

# **ANNUAL REPORT 2003**

**MARCH 31, 2003**

**YAMATO KOGYO CO., LTD.**

**AND CONSOLIDATED SUBSIDIARIES**

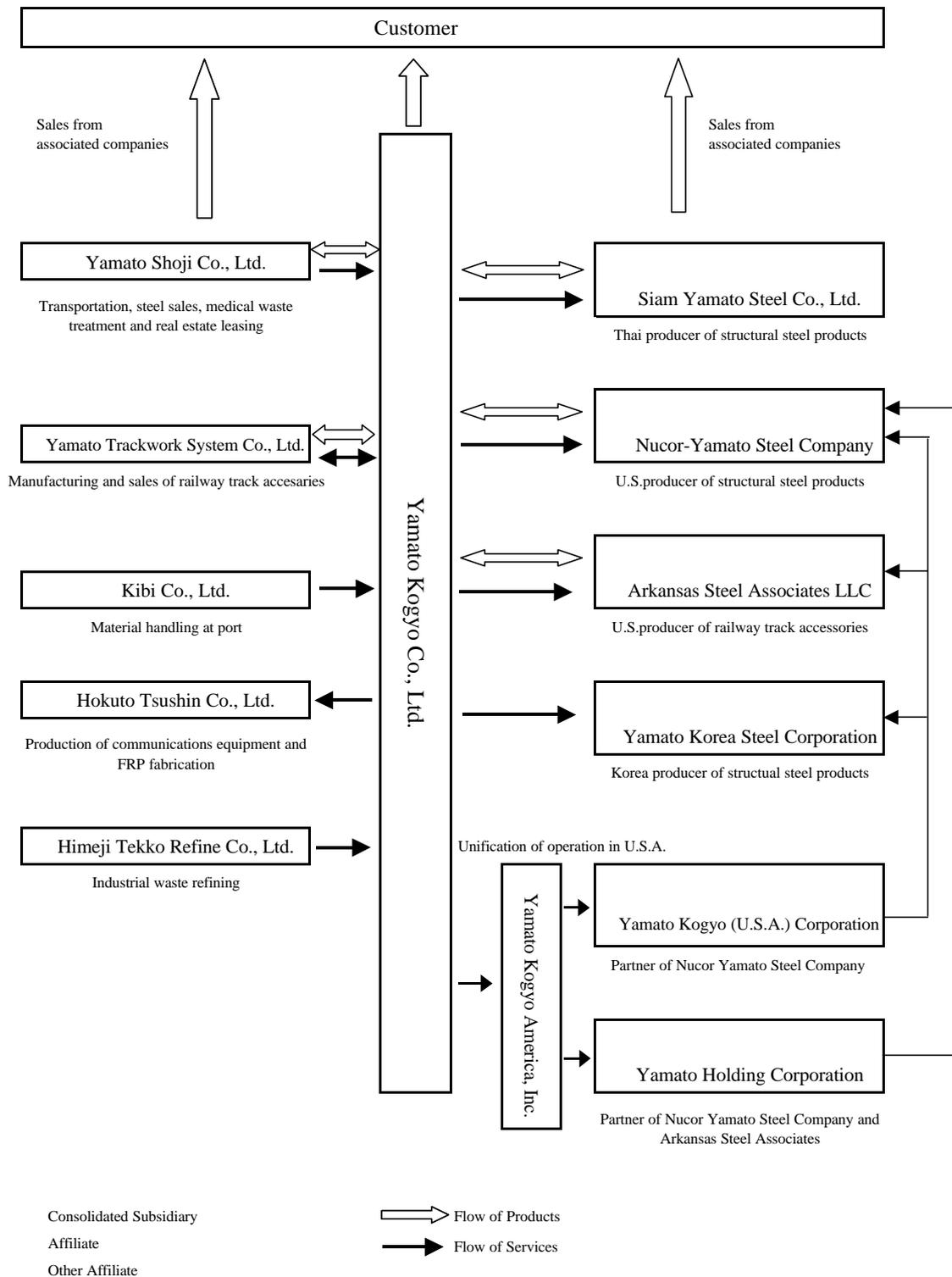
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# Corporate Structure and Affiliates

As of March 31, 2003



## **Operating Results for The Fiscal Year Ended March 31, 2003**

### **Management Policy**

#### **1) Basic Business Policy**

The Yamato Kogyo group of companies has served as a responsible member of the business community and strives to manufacture high quality and high value added products based on customer needs. We utilize scrap steel to make final products in order to respond to global needs to conserve energy and resources, and we are striving on a global scale to meet the challenge of environmental protection, which is the most pressing task of modern society. We make products that enable high-speed and high-volume rail and ocean transportation. With all of its products, the group contributes to the betterment of society and the economy, through the development of its domestic and global business enterprises.

