



**Nippon Steel Corporation**

**Annual Report** **2002**

Year ended March 31, 2002

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Remarks:

- This Annual Report has been prepared, with some modifications for overseas distribution, from the official Japanese-language business report which conforms to the Japanese Commercial Code and accounting principles and practices generally accepted in Japan.
- The accounting period is the twelve-month period beginning on April 1 and ending on March 31 of the following year. The term under review used in this Annual Report means the twelve-month period ended March 31, 2002, and the previous term, the same period ended March 31, 2001.
- Tonnage figures are in metric tons; all dollars (\$) figures are in US currency and translated from Japanese yen at the rate of \$1=¥133.25 at the latest balance sheet date, unless otherwise specified.
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# Financial Highlights

<b>Consolidated</b>	Millions of yen			Millions of dollars
	2002	2001	2000	2002
As of or for the years ended March 31				
Net sales . . . . .	2,581,399	2,750,418	2,680,611	19,372
Net income (loss) . . . . .	(28,402)	26,494	11,173	(213)
Net income (loss) per share . . . . .	(¥4.17)	¥3.89	¥1.64	(\$0.031)
Shareholders' equity . . . . .	907,150	979,695	889,220	6,807
Total assets . . . . .	4,030,596	4,232,011	4,172,459	30,248

<b>Non-Consolidated</b>	Millions of yen			Millions of dollars
	2002	2001	2000	2002
As of or for the years ended March 31				
Net sales . . . . .	1,681,406	1,848,710	1,810,842	12,618
Net income (loss) . . . . .	(28,129)	18,355	266	(211)
Net income (loss) per share . . . . .	(¥4.13)	¥2.69	¥0.03	(\$0.031)
Cash dividends per share . . . . .	¥1.50	¥1.50	¥1.50	\$0.011
Shareholders' equity . . . . .	793,557	866,757	773,981	5,955
Total assets . . . . .	2,738,973	2,884,547	2,793,067	20,555

	Thousands of tons		
	2002	2001	2000
Crude steel production (Non-consolidated basis) . . . . .	26,140	27,837	25,620

# To Our Shareholders

Nippon Steel formulated the three-year Medium-Term Consolidated Business Plan started in April 2000, in which the following priorities were set forth.

- Formation of solid Group strength worthy of high market evaluation in the whole industry
- Establishment of solid steelmaking business foundation unaffected by business environment fluctuations
- Structural strengthening of engineering and construction, urban development, chemicals and nonferrous materials and system solutions businesses, and contribution to consolidated profitability
- Priority technological development for greater corporate competitiveness
- Positive contribution to the conservation of the global environment and the structuring of a recycling-oriented society

Nippon Steel maintains a policy of consistently rewarding its shareholders with stable dividends, taking into account capital requirements for reinforcing management structure, operating results for the corresponding business term and future perspectives. In order to improve the efficiency and fairness of its corporate management, Nippon Steel also lays stress on adjusting its organization and business operating rules, and is vigorously translating them into practice. As for corporate audits, Nippon Steel has already registered outside auditors, who account for half of the corporate auditors.

In tandem with the attainment of these management targets, Nippon Steel will also strive for fair business operations while maintaining its commitments as a company long trusted by society.

## Operating Environments

The Japanese economy remained stagnant during the year ended March 31, 2002, with its growth rate on the minus side due to a retrenchment in public works expenditures, sluggish consumer spending and a substantial decline in private investments in plants and equipment.

In the steel industry, domestic steel demand rapidly decreased, and the export sales environment deteriorated in the wake of a slowdown in economic activities overseas and other adverse factors. National crude steel output during the year totaled 102.06 million tons, 4.83 million tons below the previous year's level. Steel demand showed a far faster-than-expected decline in the first half of the year. This led to a substantial rise in steel inventories, thus resulting in a rapid decrease in steel prices in both domestic and foreign markets.

## Operating Performance

In the steelmaking and steel fabrication sector, Nippon Steel placed emphasis on the improvement of steel market prices and exercised prudence in tuning its steel production and shipments to demand moves. As a result, Nippon Steel's crude steel production fell 1.69 million tons below the previous year's level, to amount to 26.14 million tons, and thus consolidated operating performance in the sector showed a substantial decrease.

Given such operating environment, Nippon Steel aggressively promoted collaboration with domestic and foreign steelmakers to establish a firm position in the world steel industry. Under the Strategic Alliance Agreement with POSCO Corporation of Korea, concluded in August 2000, and the Global Strategic Alliance Agreement with Arcelor (formerly, USINOR) of the EU, in January 2001, Nippon Steel and the two companies have already embarked on specific collaboration measures. Further, Nippon Steel and ThyssenKrupp Steel AG of Germany signed an Electrical Steel Collaboration Agreement in April 2002. Among collaboration with domestic steelmakers, Nippon Steel entered into agreements with Kobe Steel, Ltd. in December 2001 and Sumitomo Metal Industries, Ltd. in February 2002.

