

Non-Consolidated Financial Statements

Yodogawa Steel Works, Ltd.

Years ended March 31, 1999 and 2000

with Independent Auditors' Report

Yodogawa Steel Works, Ltd.

Non-Consolidated Financial Statements

Years ended March 31, 1999 and 2000

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Independent Auditors' Report on Non-Consolidated Financial Statements

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

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

As described in Note 1 to the non-consolidated financial statements, Yodogawa Steel Works, Ltd. has adopted a new accounting standard for tax-effect accounting in the preparation of its non-consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying non-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 non-consolidated financial statements.

Osaka, Japan
June 29, 2000

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

Yodogawa Steel Works, Ltd.

Non-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	¥ 29,699	¥ 25,157	\$ 236,995
Short-term investments	2,500	2,000	18,841
Marketable securities (Note 3)	20,244	20,729	195,280
Notes and accounts receivable:			
Subsidiaries and affiliates	20,544	19,341	182,204
Trade	20,514	22,041	207,640
Less allowance for doubtful receivables	(196)	(153)	(1,441)
Inventories (Note 4)	27,441	26,356	248,290
Deferred income taxes (Note 7)	–	327	3,081
Other current assets	2,832	4,241	39,953
Total current assets	123,578	120,039	1,130,843
Property, plant and equipment, at cost (Note 5):			
Land	18,552	18,494	174,225
Buildings and structures	37,785	40,198	378,691
Machinery and equipment	95,001	101,932	960,264
Construction in progress	9,072	3,436	32,369
Less accumulated depreciation	(99,728)	(105,074)	(989,864)
Property, plant and equipment, net	60,682	58,986	555,685
Investments and other assets:			
Investments in securities	1,068	1,018	9,590
Investments in and advances to subsidiaries and affiliates (Note 3)	13,328	14,024	132,115
Deferred income taxes (Note 7)	–	1,097	10,334
Other assets	1,487	1,586	14,942
Total investments and other assets	15,883	17,725	166,981
Total assets	¥ 200,143	¥ 196,750	\$1,853,509

See notes to non-consolidated financial statements.

	<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 5</i>)	¥ 10,000	¥ 10,000	\$ 94,206
Notes and accounts payable:			
Subsidiaries and affiliates	2,330	2,087	19,661
Trade	19,134	19,868	187,169
Construction	2,448	2,180	20,537
Accrued expenses	3,646	3,444	32,445
Accrued income taxes (<i>Note 7</i>)	1,997	80	754
Reserve for losses on restructuring	–	269	2,534
Other current liabilities	1,111	1,971	18,568
Total current liabilities	40,666	39,899	375,874
Long-term liabilities:			
Long-term debt (<i>Note 5</i>)	15,000	15,000	141,309
Retirement allowances (<i>Note 8</i>)	7,444	7,582	71,427
Guarantee deposits (<i>Note 5</i>)	1,423	1,454	13,698
Total long-term liabilities	23,867	24,036	226,434
Commitments and contingent liabilities (<i>Note 11</i>)			
Shareholders' equity (<i>Note 6</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	23,497	23,497	221,357
Legal reserve (<i>Note 12</i>)	3,089	3,250	30,617
Retained earnings (<i>Note 12</i>)	85,803	82,847	780,471
Total shareholders' equity	135,610	132,815	1,251,201
Total liabilities and shareholders' equity	¥ 200,143	¥ 196,750	\$1,853,509

See notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Non-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	¥ 121,274	¥ 117,382	\$1,105,813
Cost of sales	98,447	99,396	936,373
Gross profit	22,827	17,986	169,440
Selling, general and administrative expenses <i>(Note 9)</i>	17,951	16,995	160,104
Operating income	4,876	991	9,336
Other income (expenses):			
Interest and dividend income	1,430	1,186	11,173
Interest expense	(359)	(420)	(3,957)
Gain on sales of marketable equity securities	9	2,330	21,950
Loss on revaluation of marketable equity securities	(1,252)	(252)	(2,374)
Gain on sales of property, plant and equipment	488	162	1,526
Loss on sales or disposal of property, plant and equipment	(682)	(328)	(3,090)
Loss on liquidation of a subsidiary	–	(1,266)	(11,927)
Provision for reserve for losses on restructuring	–	(269)	(2,534)
Other, net	59	101	952
Income before income taxes	4,569	2,235	21,055
Income taxes <i>(Note 7)</i> :			
Current	2,234	867	8,168
Deferred	–	(37)	(349)
	2,234	830	7,819
Net income	¥ 2,335	¥ 1,405	\$ 13,236
			<i>U.S. dollars (Note 2)</i>
Amounts per share:	<i>Yen</i>		<i>U.S. dollars (Note 2)</i>
Net income	¥ 10.26	¥ 6.44	\$0.06
Cash dividends	7.00	7.00	0.07

See notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Non-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 and end of the year	¥ 23,497	¥ 23,497	\$221,357
Legal reserve			
Balance at beginning of the year	¥ 2,921	¥ 3,089	\$ 29,100
Add:			
Transfer from retained earnings	168	161	1,517
Balance at end of the year	¥ 3,089	¥ 3,250	\$ 30,617
Retained earnings			
Balance at beginning of the year	¥ 88,865	¥ 85,803	\$808,318
Add:			
Net income	2,335	1,405	13,236
Cumulative adjustment arising from initial adoption of tax-effect accounting	–	1,387	13,066
Deduct:			
Cash dividends paid	1,606	1,544	14,545
Bonuses to directors and statutory auditors	65	60	565
Transfer to legal reserve	168	161	1,517
Retirement of treasury stock	3,558	3,983	37,522
Balance at end of the year	¥ 85,803	¥ 82,847	\$780,471

See notes to non-consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements

March 31, 2000

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying non-consolidated financial statements of Yodogawa Steel Works, Ltd. (the "Company") have been prepared in accordance with accounting principles and practices generally accepted 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 non-consolidated financial statements are not intended to present the non-consolidated financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

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

(b) 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.

(c) 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 to cash subject to an insignificant risk of changes in their value and which were purchased with an original maturity of three months or less.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(d) 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.

(e) 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.

(f) 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) 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 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.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(g) Research and Development Expenses and Computer Software

Research and development expenses 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.

(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

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 adopted accounting for the interperiod allocation of income taxes in accordance with an amendment to the Securities and Exchange Law of Japan. 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 non-consolidated statements of shareholders’ equity for the year ended March 31, 2000. The effect of this change was that deferred income taxes - current assets, deferred income taxes - non-current assets, and retained earnings at March 31, 2000 increased by ¥ 327 million (\$3,081 thousand), ¥ 1,097 million (\$10,334 thousand), and ¥ 2,374 million (\$22,365 thousand), respectively, and net income for the year then ended increased by ¥ 37 million (\$349 thousand).

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(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 directors and statutory auditors of the Company 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.

(l) Amounts per Share

The computation of non-consolidated 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 ¥ 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 Non-Consolidated Financial Statements (continued)

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, 1999 is summarized as follows:

	1999	
	Book value	Market value
Marketable securities:		
Equity securities	¥ 17,995	¥ 36,695
Debt securities	141	154
Other securities	566	396
	18,702	37,245
Investments in subsidiaries and affiliates:		
Equity securities	11,310	13,120
	11,310	13,120
	¥ 30,012	¥ 50,365

The corresponding information at March 31, 2000 is disclosed on a consolidation basis. See Note 3 to the consolidated financial statements.