#### **2) Basic Policy Regarding Profit Allocation**

We believe that the development of future dividend policies will be based not only on the performance of each member of the group, but also on the consolidated performance, financial situation, and internal reserves of the group as a whole. Moreover, from the standpoint of medium- and long-term shareholder profits, the Company has already acquired and retired 18,200,000 of its own shares, and this will continue in the future.

#### **3) Medium- and Long-term Corporate Business Strategy and Challenges Facing the Company**

In order for the Company's group to respond to the dramatic changes in society, it aims to place its foreign and domestic subsidiaries under the umbrella of a holding company serving the functions of a main office, with each subsidiary functioning autonomously, so as to create an organizational structure capable of rapidly responding to changes in the corporate environment. In April 2002, the Company spun off its Rail Accessories Division to start a new company known as Yamato Trackwork System Co., Ltd. The Company also plans to spin off its Steel Division and its Heavy Industry Processing Division. By separating the Company's business functions in this manner, it will become a holding company with its affiliates under one umbrella.

Moreover, the Company's group has developed its business to target the broader world market with its rail accessories operations and its steel operations. In November 2002, the Company and its U.S. subsidiary Yamato Kogyo (U.S.A.) Corporation established Yamato Korea Steel Corporation through the acquisition of a South Korean steel bar maker by a transfer of business. It should be noted that in addition to our Company, the ORIX Group also invested in this company in February 2003. Moreover, in March 2003, our Company acquired shares of Hokuto Tsushin Co., Ltd., which manufactures communication equipment and is involved in FRP forming and processing.

#### **4) The Basic Concept of Corporate Governance and the Status of Policy Implementation**

The Company's group aims to increase the speed of decision-making by giving its subsidiaries greater autonomy, with an eye toward enhancing corporate competitiveness. The holding company strives to build a system that can maximize the group's strengths by establishing a basic management strategy and consistent supervisory functions. It is also working to establish thorough check functions from the standpoint of transparency in management.

The Company has adopted an auditing system involving two auditors, two of which are external auditors. Their task is to objectively monitor the performance of the duties of the directors. The accounting firm

Chuo Aoyama Audit Corporation conducts audits when accounts are settled, and provides advice as it sees fit with regard to management and organizational issues. The Company also receives advice from its legal counsel, as needed, regarding issues such as compliance, in accordance with a contract for legal services.

## **Business Performance**

### **1) Overview of the Current Term**

#### **Steel**

Given the stagnation in the demand for formed steel, the steel companies are reducing production with the aim of bringing about a recovery in sales prices. As a result, there has been a reduction in distribution inventories, accompanied by a gradual recovery in steel prices. Consequently, domestic sales are 18,432 million yen, an increase of 3,670 million yen over the previous accounting period. In addition, Yamato Korea Steel Corporation in South Korea, formed through a transfer of business in December 2002, booked sales that contributed to sales of 21,535 million yen (Results in the previous accounting period: 15,019 million yen) in that business sector.

#### **Rail Accessories**

In the domestic market, sales to JR and private railways grew, due to the aggressive development of new customers and due to the sale of new products. Sales were 3,211 million yen, an increase of 443 million yen over the previous accounting period. Export sales of railroad switching equipment to Taiwan rose to 464 million yen, an increase of 53 million yen over the previous accounting period. Sales in this business sector were 3,675 million yen (Results in the previous accounting period: 3,179 million yen).

#### **Heavy Industry Processing**

Although a high level of volume in new ships is forecast world-wide for 2003, stiff competition from overseas makers has exerted downward pressure on the price of ships, and this has also affected the unit sales price of our Company's steel products and stern frames. In response to this tough situation, we have joined forces with the shipbuilding companies, making efforts to raise competitiveness and to ensure sales volumes by aggressively reducing unit costs. As a result, sales in this business sector rose to 2,918 million yen (Results in the previous accounting period: 2,828 million yen).

#### **Real Estate Leases**

The tough situation for real estate rents continues, and occupancy rates in some of the buildings owned by the Company are getting worse, so sales in this business sector fell to 291 million yen (Results in the previous accounting period: 321 million yen).

#### **Treatment of Medical Waste**

Due to efforts to expand business into neighborhood clinics, sales in this business sector rose to 150 million yen (Results in the previous accounting period: 145 million yen).

As a result of the above, consolidated sales for the current accounting period grew to 28,571 million yen (Results in the previous accounting period: 21,493 million yen).