The company has focused on strengthening its sales activities to realize higher value-added total solutions by offering the best solutions to various problems from the standpoint of users. While at the same time Nippon Steel has positioned environmental conservation as one of the pillars of the company's management policy and is contributing positively to the establishment of a resources recycling-oriented society through, for example, promotion of recycling of wastes as usable resources.



Chairman Takashi Imai (left) and President Akira Chihaya (right)

Major consolidated operating results of other business sectors for the year are outlined:

- Engineering and construction: Order receipts were far lower than the previous year's level due to a decline in demand in Japan and abroad. But the sector achieved gains in both sales and operating profits by implementing the backlog of orders received in the previous year.
- Urban development: While sales dipped, the active promotion of condominium sales and regional development projects capitalizing on company-owned land enabled the securement of operating profits of virtually the same level as in the previous year. In April 2002, Nippon Steel integrated all operations of its Urban Development Division into Nippon Steel City Produce, Inc.
- Chemicals and nonferrous materials: In the chemicals business, while the severe operating environment continued, stepped-up measures for improving profits were implemented, including withdrawals from unprofitable businesses, and at the same time in the field of high-performance products which have high growth potential for the future a variety of new products were developed and commercialized. In the new material business, sales of metal catalyst carriers for treating automobile emissions showed steady increase, but with the steep deceleration of information technology-related industries, demand for semiconductor-related products plunged substantially. In the titanium business, strenuous efforts directed toward meeting emerging needs in the areas of motorcycle parts and information technologies and the development of new products, including titanium foil, led to an all-time high in sales.
- System solutions: The system solutions sector (formerly, the electronics and information systems sector) maintained a firm pace in operating performance on the strength of its extremely high reputation for technological capability in the market. NS Solutions Corporation plans to be listed on the stock exchange soon.
- Other businesses: In the electricity supply business, Nippon Steel's Muroran and Oita Works were newly added to the list of successful electricity wholesalers, following Hirohata, Yawata and Kamaishi Works. Nippon Steel is also promoting the retail supply of electricity and liquefied natural gas supply. In the service and other businesses, Nippon Steel Trading Co., Ltd. is set to undertake a capital increase by allocation to a third party so as to improve its financial structure.

## Operating Results

As for consolidated operation results for the year ended March 31, 2002, sales decreased ¥169.0 billion from the previous year, down to ¥2,581.3 billion, and consolidated operating profit during the year was down ¥89.6 billion

from the previous year, to come to ¥73.0 billion. Consolidated ordinary profit was ¥16.7 billion, a marked decrease of ¥94.6 billion from the previous year.

Meanwhile, a special loss was recorded, including a loss on evaluation of investments in securities incurred due mainly to the enforcement of reevaluation of listed securities such as financial institutions' shares and unlisted securities. As a result, the year saw a net loss of ¥28.4 billion.

As for non-consolidated operation results, sales during the year totaled ¥1,681.4 billion, a decrease of ¥167.3 billion from the previous year's level, and operating profit totaled ¥31.7 billion, a substantial decline of ¥85.7 billion. Ordinary profit similarly showed a steep decline of ¥78.0 billion from the previous year, to amount to ¥0.7 billion.

After factoring special loss on evaluation of investments in securities, the year saw a net loss of ¥28.1 billion, a substantial worsening of ¥46.4 billion from the previous year's income level.

Under these severe circumstances, dividend payment on a steady basis being the basic principle of its corporate policy, Nippon Steel will pay a year-end dividend of ¥1.5 per share, unchanged from the previous year, through the liquidation of part of special reserve.

### Future Management Tasks

As for the operating environment surrounding the steel industry, the level of steel inventories in the domestic market is rapidly improving, coming down to an adequate level. Yet, the current situation still necessitates fine-tuned production and shipments at levels corresponding to current exacting demand levels.

Overseas, steel demand has begun recovery, mainly in East Asian countries, and inventory adjustments are proceeding worldwide. But the world steel industry must remain alert to protective moves against imports in several countries, as typified by the introduction of safeguard measures in the U.S.A. and the EU. Given the fact that today many steel enterprises in the world are unable to secure profits, the OECD started approaches toward worldwide adjustment of steel production facilities in 2001.

Under the circumstances, in the steelmaking and steel fabrication sector, Nippon Steel will work strenuously toward recovering profit as early as possible, by making its utmost efforts to increase steel prices and at the same time taking cost-reducing and all other possible measures. In addition, with the divisionally integrated operation system based on product item, Nippon Steel is committed to realizing high product-to-product competitive strength and profitability, while also enhancing collaboration with steelmakers at home and abroad and establishing a firm position in the world steel industry. In the engineering and construction and other business sectors, too, every possible effort will be made to improve and strengthen profitability amid the continuing severe operating environment.