4. Inventories

Inventories at March 31, 1999 and 2000 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	1999	2000	2000
Finished goods	¥ 16,282	¥ 15,243	\$143,599
Work in process	3,692	3,813	35,921
Raw materials and supplies	7,283	7,128	67,150
Real estate held for sale	184	172	1,620
	¥ 27,441	¥ 26,356	\$248,290

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

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

Short-term bank loans represent overdrafts at annual interest rates of approximately 0.9% and 0.58% at March 31, 1999 and 2000, 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 2002, at an interest rate of 1.72%	5,000	5,000	47,103
	<u>¥ 15,000</u>	<u>¥ 15,000</u>	<u>\$ 141,309</u>

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>
2002	¥ 5,000	\$ 47,103
2003	5,000	47,103
2004	5,000	47,103
	<u>¥ 15,000</u>	<u>\$ 141,309</u>

The assets pledged as collateral for short-term bank loans at March 31, 1999 and 2000 were as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	1999	2000	<i>U.S. dollars</i>
Property, plant and equipment, at net book value	¥ 26,527	¥ 30,885	\$ 290,956

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

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

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:

<u>Year ending March 31.</u>	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
2001	¥ 3	\$ 28
2002	3	28
2003	3	28
2004	3	28
2005	3	28
2006 and thereafter	1,439	13,558
	<u>¥ 1,454</u>	<u>\$ 13,698</u>

6. 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.

7. Income Taxes

Income taxes applicable to the Company 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 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.

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

7. Income Taxes (continued)

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 is as follows:

Statutory tax rate	42.0%
Non-deductible entertainment expenses	2.6
Non-taxable cash dividend income	(6.0)
Foreign tax credit	(3.2)
Per capita portion of inhabitants' taxes	2.4
Other	(0.7)
Effective tax rate	37.1%

Effective April 1, 1999, the Company 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 Company's deferred tax assets and liabilities as of March 31, 2000 are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Deferred tax assets:		
Retirement allowances for employees	¥ 1,426	\$13,434
Retirement allowances for directors and statutory auditors	452	4,258
Accrued bonuses	159	1,498
Allowances for doubtful receivables	123	1,159
Reserve for losses on restructuring	113	1,065
Other	114	1,073
Total deferred tax assets	2,387	22,487
Deferred tax liabilities:		
Reserve for deferred taxation on contributions for acquisition of property	963	9,072
Total deferred tax liabilities	963	9,072
Net deferred tax assets	¥ 1,424	\$13,415

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

8. Retirement Allowances and Pension Plans

The charges to income for retirement allowances and pension plans 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>
Provision for retirement allowances	¥ 881	¥ 885	\$8,337
Pension costs	323	327	3,081

The assets of the pension fund at March 31, 1999 and 2000 were as follows:

	<i>Millions of yen</i>		<i>Thousands of</i>
	1999	2000	<i>U.S. dollars</i>
	¥ 2,812	¥ 2,919	\$27,499

9. Research and Development Expenses

Research and development expenses 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</i>
	1999	2000	<i>U.S. dollars</i>
	¥ 669	¥ 573	\$5,398

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

10. Leases

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 1999 and 2000, 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>		
	1999			2000			2000		
	Acquisi- tion costs	Accumu- lated depreci-ati on	Net book value	Acquisi- tion cost	Accumu- lated depreci-ati on	Net book value	Acquisi- tion costs	Accumu- lated depreci-ati on	Net book value
Machiner y and equipme nt	¥ 286	¥ 144	¥ 142	¥ 297	¥ 166	¥ 131	\$2,798	\$1,564	\$1,234

The related lease payments and depreciation expense 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
Lease payments	¥ 62	¥ 59	\$556
Depreciation expense	62	59	556

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

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 are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
<u>Year ending March 31,</u>		
2001	¥ 58	\$ 546
2002 and thereafter	73	689
	<u>¥ 131</u>	<u>\$1,234</u>

Yodogawa Steel Works, Ltd.

Notes to Non-Consolidated Financial Statements (continued)

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.

The corresponding information at March 31, 2000 is disclosed on a consolidation basis. See Note 10 to the consolidated financial statements.

At March 31, 2000, 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	¥ 290	\$2,732

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, 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