Regarding our overseas affiliates: Although results for our U.S. joint ventures showed a tendency to rebound in the first half of fiscal year 2002, an influx of cheap foreign steel and new U.S. mill operations by other companies in the second half brought about a drop in order volume and steel prices, so performance slowed down once again. Given the recovery in economic growth in Thailand, the Siam Yamato Steel Company Limited showed steady progress in its results. These results are reflected in the consolidated results in terms of equity-method investment profit/loss.

As a result of the above, ordinary profits were 11,857 million yen (Results in the previous accounting period: 15,192 million yen), and the net profit for the current accounting period is 7,974 million yen (Results in the previous accounting period: 5,826 million yen).

Regarding the Company's financial situation: Cash allocations from the two U.S. affiliates (Nucor Yamato Steel Company and Arkansas Steel Associates LLC) have contributed to an increased cash flow of 15,129 million yen due to operating activities. Cash flow resulting from investment activities increased, due to the sale of securities and the reduction in capital investment in Siam Yamato Steel Company Limited. At the same time, outlays for plant and equipment investment and acquisition of preferred stock, as well as outlays for the transfer of business of a South Korean steel bar mill, reduced funds by 15,048 million yen. Cash flow resulting from financial activities showed a decrease in loans from Japanese financial institutions, and at the same time, the procurement of funds by Yamato Korea Steel Corporation from South Korean financial institutions kept the decrease to 598 million yen. Holdings in cash and cash equivalents in U.S. dollars by overseas subsidiaries have decreased by 2,494 million yen as a conversion differential due to the effects of the exchange rate. Consequently, cash and cash equivalents decreased by 3,010 million yen, for a balance of 28,675 million yen at the end of the accounting period.

Dividends in the current accounting period reflect the relatively steady performance of our U.S. joint venture operations, and our U.S. subsidiary has received large cash dividends. In addition, dividends of 10 yen per share (a regular dividend of 5 yen, plus a special dividend of 5 yen) are planned, in response to the constant support received from the shareholders. It should be noted that dividends of 20 yen per share are planned for the current accounting period, which include interim dividend.

## **2) Future Outlook**

We expect that the serious state of the Japanese economy will continue, reflecting the slow pace of structural reform, advancing deflation, and the unstable international situation. There is concern for the economic recovery in the United States, due to the problems encountered after the conclusion of the war in Iraq. On the other hand, a steady expansion in economic growth is forecast for Asia. Given such an environment, a recovery in revenues is forecast for the domestic steel business sector, due to recovery in formed steel unit sales prices, even though trends in scrap prices are unpredictable. In the overseas arena, the performance of our U.S. joint ventures dropped significantly as we entered this fiscal year, and we think they will take time to recover. However, first quarter results were very good in Thailand and in South Korea, and we expect them to continue to progress favorably.

Based on the foregoing, we anticipate sales of 66,500 million yen, ordinary profit of 9,000 million yen, and a net profit of 5,800 million yen for the current accounting period. Please note that currency conversions are based on an exchange rate of 118 yen per dollar.

In addition, regarding dividends for the next accounting period, an interim dividend of 5 yen per share is planned, in view of the uncertainty in the above results. Regarding dividends at the end of the accounting period, 5 yen per share are planned, or 10 yen per share on an annual basis.

**YAMATO KOGYO CO., LTD.  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2003 and 2002**

**In Japanese Yen**

	(In millions of Japanese Yen)			
	2003	2002	2003	2002
<b>Current assets</b>			<b>Current liabilities</b>	
Cash and time deposits	¥30,195	¥32,011	Trade notes and accounts payable	¥3,293
Trade notes and accounts receivable	10,366	7,947	Short-term loans payable	16,647
Marketable securities	0	12	Others	6,146
Inventories	5,684	4,440	Total current liabilities	26,087
Others	762	363		
Allowance for doubtful accounts	(62)	(20)	Long-term loans payable	920
Total current assets	46,947	44,755	Accrued retirement benefits	1,779
Property, plant and equipment, net			Deferred income tax liabilities	8,706
Buildings and structures	7,892	6,799	Others	423
Machinery, equipment and vehicles	8,186	8,352	Total liabilities	37,918
Land	16,529	6,502		35,254
Others	203	104	Minority stockholders' equity in consolidated subsidiaries	(365)
Total property, plant and equipment	32,812	21,758		640
Intangible fixed assets	435	156	Common stock	7,996
Investments, etc.			Additional paid in capital	6,979
Investments in securities	11,751	11,543	Retained earnings	72,268
Investments in capital	29,994	41,572		65,781
Others	891	1,071	Unrealized gain on revaluation of securities	649
Allowance for doubtful accounts	(146)	(152)	Translation adjustments	(1,565)
Total investments	42,490	54,036	Treasury stocks	(1,193)
			Stocks of parent company	0
			Total stockholders' equity	85,134
Total assets	¥122,686	¥120,706	Total liabilities and stockholders' equity	¥122,686