Takashi Imai  
Chairman



Akira Chihaya  
President

June 26, 2002

# Current Topics

## Alliances with Domestic Steelmakers

Nippon Steel has put emphasis on strengthening collaborative activities with both domestic and foreign steelmakers to firm up its position in the world steel industry.

Nippon Steel entered into alliances with two domestic steelmakers, Kobe Steel, Ltd. in December 2001 and Sumitomo Metal Industries, Ltd. in February 2002, following the strategic alliance agreements with two foreign steelmakers started earlier, POSCO Corporation of Korea in August 2000 and Arcelor (formerly, USINOR) of the EU in January 2001.

These moves are in response to fluctuations in steel demand and intensifying competition worldwide, and the partners involved aim at benefiting from the joint implementation of collaborative measures.

### Kobe Steel, Ltd.

In December 2001, Nippon Steel entered into an alliance agreement with Kobe Steel, Ltd. The list of cooperative activities already agreed includes the mutually complementary supply between the two partners, including their group companies, of iron- and steelmaking materials on such occasions as blast-furnace relining and equipment repairing and the supply of semi-finished products to Nakayama Steel Works, Ltd. The joint promotion of cost-reducing measures will also be pursued in such areas as distribution and raw materials and among the two partners' adjacent areas of operation and among group companies. The collaboration in the field of high-strength bolts commenced in February 2002 is another example of cooperation between the two.



### Sumitomo Metal Industries, Ltd.

In February 2002, Nippon Steel and Sumitomo Metal Industries, Ltd. reached an alliance agreement, under which Nippon Steel is to study the way of extending its cooperation in restructuring the steel sheet production system at Sumitomo Metals' Wakayama Works. Nippon Steel will also cooperate in the study by Sumitomo Metals of the effective utilization of iron- and steelmaking equipment at Wakayama Works. Recently, the two partners have signed a letter of intent to integrate their stainless steel businesses. Mutual cooperation is also within sight in distribution and raw materials and among the two partners' adjacent areas of operation.





Products and Services at a Glance

Steelmaking and Steel Fabrication	<div>Steel Products</div> <ul style="list-style-type: none"><li>Sections (rails, sheet piles, H-beams, other shapes; bars, bars-in-coils, low-carbon wire rods, high-carbon wire rods)</li><li>Flat-rolled products (heavy plates, medium plates, hot-rolled sheets, cold-rolled sheets; tinplate, tin-free steel, galvanized sheets, other metallic coated sheets, prepainted sheets; cold-rolled electrical sheets)</li><li>Tubulars (seamless, but-welded, electric-resistance welded, electric-arc welded, cold-drawn, coated pipe and tubes)</li><li>Specialty steel products (stainless steel, machine structural carbon steel, structural alloy steel, spring steel, bearing steel, heat-resistant steel, free-cutting steel, piano wire rods, high-strength steel)</li><li>Secondary steel products (H-beam bridges, steel segments, gratings, PANZERMAST, vibration-damping sheets and plates, NS</li></ul> <div>Louver, columns, welding materials, drums, bolts/nuts/washers, wire products, OCTG accessories, building and civil engineering materials)</div> <div>Pig Iron, Steel Ingots and Others</div> <ul style="list-style-type: none"><li>Steelmaking pig iron, foundry pig iron, steel ingots, slag products, cement</li></ul> <div>Businesses Incidental to Steelmaking and Steel Fabrication</div> <ul style="list-style-type: none"><li>Design/maintenance/installation of machines/electrical equipment/measurement apparatuses, marine transport, port/harbor transport, land transport, loading/unloading, warehousing, packaging, material testing/analysis, measurement of working environments, surveys on technical information, operation and management of various facilities, security services, coal, services related to documentation of raw materials import</li></ul>		 <div>69.4%</div>	 <div>32.1%</div>
Engineering and Construction	<ul style="list-style-type: none"><li>Iron- and steelmaking plants, FA/distribution plants, molds, rolls, industrial machinery, industrial furnaces</li><li>Environmental plants, waterworks and water treatment facilities</li><li>Energy facilities, chemical plants, storage tanks, on-land and offshore pipelines</li><li>Offshore structure fabrication/construction, civil engineering work, bridge fabrication/erection, pipe piling work</li><li>Building construction, steel-structure construction, trusses, standardized buildings</li><li>Iron- and steelmaking plant construction engineering, operating assistance, steelmaking know-how provision</li></ul>		 <div>9.5%</div>	 <div>13.6%</div>
Urban Development	<ul style="list-style-type: none"><li>Urban development, condominiums/real estate</li></ul>		 <div>4.7%</div>	 <div>21.3%</div>
Chemicals and Nonferrous Materials	<ul style="list-style-type: none"><li>Coal tar, ammonium sulfates, coke, chemical products</li><li>Rolled titanium products, aluminum products</li><li>Fine ceramics products, ferrite materials, rolled metallic foils, metal catalyst carriers for cleaning automotive emissions, carbon-fiber composite products, semiconductor bonding wire, power supply equipment for electronic devices, transformers</li></ul>		 <div>9.6%</div>	 <div>14.2%</div>
System Solutions	<ul style="list-style-type: none"><li>Engineering and consulting services pertaining to computer systems</li></ul>		 <div>4.7%</div>	 <div>14.4%</div>
Other Businesses	<div>Power Supply</div> <ul style="list-style-type: none"><li>Power supply</li></ul> <div>Services and Others</div> <ul style="list-style-type: none"><li>Theme parks (operation of space-oriented training facilities and exhibition booth, amusement facilities)</li><li>Energy (geothermal steam, hydrogen gas)</li><li>Financing/insurance (money leasing and operations, non-life insurance brokerage)</li><li>Others (planning of training courses, retail sales, food)</li></ul>		 <div>2.1%</div>	 <div>2.0%</div>



