070 | \$ 524,079 | \$2,161,149 |

As mentioned in Note 1, the Company and its domestic consolidated subsidiary shortened the useful lives of buildings. The effect of this change on the above information for the year ended March 31, 1999 was to increase operating expenses for the Japan segment by ¥ 104 million over the amount which would have been recorded if the useful lives applied in the previous year had been followed.

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiary, totaled ¥ 39,903 million and ¥ 37,383 million (\$352,171 thousand), or 26.1% and 24.3% of the consolidated net sales for the years ended March 31, 1999 and 2000, respectively.

12. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2000, were approved at a shareholders' meeting held on June 29, 2000:

| | <i>Millions of yen</i> | <i>Thousands of U.S. dollars</i> |
|---|----------------------------|--------------------------------------|
| Cash dividends of ¥ 3.5 (\$0.03) per share | ¥ 743 | \$7,000 |
| Transfer to legal reserve | 80 | 754 |
| Bonuses to directors and statutory auditors | 50 | 471 |