**In U.S. Dollars for Convenience Purposes**

(Note 1)

	(In thousands of U.S. Dollars)			
	2003	2002	2003	2002
<b>Current assets</b>			<b>Current liabilities</b>	
Cash and time deposits	\$251,213	\$266,322	Trade notes and accounts payable	\$27,400
Trade notes and accounts receivable	86,242	66,118	Short-term loans payable	138,497
Marketable securities	0	100	Others	51,138
Inventories	47,295	36,939	Total current liabilities	217,037
Others	6,346	3,026		
Allowance for doubtful accounts	(520)	(167)	Long-term loans payable	7,659
Total current assets	390,578	372,339	Accrued retirement benefits	14,801
Property, plant and equipment, net			Deferred income tax liabilities	72,434
Buildings and structures	65,661	56,565	Others	3,525
Machinery, equipment and vehicles	68,107	69,492	Total liabilities	315,458
Land	137,519	54,094		293,298
Others	1,697	868	Minority stockholders' equity in consolidated subsidiaries	(3,041)
Total property, plant and equipment	272,986	181,020		5,326
Intangible fixed assets	3,623	1,304	Common stock	66,528
Investments, etc.			Additional paid in capital	58,062
Investments in securities	97,765	96,038	Retained earnings	601,233
Investments in capital	249,537	345,861		547,270
Others	7,414	8,917	Unrealized gain on revaluation of securities	5,400
Allowance for doubtful accounts	(1,217)	(1,265)	Translation adjustments	(13,024)
Total investments	353,500	449,552	Treasury stocks	(9,929)
			Stocks of parent company	0
			Total stockholders' equity	708,271
Total assets	\$1,020,688	\$1,004,216	Total liabilities and stockholders' equity	\$1,020,688

Notes:

1. U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of ¥120.20 = \$1 as of March 31, 2003.
2. All figures are prepared under accounting principles generally accepted in Japan. See Notes to consolidated financial statements.
3. All amounts are ignored fractions less than millions of Japanese Yen and thousands of U.S. Dollars.

**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years ended March 31,2003 and 2002**

**In Japanese Yen**

(In millions of Japanese Yen)

	<b>2003</b>	2002
Sales	¥ <b>28,571</b>	¥ 21,493
Operating expenses	<b>29,281</b>	22,271
Operating income (loss)	<b>(709)</b>	(777)
Non operating revenues	<b>12,767</b>	16,336
Non operating expenses	<b>200</b>	366
Ordinary income	<b>11,857</b>	15,192
Special gains	<b>1,050</b>	26
Special losses	<b>1,412</b>	1,227
Income before taxes	<b>11,495</b>	13,990
Income taxes		
Current	<b>4,122</b>	5,892
Deferred	<b>(688)</b>	2,221
Minority stockholders' interest	<b>87</b>	50
Net income	<b>¥ 7,974</b>	<b>¥ 5,826</b>

**In U.S. Dollars for Convenience Purposes (Note 1)**

(In thousands of U.S. Dollars)

	<b>2003</b>	2002
Sales	<b>\$ 237,700</b>	\$ 178,816
Operating expenses	<b>243,605</b>	185,286
Operating income (loss)	<b>(5,904)</b>	(6,470)
Non operating revenues	<b>106,220</b>	135,915
Non operating expenses	<b>1,665</b>	3,053
Ordinary income	<b>98,650</b>	126,391
Special gains	<b>8,743</b>	220
Special losses	<b>11,754</b>	10,216
Income before taxes	<b>95,639</b>	116,395
Income taxes		
Current	<b>34,296</b>	49,019
Deferred	<b>(5,729)</b>	18,477
Minority stockholders' interest	<b>727</b>	421
Net income	<b>\$ 66,345</b>	<b>\$ 48,477</b>

Notes:

1. U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of ¥ 120.20 = \$ 1 as of March 31, 2003.
2. All figures are prepared under accounting principles generally accepted in Japan.  
See Notes to consolidated financial statements.
3. All amounts are ignored fractions less than millions of Japanese Yen and thousands of U.S. Dollars.