# Operation Highlights

Operation Highlights

## Steelmaking and Steel Fabrication

### World's Highest-strength Steel Plates for Offshore Structures

New heavy steel plates with stable weld toughness secured by means of HTUFF technology are in high demand for offshore structures.



### Ultrahighly Formable Stainless Steel Sheet YUSPDX

Ferritic-type stainless steel with ultra-high formability. Marketing started in 2001 for combustion equipment, automobile parts and kitchen utensils.

### Innovative Hydroforming Machine

This Nippon Steel/Toyota Motor Corporation-developed automobile parts forming machine has brought about great advantages: one-tenth the conventional size and operation energy requirement.



### Nippon Steel's Super-frame Method

Steel-framed house construction method developed by Nippon Steel and licensed to Beijing New Building Materials Co., Ltd. in March 2002 will be applied in large-scale housing projects in China. The method will also be applied for non-residential building construction.



### Ultrahigh-strength Bolts SHTB

High-strength bolts developed by Nippon Steel and Nippon Steel Bolten Co., Ltd. are 1.5 times the strength of conventional bolts. Their application reduces construction cost. They were extensively used in the construction of Hotel Nikko Bayside Osaka.



### Stainless Steel Sheets with Clear Coating—NS-COAT

NS-COAT with high-performance transparent coating that features formability, antibacterial property, stain resistance and weatherability. It is attracting attention as material for home appliances due to its high-grade and clean image peculiar to stainless steel.



### Large-capacity, High-speed Transport System

Large-capacity, high-speed automatically guided vehicles, the first in Japan, developed by Nippon Steel and Nippon Sharyo Ltd. for efficient transport within steelworks—an outcome of Nippon Steel's integrated research and engineering (R&E) system.

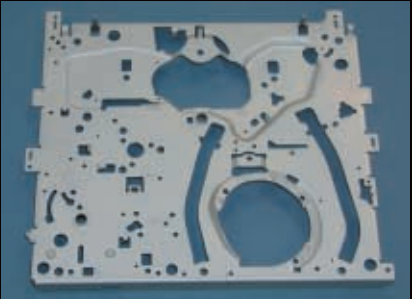


### West Angelas Ore Mine

Iron ore mine project in Australia in which Nippon Steel is participating. Shipments will start in 2002 and will contribute to the stable supply of iron ore.

### Chromate-free Galvanized Sheets

ZINKOTE 21 chromate-free electrogalvanized steel sheets are increasingly adopted at home and abroad for home appliances and OA equipment to meet stricter environmental regulations.



### ULSAB-AVC

Research project in which 33 world steelmakers participated with outstanding results: reduced environmental burden by considerable automobile weight reduction and resultant high fuel efficiency, and enhanced recyclability, high collision safety and low cost.



### Waste Plastics Recycling

Waste plastics recycling using coke-oven chemical recycling technology for conversion to usable resources was inaugurated at Yawata and Muroran Works in April 2002. Such facilities are in operation at four of Nippon Steel's works.



### Dust Recycling Facility

An iron-bearing dust recycling facility employing rotary-furnace hearth technology has gone on-stream at Kimitsu Works aimed at zero emissions. The recycling technology received in January 2002 the highest award for energy saving, the Prize of the Minister of Economy, Trade and Industry.

Operation Highlights



## Engineering and Construction

### Blast-furnace Remodeling at Brazil's Açominas

Remodeling work of the Açominas No. 1 blast furnace by Nippon Steel was completed in July 2001. Nippon Steel successfully reduced the contract term, acquiring high appraisal from the user.



### CGL for ERDEMIR of Turkey

Nippon Steel successfully completed the turnkey construction of a continuous hot-dip galvanizing line for Ereğli Iron & Steel Works Co. in September 2001.



### Waste Melting Plant of Akita City

The largest gasification melting plant (two 200 t/d furnaces) in Japan. Energy generated during treatment is recycled as thermal energy and electricity within and outside the plant.



