

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.

Consolidated Financial Statements

Years ended March 31, 1998 and 1999

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Report of Independent Certified Public Accountants
on the Consolidated Financial Statements

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

We have examined the consolidated balance sheets of Yodogawa Steel Works, Ltd. and its consolidated subsidiaries as of March 31, 1998 and 1999, and the related consolidated statements of income and shareholders' equity 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 consolidated financial statements, expressed in yen, present fairly the financial position of Yodogawa Steel Works, Ltd. and its consolidated subsidiaries at March 31, 1998 and 1999, and the results of their operations 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 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 consolidated financial statements.

Osaka, Japan
June ~~29~~²⁷, 1999

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Yodogawa Steel Works, Ltd.

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	¥ 11,050	¥ 10,327	\$ 85,666
Short-term investments	32	8,702	72,186
Marketable securities	35,953	40,590	336,707
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	<u>24,041</u>	20,543	170,411
Trade	<u>28,177</u>	21,974	182,281
Less allowance for doubtful receivables	<u>(305)</u>	(213)	(1,767)
Inventories	31,522	29,872	247,798
Trust certificates	999	2,697	22,372
Other current assets	4,548	3,455	28,660
Total current assets	<u>136,017</u>	<u>137,947</u>	<u>1,144,314</u>
Property, plant and equipment, at cost:			
Land	20,668	20,328	168,627
Buildings and structures	42,386	41,602	345,102
Machinery and equipment	112,773	112,623	934,243
Construction in progress	7,460	10,899	90,411
Less accumulated depreciation	<u>(111,842)</u>	<u>(114,801)</u>	<u>(952,311)</u>
Property, plant and equipment, net	71,445	70,651	586,072
Investments and other assets:			
Investments in securities	<u>1,242,799</u>	1,197	9,929
Investments in and advances to unconsolidated subsidiaries and affiliates	<u>4,449</u>	4,032	33,447
Other assets	<u>1,892</u>	1,944	16,126
Total investments and other assets	<u>7,583</u>	<u>7,173</u>	<u>59,502</u>
Excess of cost over net assets acquired	60	-	-
Foreign currency translation adjustments	876	3,034	25,168
	<u>¥ 215,981</u>	<u>¥ 218,805</u>	<u>\$1,815,056</u>

	<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	¥ 8,990	¥ 10,000	\$ 82,953
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	<u>2,746</u>	2,248	18,648
Trade	<u>24,702</u>	19,954	165,525
Construction	<u>5,807</u>	2,448	20,307
Accrued expenses	4,937	3,766	31,240
Accrued income taxes	2,374	1,999	16,582
Other current liabilities	<u>1,443</u>	1,842	15,280
Total current liabilities	<u>50,999</u>	<u>42,257</u>	<u>350,535</u>
Long-term liabilities:			
Long-term debt	1,995	16,795	139,320
Retirement allowances	8,095	8,003	66,387
Guarantee deposits	<u>1,615</u>	1,424	11,813
Other long-term liabilities	<u>482</u>	433	3,592
Total long-term liabilities	<u>12,187</u>	<u>26,655</u>	<u>221,112</u>
Minority interests and other	10,764	11,181	92,750
Contingent liabilities (Note 4)			
Shareholders' equity:			
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	23,611	23,611	195,861
Retained earnings (Note 5)	95,243	91,923	762,530
Less treasury common stock, at cost	<u>(4444)</u>	(43)	(357)
	<u>142,031</u>	<u>152</u>	
Total shareholders' equity	<u>142,031</u>	<u>138,712</u>	<u>1,150,659</u>
	<u>¥ 215,981</u>	<u>¥ 218,805</u>	<u>\$ 1,815,056</u>

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Consolidated Statements of Income

Years ended March 31, 1998 and 1999

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	1998	1999	<i>(Note 2)</i> 1999
Net sales <i>(Note 6)</i>	¥ 182,616	¥ 153,127	\$1,270,236
Cost of sales <i>(Note 6)</i>	150,117	126,449	1,048,934
Gross profit	32,499	26,678	221,302
Selling, general and administrative expenses <i>(Note 6)</i>	21,532	20,489	169,962
Operating income <i>(Note 6)</i>	10,967	6,189	51,340
Other income (expenses):			
Interest and dividend income	1,433	1,173	9,730
Interest expense	(805)	(503)	(4,173)
Gain on sales of marketable equity securities	1,479	9	75
Loss on revaluation of marketable equity securities	(2,369)	(1,257)	(10,427)
Gain on sales of property, plant and equipment	73	489	4,056
Loss on sales or disposal of property, plant and equipment	(291)	(697)	(5,782)
Equity in losses of affiliates	(35)	(348)	(2,887)
Other, net	618	256	2,124
Income before income taxes <u>and minority interests</u>	11,070	5,311	44,056
Income taxes	4,475	2,594	21,518
Income before minority interests	6,595	2,717	22,538
Minority interests in earnings of consolidated subsidiaries	(1,226)	(806)	(6,686)
Net income	¥ 5,369	¥ 1,911	\$ 15,852
			<i>U.S. dollars (Note 2)</i>
	<i>Yen</i>		
Amounts per share:			
Net income	¥ 23.49	¥ 8.40	\$0.07