**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Years ended March 31,2003**

**Cash flows from operating activities**

	Millions of Japanese Yen	Thousands of U.S.Dollars
Income before taxes	¥ 11,495	\$ 95,639
Depreciation and amortization	1,767	14,708
Interest and dividends	(750)	(6,247)
Interest expenses	198	1,652
Equity in earnings of affiliated companies	(11,246)	(93,563)
Decrease in receivable	61	513
Increase in inventories	(138)	(1,153)
Decrease in advance payment	1,333	11,091
Decrease in payable	(1,358)	(11,304)
Others	(135)	(1,124)
	<b>1,227</b>	<b>10,211</b>
Interest and dividends received	18,618	154,898
Interest paid	(199)	(1,663)
Income taxes paid	(4,516)	(37,574)
<b>Net cash provided by operating activities</b>	<b>15,129</b>	<b>125,872</b>
<b>Cash flows from investing activities</b>		
Payment for time deposits	(309)	(2,575)
Proceeds from time deposits	296	2,464
Purchase of investment securities	(1,635)	(13,605)
Proceeds from sale of investment securities	734	6,108
Purchase of fixed assets	(1,428)	(11,883)
Payment for acquisition of the Pusan steel division of Hanbo Steel Co., Ltd	(13,494)	(112,263)
Proceeds from capital reduction	741	6,167
Others	47	392
<b>Net cash used in investing activities</b>	<b>(15,048)</b>	<b>(125,195)</b>
<b>Cash flows from financing activities</b>		
Purchase of treasury stocks	(130)	(1,084)
Proceeds from short-term loans	12,075	100,458
Repayment of short-term loans	(10,880)	(90,515)
Repayment of long-term loans	(175)	(1,463)
Dividends paid	(1,486)	(12,369)
<b>Net cash used in financing activities</b>	<b>(598)</b>	<b>(4,975)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(2,494)</b>	<b>(20,750)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(3,010)</b>	<b>(25,049)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>31,686</b>	<b>263,612</b>
<b>Cash and cash equivalents at end of year</b>	<b>28,675</b>	<b>238,563</b>

Notes:

1. U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of ¥ 120.20 = \$ 1 as of March 31, 2003.
2. All figures are prepared under accounting principles generally accepted in Japan.
3. All amounts are ignored fractions less than millions of Japanese Yen and thousands of U.S.Dollars.

**YAMTO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years ended March 31, 2003 and 2002**

In Japanese Yen

	Number of shares of common stock (thousands)	Millions of yen					Total
		Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stocks	
Balance at March 31,2002	71,534	¥7,996	¥6,979	¥65,781	¥6,206	(¥2,152)	¥84,812
Other comprehensive income							
Unrealized holding gains on marketable securities		-	-	-	(423)	-	(423)
Foreign currency translation adjustment		-	-	-	(6,699)	-	(6,699)
Treasury stocks							
Purchase of treasury stocks	(239)	-	-	-	-	(130)	(130)
Increase by change in the accounting standard (Note 2)	2,888	-	-	-	-	1,089	1,089
Cash dividends paid		-	-	(1,488)	-	-	(1,488)
Net income		-	-	7,974	-	-	7,974
Balance at March 31,2003	74,183	¥7,996	¥6,979	¥72,268	(¥916)	(¥1,193)	¥85,134

In U.S. Dollars for Convenience Purposes (Note 1)

	Number of shares of common stock (thousands)	Thousands of U.S.Dollars					Total
		Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stocks	
Balance at March 31,2002	71,534	\$66,528	\$58,062	\$547,270	\$51,636	(\$17,906)	\$705,592
Other comprehensive income							
Unrealized holding gains on marketable securities		-	-	-	(3,527)	-	(3,527)
Foreign currency translation adjustment		-	-	-	(55,733)	-	(55,733)
Treasury stocks							
Purchase of treasury stocks	(239)	-	-	-	-	(1,084)	(1,084)
Increase by change in the accounting standard (Note 2)	2,888	-	-	-	-	9,061	9,061
Cash dividends paid		-	-	(12,382)	-	-	(12,382)
Net income		-	-	66,345	-	-	66,345
Balance at March 31,2003	74,183	\$66,528	\$58,062	\$601,233	(\$7,624)	(\$9,929)	\$708,271

1. U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of  
 ¥ 120.20 = \$ 1 as of March 31, 2003.

2. Minority stockholders' value of parent company's stocks held by subsidiary is deducted from Minority stockholders' equity according to change in the accounting standard. It was deducted from stockholders' equity in the last fiscal period.

3. All figures are prepared under accounting principles generally accepted in Japan.  
 See Notes to consolidated financial statements.