### Waste Melting Plant of Kazusa Clean System

Waste melting plant (two 100 t/d furnaces) operated by Kazusa Clean System Co., Ltd., a private-initiative semi-public joint venture company, is the first example of the PFI-approach in the construction of general waste treatment facilities.



### LNG Receiving Facility

Nippon Steel completed the construction of the No. 2 LNG receiving facility at Futtsu Thermal Power Plant of The Tokyo Electric Power Co., Inc. in July 2002. It is used for unloading LNG from LNG carriers.



### Suez Canal Bridge

A Japan ODA grant aid project, Nippon Steel completed the superstructure of the Japan-Egypt Friendship Bridge. The bridge opened to traffic in October 2001 as a symbol for peace in the Middle East.

### Natural Gas Production Facility

Nippon Steel received an order from BP West Java for the design, transport and construction involved in the renovation of production facilities and pipelines. The work was completed in December 2001.



### Floating Offshore Park

After completing the application proving tests, the Mega-Float (large-scale floating steel structure) was dismantled, part of which has become a floating fishing park in Nandancho in Hyogo Prefecture.



### National Museum of Emerging Science and Innovation

The National Museum, a new showplace at the Tokyo Bay coastal new city center, for which Nippon Steel undertook steel-frame construction. The Museum is conspicuous for its design.



### Waseda Jitsugyo School

An eco-friendly school in harmony with the environment and utilizing natural energy. The school building offers great freedom in space layout via movable partition walls, constructed employing Nippon Steel's advanced steel-structure technologies.



### Technical Cooperation for Tata Iron & Steel of India

Nippon Steel has completed start-up operating guidance for the new cold-rolling plant of The Tata Iron & Steel Co., Ltd., and is extending technical cooperation for the production of automotive steel sheets.

## Urban Development



### Yokohama Towers

Nippon Steel City Produce and other companies are undertaking an urban redevelopment project in Yokohama, in which the company is promoting a high-rise housing project, Yokohama Towers, within walking distance of Yokohama Station.



### Urban Development in Higashida

This is a large-scale development project utilizing company-owned land near Nippon Steel's Yawata Works. The theme park Space World is located within the site.



## Chemicals



### Material Recycling Technology

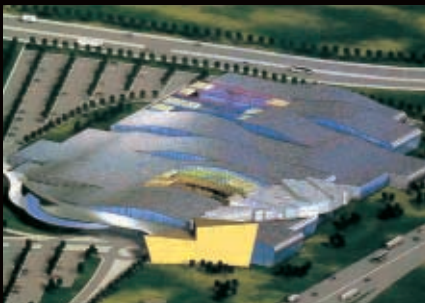
Nippon Steel Chemical Co., Ltd. and Toshiba Corporation have developed material recycling technology to recycle plastics of used TVs into material for new TVs.

### Batch-type Multi-purpose Hydrogen Production Equipment

New equipment has been put into operation at Nippon Steel Chemical's Hirohata Works, which produces a variety of specialty chemical products such as aroma-free special solvent, medical and agricultural raw materials and heat-transfer medium employing polynuclear aromatics as material.

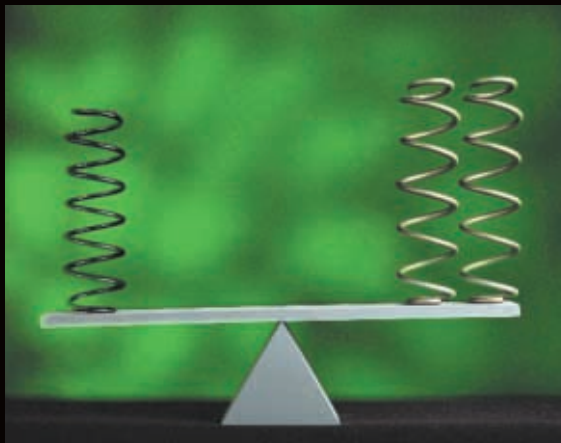


## Titanium



### Málaga Convention Center in Spain

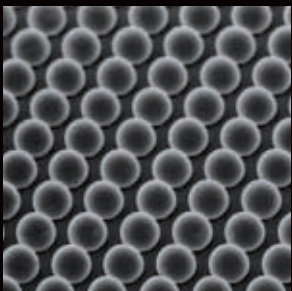
This Convention Center is the world's second largest titanium-applied building overseas. Nippon Steel supplied 30 tons of titanium products. The titanium section offers an image of a glistening fish in the Mediterranean Sea.



### Titanium Alloys for Automobile Suspension Springs

Titanium alloys for automobile suspension springs feature high strength, high corrosion resistance and light weight (30~50% that of steel springs), and contribute greatly to automobile weight reduction and improved fuel efficiency.