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

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	<u>¥ 23,221</u>	<u>¥ 23,221</u>	<u>\$192,625</u>
Additional paid-in capital			
Balance at beginning of the year	¥ 21,61 7	¥ 23,611 7	\$195,861
Add:			
Exercise of warrants	1,998	-	-
Transfer from retained earnings	-	0	0
Deduct:			
Transfer to retained earnings	4	-	-
Balance at end of the year	<u>¥ 23,6116</u> <u>↓</u>	<u>¥ 23,611</u>	<u>\$195,861</u>
Retained earnings			
Balance at beginning of the year	¥ 91,527	¥ 95,243	\$790,071
Add:			
Net income	5,369	1,911	15,852
Increase due to merger of an unconsolidated subsidiary	-	8	66
Adjustment relating to increase in common stock of a subsidiary	4	-	-
Deduct:			
Cash dividends paid	1,568	1,591	13,198
Bonuses to directors and statutory auditors	78	78	647
Bonuses to employees of an overseas subsidiary	11	12	100
Transfer to additional paid-in capital	-	0	0
Retirement of treasury common stock	-	3,558	29,514
Balance at end of the year	<u>¥ 95,243</u>	<u>¥ 91,923</u>	<u>\$762,530</u>

See notes to consolidated financial statements.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements

March 31, 1998 and 1999

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared on the basis of the same accounting policies as those discussed in Note 1 to the non-consolidated financial statements except for the following policies:

(a) Basis of Presentation

The Company and its domestic consolidated subsidiary maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, and its foreign consolidated subsidiary maintains its accounts in conformity with the requirements of its country of domicile. The accompanying consolidated financial statements have been compiled from those prepared by the Company under the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 1998 to the 1999 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

(b) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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 year-end to the Company's fiscal year end date.

Investments in significant affiliates (companies owned 20% to 50%) are accounted for by the equity method. The Company has applied the equity method to its investments in two affiliates for the years ended March 31, 1998 and 1999.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

Investments in unconsolidated subsidiaries and affiliates other than those accounted for by the equity method are stated at cost.

The differences between the cost of investments in consolidated subsidiaries and the equity in their net assets at the dates of acquisition are being amortized over a period of five years.

(c) Foreign Currency Translation

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 financial statements.

(d) Property, Plant and Equipment and Depreciation

Effective April 1, 1998, the Company and its domestic consolidated subsidiary shortened the useful lives of buildings (except for 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 and minority interests 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.

2. U.S. Dollar Amounts

The same method of translating yen amounts into U.S. dollar amounts as that described in Note 2 to the non-consolidated financial statements has been followed.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

3. Leases

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 1999, 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 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			1999		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥ 536	¥ 264	¥ 272	\$4,446	\$2,190	\$2,256

The related lease payments and depreciation 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	¥ 105	¥ 100	\$830
Depreciation expense	-	100	830

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, 1999 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>		
2000	¥ 89	\$ 738
2001 and thereafter	183	1,518
	<u>¥ 272</u>	<u>\$ 2,256</u>

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

4. Contingent Liabilities

At March 31, 1999, 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	¥ 514	\$ 4,264

5. Legal Reserve

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. At March 31, 1998 and 1999, retained earnings included a legal reserve of ¥ 2,921 million and ¥ 3,089 million (\$25,624 thousand), respectively.

6. 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.

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Segment Information (continued)

Business Segments

The business and geographical segments information of the Company and its consolidated subsidiaries for the years ended March 31, 1998 and 1999 are outlined as follows:

Business Segments

		Year ended March 31, 1998					
		<i>Millions of yen</i>					
		Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
		¥160,278,157,	¥18,847,179,		¥182,616,178,		¥182,616,178,5
I.	Sales to third parties	443	29	¥3,491,527	599	¥ -	99
	Intergroup sales and transfers	<u>-3</u>	-	<u>275,279</u>	<u>275,282</u>	<u>(275,282)</u>	-
	Total sales	<u>160,278,157,4</u>	<u>18,847,179,92</u>	<u>3,766,3,806</u>	<u>182,891,178,8</u>	<u>(275,282)</u>	<u>182,616,178,59</u>
	Operating expenses	150,150	<u>18,441,17,73</u>	<u>2,320,2,299</u>	170,911	<u>738,760</u>	171,649
	Operating income	¥ 10,128,841	¥ 406,194	¥1,446,507	¥ 11,980	¥ <u>(1,042,1,013)</u>	¥ 10,967
II.	Assets, depreciation and capital expenditures						
	Total assets	¥134,981,125,	¥18,236,17,5	¥11,042,15	¥164,259,153,	¥ 51,722,80,872	¥215,981,143,6
	Depreciation	969	97	4	731	9997	93
	Capital expenditures	<u>5,837,6,114</u>	<u>837,800</u>	<u>239,258</u>	<u>6,913,7,172</u>	<u>920,434</u>	<u>7,012,269</u>
		<u>4,764,4,327</u>	<u>654,940</u>	<u>129,226</u>	<u>5,547,462</u>		<u>6,467,5,896</u>
		Year ended March 31, 1999					
		<i>Millions of yen</i>					
		Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I.	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						

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

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)

6. Segment Information (continued)

Business Segments (continued)

	Year ended March 31, 1999					
	<i>Thousands of U.S. dollars</i>					
	Steel sheet products	Electric furnace products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales to third parties	\$1,138,540	\$108,370	\$23,326	\$1,270,236	\$ –	\$1,270,236
Intergroup sales and transfers	–	–	15,405	15,405	(15,405)	–
Total sales	1,138,540	108,370	38,731	1,285,641	(15,405)	1,270,236
Operating expenses	1,085,284	111,083	29,199	1,225,566	(6,670)	1,218,896
Operating income (loss)	\$ 53,256	\$ (2,713)	\$ 9,532	\$ 60,075	\$ (8,735)	\$ 51,340
II. Assets, depreciation and capital expenditures						
Total assets	\$1,043,849	\$121,759	\$94,906	\$1,260,514	\$ 554,542	\$1,815,056
Depreciation	45,550	6,794	2,065	54,409	1,468	55,877
Capital expenditures	19,685	11,149	1,360	32,194	1,825	34,019

As mentioned in Note 1, the Company and its domestic consolidated subsidiary shortened the useful lives of buildings. The effect of this change increased operating expenses of steel sheet products, electric furnace products and other by ¥ 72 million (\$597 thousand), ¥ 11 million (\$91 thousand) and ¥ 21 million (\$174 thousand), respectively, from the amounts which would have been recorded if the useful lives applied in the previous year had been used.

Geographical Segments

	Year ended March 31, 1998				
	<i>Millions of yen</i>				
	Japan	Southeast Asia	Total	Eliminations and general corporate assets	Consolidated
Sales to third parties	¥141,244,245	¥41,372	¥182,616,617	¥ –	¥182,616,617
Interarea sales and transfers	3635	–	3635	(3635)	–
Total sales	141,280	41,372	182,652	(3635)	182,616,617
Operating expenses	133,639	38,046	171,472,685	(3635)	171,649,178
Operating income	¥ 7,641	¥ 3,326	¥ 10,967	¥ –	¥ 10,967
Assets	¥137,201	¥27,035	¥164,236	¥ 51,745	¥215,981

Yodogawa Steel Works, Ltd.

Notes to Consolidated Financial Statements (continued)

6. Segment Information (continued)

Geographical Segments (continued)

	Year ended March 31, 1999				
	<i>Millions of yen</i>				
	Japan	Southeast Asia	Total	Eliminations and general corporate assets	Consolidated
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
Assets	¥139,080	¥ 24,159	¥163,239	¥ 55,566	¥218,805

	Year ended March 31, 1999				
	<i>Thousands of U.S. dollars</i>				
	Japan	Southeast Asia	Total	Eliminations and general corporate assets	Consolidated
Sales to third parties	\$ 997,992	\$272,244	\$1,270,236	\$ –	\$1,270,236
Interarea sales and transfers	13,804	–	13,804	(13,804)	–
Total sales	1,011,796	272,244	1,284,040	(13,804)	1,270,236
Operating expenses	972,551	260,149	1,232,700	(13,804)	1,218,896
Operating income	\$ 39,245	\$ 12,095	\$ 51,340	\$ –	\$ 51,340
Assets	\$1,153,712	\$200,407	\$1,354,119	\$ 460,937	\$1,815,056

As mentioned in Note 1, the Company and its domestic consolidated subsidiary shortened the useful lives of buildings. The effect of this change increased operating expenses of the Japan segment by ¥ 104 million (\$863 thousand) from the amount which would have been recorded if the useful lives applied in the previous year had been used.

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 ¥ 47,670 million and ¥ 39,903 million (\$331,008 thousand), or 26.1% and 26.1% of the consolidated net sales for the years ended March 31, 1998 and 1999, respectively.

6. Subsequent Event

See Note 12 to the non-consolidated financial statements.