4. All amounts are ignored fractions less than millions of Japanese Yen and thousands of U.S.Dollars.

**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA**

**In Japanese Yen**

(In millions of Japanese Yen)

FOR THE YEAR	Years ended March 31,				
	2003	2002	2001	2000	1999
Sales	¥28,571	¥21,493	¥21,772	¥20,642	¥22,315
Ordinary income (loss)	11,857	15,192	18,637	7,482	14,263
Net income (loss)	7,974	5,826	(984)	3,417	8,268
Per share	107.31	80.11	(12.47)	38.83	86.79
<b>AT YEAR-END</b>					
Stockholders' equity	85,134	84,812	71,218	81,384	87,700
Total assets	122,686	120,706	101,258	110,855	108,177

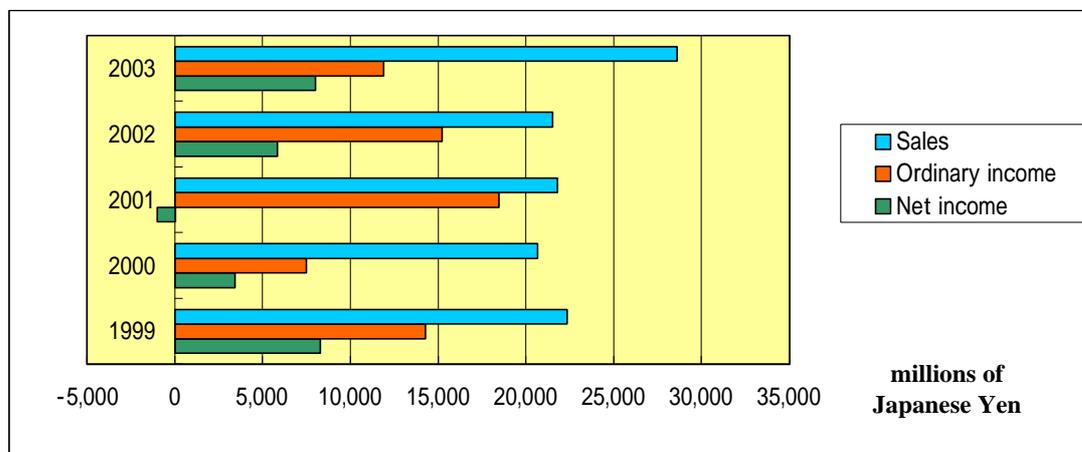
**In U.S. Dollars for Convenience Purposes**

(In thousands of U.S. Dollars)

FOR THE YEAR	Years ended March 31,				
	2003	2002	2001	2000	1999
Sales	\$237,700	\$178,816	\$181,131	\$171,736	\$185,651
Ordinary income (loss)	98,650	126,391	155,055	62,253	118,668
Net income (loss)	66,345	48,477	(8,190)	28,431	68,790
Per share	0.89	0.66	(0.10)	0.32	0.72
<b>AT YEAR-END</b>					
Stockholders' equity	708,271	705,592	592,498	677,077	729,620
Total assets	1,020,688	1,004,216	842,414	922,256	899,975

Notes:

1. U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of ¥ 120.20 = \$1 as of March 31, 2003.
2. All figures are prepared under accounting principles generally accepted in Japan.  
See Notes to consolidated financial statements.
3. All amounts are ignored fractions less than millions of Japanese Yen and thousands of U.S. Dollars.



## Notes to Consolidated Financial Statements

### 1. Basis of Presenting Consolidated Financial Statements

The annual reports are not examined by audit corporations. But these informations consist of the official consolidated financial statements that were examined by ChuoAoyama Audit Corporation in Japan under the Japanese Securities and Exchange Law and the related accounting regulations and in conformity with generally accepted accounting principles and practices in Japan.

The reports of the independent certified accountants in unqualified opinion were attached to the annual financial statements filed with Bureau chief of Kanto Treasury in Japan.

### 2 . Scope of Consolidation

Yamato Kogyo Co., Ltd. has six subsidiaries, Yamato Shoji Co., Ltd., Yamato Trackwork System Co., Ltd., Yamato Kogyo America, Inc., Yamato Holding Corporation, Yamato Kogyo (U.S.A.) Corporation and Yamato Korea Steel Corporation. (Note)

1. Yamato Trackwork System Co., Ltd started its business activity on April 1, 2002 through spin-off of the Trackwork Department of Yamato Kogyo Co.,Ltd.
2. Yamato Korea Steel Corporation started its business activity on December 1, 2002 through the business transfer from the Pusan steel division of Hanbo Steel Co., Ltd.

### 3 . Investment in Unconsolidated Affiliates

Yamato Kogyo Co., Ltd. has six affiliates. Nucor-Yamato Steel Company, Arkansas Steel Associates LLC. and Siam Yamato Steel Co., Ltd. have been accounted for by equity method of accounting. The other affiliates have been excluded from the applicable scope of equity method.

### 4 . Fiscal Year-End of the Consolidated Subsidiaries

In the consolidation at and for the year ended March 31, Yamato Kogyo Co., Ltd. has used financial statements of Yamato Kogyo America, Inc. at December 31 with necessary adjustments, if there were any significant transactions during the period of the difference.