## New Materials



### Bumping Services for Trial Manufacture

Trial manufacture of flip-chip bumping "µB<sup>2</sup>" using microballs started in April 2001. The new bumping system will facilitate the downsizing of mobile phones and other equipment.



### TOWSHEET (carbon-fiber sheets for structure reinforcement)

Combined use of high-strength, extralight-weight carbon fibers and quick-drying resins improves efficiency and speed of maintenance work. Application is being promoted for reinforcement work for buildings.

## System Solutions

### Website Customer Behavior Accumulation/Analysis System

The system, developed by NS Solutions and Matsushita Electric Industrial Co., Ltd. for BtoC electronic commerce sites, was inaugurated for Panasonic's "hi-ho Shopping Avenue" in June 2001.

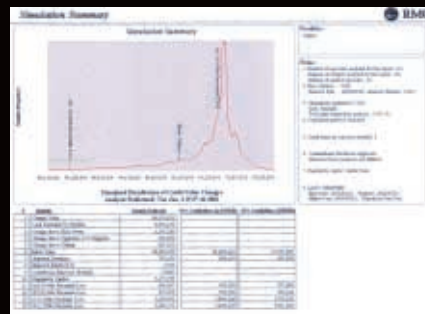


### N-vos Initiative Collaboration

NS Solutions commenced collaboration with three top vendors of open systems in July 2001 and started one-stop provision/maintenance service, a first in the solutions industry.

### Strategic Alliance with U.S. Company in the Credit Risk Field

In September 2001, NS Solutions concluded with Risk Metrics Group Corporation of the U.S., a pioneer in the field of risk management, a sales agent contract for the credit risk management software package CreditMetrics, making full-entry into the credit risk management solutions business.



### Information Security Standard Certification

NS Solutions obtained in December 2001 B57799 certification, an international standard for the control of information security, and the certification of the Standard for ISMS (Information Security Management Systems) Conformity Assessment, a domestic standard authorized by the Ministry of Economy, Trade and Industry—the first occasion in Japan for an enterprise to simultaneously obtain these two certifications.



### Financial System Solutions

Distribution-type banking administration package e-Fine, marketed by NS Solutions, has been adopted for the "New Loan System" of The Sumitomo Trust & Banking Co., Ltd.—a first in Japan in the introduction of such packages into the accounting system of major banks.

## Power Supply



### IPP Power Plants

IPP power plants at Muroran and Oita Works started operation in October 2001 and April 2002. Five of Nippon Steel's works are engaged in the wholesale supply of electricity.



## Steelmaking and Steel Fabrication

Consolidated sales in the steelmaking and steel fabrication sector for the year ended March 31, 2002 totaled ¥1,828.2 billion, a decrease of ¥133.8 billion from the previous year (¥1,962.0 billion), and consolidated operating profit amounted to ¥23.4 billion, a substantial decline of ¥92.0 billion from the previous year (¥115.5 billion).

The harsh operating conditions continued throughout the year, as exemplified by the plunge in steel market prices both at home and abroad in the midst of sharply declining domestic steel demand and prolonged steel inventory adjustments worldwide.

Nippon Steel gave priority to the improvement of steel market prices and exercised prudence in tuning its steel production and shipments to demand moves from the first half of the year. As a result, Nippon Steel's crude steel production (on a non-consolidated basis) fell 1.69 million tons below the previous year's level, to amount to 26.14 million tons in the year. The curtailed steel production and shipments due to sharply reduced demand and the downward movement in steel sales prices that began in the first half of the year combined to result in a substantial decrease in operating profit for the year.

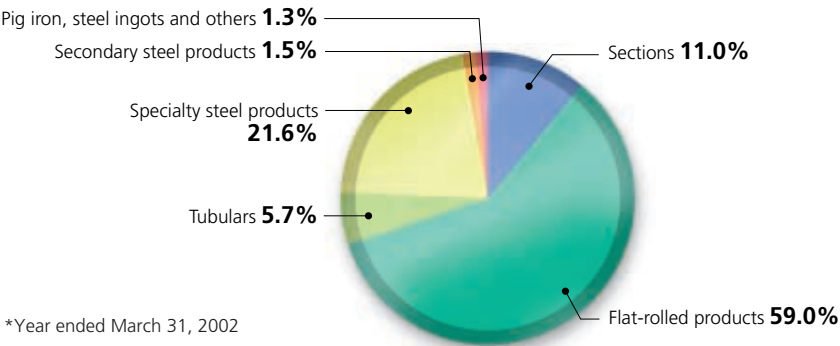
Despite the severe operating environment, Nippon Steel will direct its utmost efforts toward improving steel market prices and implementing cost-reducing measures, thereby recovering profit as early as possible.