### 5 . Summary of Significant Accounting Policies

#### 1) Marketable Securities and Investment in Securities

##### Available-for-Sale Securities

Securities are carried at fair value at the end of March 2003.

##### Others

Securities of affiliates and unquoted securities are valued on the basis of average method under the cost method.

#### 2) Inventories

- a) Finished goods: Rolled steel products are stated at cost on a last-in first-out method. Railway track accessories and machined heavy-duty parts are stated at cost on an individual method. And other finished goods are stated at cost on an average method.

- b) Semi-finished products: Semi-finished products are stated at cost on a last-in first-out method.
- c) Raw materials: Scrap steel is stated at the lower of cost (average) or market. Other raw materials are stated at an average method.
- d) Work in process: Railway track accessories and machined heavy-duty parts are stated at cost on an individual method. And others are stated at cost on an average method.
- e) Supplies: Rolls and exchange parts of machine are stated at cost on an individual method, and other supplies are stated at cost on an average method.

(Note)

In Yamato Korea Steel Corporation, finished goods, semi-finished products and raw materials are stated at the lower of cost (average) or market, and supplies is stated at the lower of cost (a first-in first-out) or market.

### 3) Property, Plant and Equipment

Depreciation for buildings and machineries in steel making shop and heavy duty shop and for structures is primarily computed by the straight line method. Depreciation for others is computed by the declining balance method. The range of useful lives for each tangible assets is principally from 15 to 47 years for buildings, from 7 to 60 years for structures, from 10 to 14 years for machineries and vehicles and from 5 to 8 years for equipments. And, depreciation for buildings which were acquired on or after 1<sup>st</sup> April 1998 has been computed using the straight line method according to recent amendment of the Japanese Tax Laws.

### 4) Allowance for Doubtful Accounts

The allowance for doubtful accounts is principally provided at the estimated amount of specific uncollectible receivables in addition to the maximum amount that can be charged to income under Japanese Income Tax Law.

### 5) Accrued Retirement Benefits

The liability, including both the unfunded lump-sum benefit plan and the funded pension plan, is calculated as the difference between the discounted expected future retirement and pension payments, and the related assets set aside to meet such future payments.

### 6) Accounting for Lease

Finance leases that do not transfer ownership to lessees are not capitalized and accounted for in the same manner as operating leases.

## **6 . Translation of Financial Statements of Foreign Subsidiaries**

Financial statements of foreign subsidiaries are translated into Japanese yen in accordance with regulation of foreign currency transaction in Japan.

## Situation of Issue Shares

The situation of shares in this fiscal year is as outlined below.  
(As of March 31, 2003)

(1) Total number of shares to be issued.....	175,400,000
Total number of shares issued .....	77,242,230
Total number of shares holders .....	3,720

### (2) Distribution of shares(by holder)

Kind of holder	No.of persons	No.of stocks held	Ratio of stocks held
Banking facilities	63	25,143,840	32.56
Security companies	33	650,613	0.84
Other corporations	84	22,912,548	29.65
Foreign corporations	68	8,030,155	10.40
(Individual foreigners among the foreign corporations)	1	2,000	0.00
Individual persons and others	3,472	20,505,074	26.55
<b>Total</b>	<b>3,720</b>	<b>77,242,230</b>	<b>100</b>

### (3) Dividends

The following table shows the dividends per share paid by Company.

2003	2002	2001	2000	1999	
20	15	7.5	5	5	(Unit : Japanese Yen)
0.16	0.12	0.06	0.04	0.04	(Unit : U.S. Dollar)

Notes:

U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of  
¥ 120.20 = \$1 as of March 31, 2003.

## Board of Directors

President	Senior Executive Director	Executive Director	Director	Auditor
Hiroyuki Inoue	Kozo Sato	Yoshinori Toritani	Hiroyuki Miki	Takeshi Kanamori
		Yoshiro Inoue	Shigeo Kawata	Morimasa Yoshida
		Yoshihisa Nakata	Kazumitsu Yanagi	Hisashi Sawada
			Kazumi Kajihara	