### Collaboration with Domestic and Foreign Steelmakers

In order to establish a firm position in the world steel industry, Nippon Steel aggressively promoted collaboration with domestic and foreign steelmakers. Domestically, Nippon Steel entered into new alliance agreements with Kobe Steel, Ltd. and Sumitomo Metal Industries, Ltd. Meanwhile, alliance agreements with overseas steelmakers already implemented are producing many noteworthy results.

#### • Strategic Alliance Agreement with POSCO

The Strategic Alliance Agreement with POSCO Corporation of Korea, reached in August 2000, is yielding results comparable favorably with those in the case of management consolidation. Nippon Steel already holds 3% of the stock of POSCO, which in turn holds more than 2% of Nippon Steel's stock. Decision has been made on joint development activities between the two partners as to strip casting and eight other technical issues, and the exchange of operating engineers has been implemented in fourteen areas. The



cumulative number of researchers and operating engineers mutually exchanged has exceeded 700. For imports of raw materials, Nippon Steel and POSCO were the first in the world steel industry to join the electronic settlement system, Bolero, and have launched into e-business with raw materials and other resources suppliers in Australia and other countries. In addition, the two companies increased their share in capital contribution to The Siam United Steel (1995) Co., Ltd. (SUS), which operates the largest cold-rolling mill in Thailand, at the occasion of SUS's capital increase and have jointly engaged in improving the financial structure of the Thai company.

Joint endeavors will henceforth be expanded on broader fronts to include studies on the joint development of resources and information exchanges in the area of information technology.

#### • Global Strategic Alliance Agreement with Arcelor

The year since the conclusion in January 2001 of the Global Strategic Alliance Agreement with Arcelor\* of the EU has seen unanticipatedly good results. In accordance with the collaboration arrangements for automotive steel sheets signed in October 2001, the two companies have mutually granted licenses for technologies already possessed and, based on selected joint R&D agenda, are promoting aggressive development activities. In addition, Nippon Steel and Arcelor jointly concluded in April 2002 a technical cooperation agreement for automotive steel sheets with The Tata Iron & Steel Co., Ltd. (TISCO) of India, under which the two companies will join forces in extending technical cooperation to TISCO.

The net result of collaboration also is appreciable in each field of procurement, stainless steel, tinplate and the environment. Henceforth, study on cooperative projects will be expanded to such areas as steel materials for construction, long products, joint ventures in the U.S. and other countries and diversified supply sources for steelmaking raw materials.

\* Arcelor was established in February 2002 by the consolidation of USINOR (France), Nippon Steel's original partner in the Global Strategic Alliance Agreement, with Arbed (Luxembourg) and Aceralia (Spain).



### • Comprehensive Cooperation in Electrical Steel

In April 2002, Nippon Steel agreed with ThyssenKrupp Steel AG of Germany and AK Steel Corporation of the U.S., individually, to commence study on comprehensive cooperation in the area of electrical steel. Backed by its long years of technical exchanges with the two steelmakers through licensing provision, Nippon Steel will launch anew joint studies on the possibility of expanding the scope of technical cooperation and joint research to meet the needs of customers, in the midst of the worldwide trend toward the growing significance of energy saving and increasing demand for the improvement of materials performance.

### Solutions Business in the Area of Steel Materials

Nippon Steel is promoting its marketing activities to realize total solutions by offering the best solutions to various problems from the standpoint of users.

Backed by its renowned technological capabilities, Nippon Steel's newly marketed steel products are finding wide use. Highly workable cold-rolled high-strength steel sheet of 100 kgf/mm<sup>2</sup> grade—developed in response to the need for lighter vehicle weight—is being adopted for seat components. New steel plate boasting the world's highest strength and toughness is highly rated among users for application for offshore structures. Ultrahigh-strength bolt, SHTB, is being used in large quantities for high-rise buildings. Nippon Steel's environment-friendly steel-framed house construction method (super-frame method) has received high marks in China as a next-generation construction method, leading to its adoption for the promotion of large-scale housing projects by a Chinese house builder.

As an example of total solutions beyond the mere supply of steel products, Nippon Steel has developed an innovative hydroforming machine for automotive components jointly with an automobile maker. In addition, a new supply-chain management (SCM) system has been developed and introduced, which enables the integrated management of a whole supply chain from steelworks to coil center to automobile maker and also the preparation of optimum production schedules using a simulation system.

### Development of New Raw Materials Sources

The West Angelas mine project is a joint venture for the development of new iron ore mines undertaken by Nippon Steel, Mitsui & Co., Ltd., Sumitomo Metal Industries, Ltd. and an Australian enterprise. With proven reserves of one billion tons of iron ore, including peripheral deposits, the West Angelas mine will contribute to the stable supply of iron ore in the future. Upon completion of the railway began in March 2000 in parallel with the mine development, the first shipments from the mine are slated for summer 2002.