# Non-consolidated financial statements of Yamato Kogyo Co., Ltd.

## Balance Sheet

As of March 31,2003

### ASSETS

	Millions of Japanese Yen	Thousands of U.S.Dollars
<b>CURRENT ASSETS:</b>		
Cash and time deposits	¥ 2,016	\$ 16,778
Trade notes receivable	1,242	10,340
Trade accounts receivable	6,225	51,791
Finished goods	693	5,768
Work in process	552	4,600
Raw materials	350	2,917
Supplies	2,234	18,590
Other current assets	400	3,334
Allowance for doubtful accounts	( 6)	( 58)
<b>Total Current Assets</b>	<b>13,710</b>	<b>114,064</b>
<b>FIXED ASSETS:</b>		
<b>Property,Plant and Equipment,net</b>		
Buildings	4,077	33,922
Structures	1,137	9,466
Machinery and equipment	6,724	55,947
Vehicles	15	129
Tools,furniture and fixtures	28	215
Land	6,120	50,920
Construction in progress	120	998
<b>Total Property,Plant and Equipment</b>	<b>18,225</b>	<b>151,622</b>
<b>Intangible Fixed Assets</b>	<b>133</b>	<b>1,108</b>
<b>Investments,etc.</b>		
Investments in securities	3,643	30,310
Investments in subsidiaries and affiliated companies	26,369	219,382
Investments in capital	189	1,579
Other investments	1,090	9,074
Allowance for doubtful accounts	( 146)	( 1,217)
<b>Total Investments</b>	<b>31,147</b>	<b>259,129</b>
<b>Total Fixed Assets</b>	<b>49,505</b>	<b>411,860</b>
<b>TOTAL</b>	<b>63,216</b>	<b>525,925</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Millions of Japanese Yen      Thousands of U.S.Dollars

**LIABILITIES****CURRENT LIABILITIES:**

Trade notes payable	¥ 621	\$ 5,173
Trade accounts payable	1,564	13,016
Short-term loans payable	17,314	144,050
Accounts payable	693	5,766
Accrued expenses	751	6,250
Accrued bonuses	186	1,552
Other current liabilities	389	3,239
<b>Total Current Liabilities</b>	<b>21,521</b>	<b>179,049</b>

**LONG-TERM LIABILITIES:**

Accrued retirement benefits	1,256	10,449
Deferred income tax liabilities	396	3,295
Other fixed liabilities	362	3,013
<b>Total Long-Term Liabilities</b>	<b>2,014</b>	<b>16,759</b>
<b>TOTAL LIABILITIES</b>	<b>23,536</b>	<b>195,808</b>

**SHAREHOLDERS' EQUITY**

<b>COMMON STOCK</b>	<b>7,996</b>	<b>66,528</b>
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**ADDITIONAL PAID IN CAPITAL**

Additional paid in capital	6,979	58,062
<b>Total Additional Paid in Capital</b>	<b>6,979</b>	<b>74,694</b>

**RETAINED EARNINGS:**

Legal retained earnings	1,999	16,632
Voluntary reserve	22,247	185,089
Unappropriated retained earnings (loss)	6	50
<b>Total Retained Earnings</b>	<b>24,253</b>	<b>201,772</b>
Unrealized gain on revaluation of securities	583	4,853
Treasury stocks	(132)	(1,100)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>39,680</b>	<b>330,116</b>
<b>TOTAL</b>	<b>63,216</b>	<b>525,925</b>

# Statement of Income and Appropriation of Retained Earnings

Period from April 1,2002 to March 31,2003.

## STATEMENTS OF INCOME

	Millions of Japanese Yen	Thousands of U.S.Dollars
<b>SALES</b>	¥ 21,901	\$ 182,208
<b>Operating Expenses</b>		
Cost of goods sold	19,866	165,276
Selling, general and administrative expenses	3,047	25,350
<b>OPERATING INCOME (LOSS)</b>	(1,011)	(8,418)
<b>Non-operating Revenues</b>		
Interest and dividends	52	436
Others	614	5,114
<b>Non-operating Expenses</b>		
Interest Expenses	89	743
Others	50	418
<b>ORDINARY INCOME (LOSS)</b>	(484)	(4,029)
<b>Special Gains</b>	957	7,969
<b>Special Losses</b>	1,083	9,015
<b>INCOME (LOSS) BEFORE TAXES</b>	(610)	(5,076)
<b>INCOME TAXES</b>	(92)	(769)
<b>NET INCOME (LOSS)</b>	(517)	(4,306)
<b>RETAINED EARNINGS BROUGHT FORWARD</b>	1,296	10,782
Interim dividends	772	6,425
<b>UNAPPROPRIATED RETAINED EARNINGS (LOSS)</b>	6	50

## APPROPRIATION OF RETAINED EARNINGS

	Millions of Japanese Yen	Thousands of U.S.Dollars
<b>Unappropriated retained earnings (loss)</b>	6	50
Transfer from voluntary reserve	3,000	24,958
<b>Appropriations</b>		
Dividends	769	6,405
Transfer to voluntary reserve	4	35
Unappropriated retained earnings carried forward	2,231	18,568

## NOTES

1.U.S.Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of ¥ 120.20=\$ 1 as of March 31,2002

2.All amounts are ignored fractions less than millions of Japanese Yen and thousands of U.S.Dollars.