### Business Integration of Group Companies

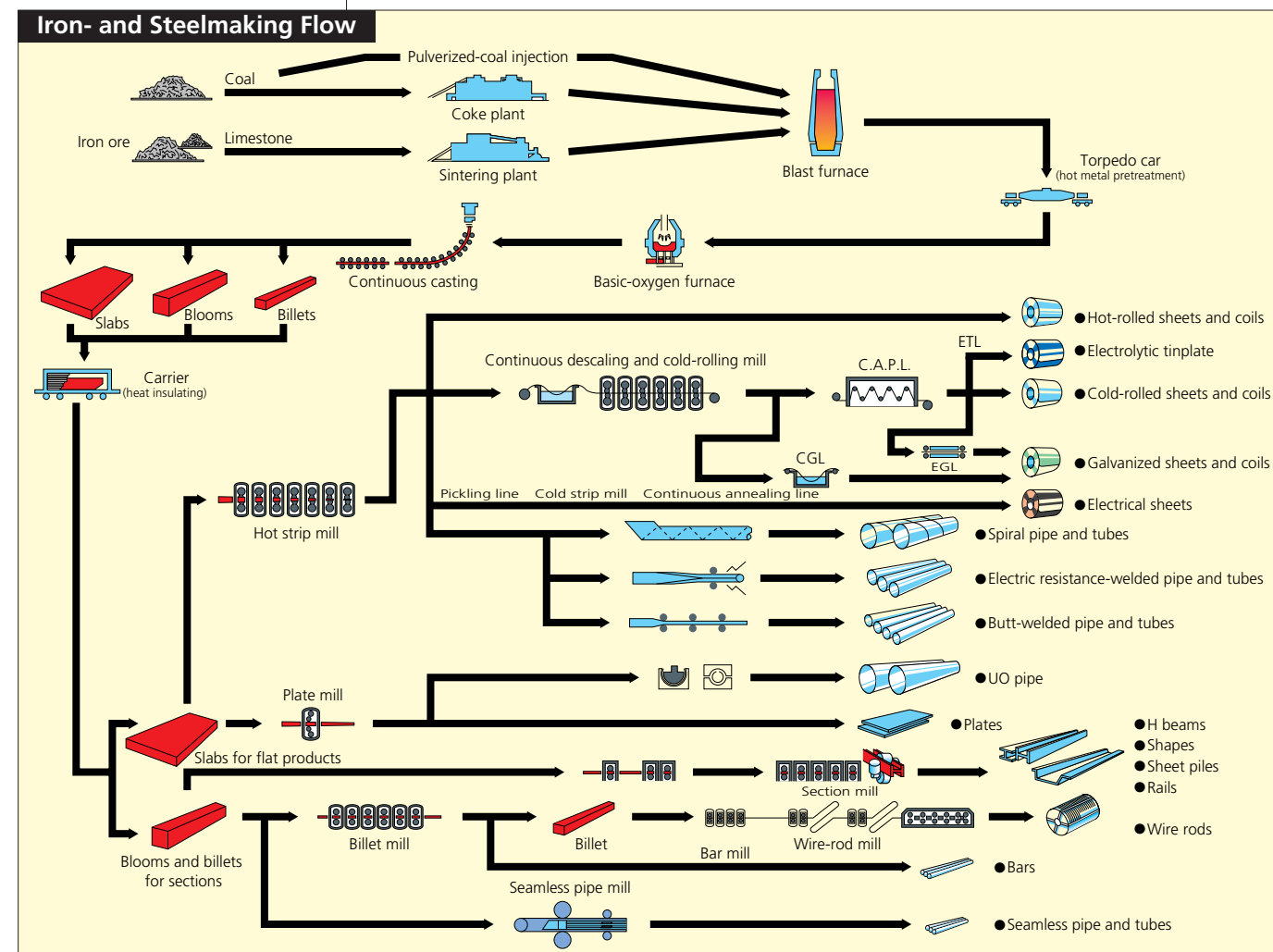
Among recent moves of significance at the Nippon Steel Group companies are business integration activities, either recently completed, now underway or in the planning stages, as follows: Nippon Steel Logistics Co., Ltd. and Nittetsu Ryutsu Center, consolidated subsidiaries of Nippon Steel, merged in April 2002; Nippon Steel Welding Products & Engineering Co., Ltd., a consolidated subsidiary of Nippon Steel, and Sumikin Welding Industries, Ltd., a consolidated subsidiary of Sumitomo Metal Industries, Ltd., will integrate their welding materials and equipment operations in July 2002; and Daido Steel Sheet Corporation and Taiyo Steel Co., Ltd., consolidated subsidiaries of Nippon Steel, agreed to integrate in October 2002 businesses relating to the manufacture and sale of galvanized steel, painted steel and structural materials such as panels.



### Capital Outlays

Capital outlays to rejuvenate equipment and facilities have steadily been made to maintain and strengthen the competitiveness of the steel business.

Among recent projects are the relining of No. 3 blast furnace at Nagoya Works (blown-in in April 2000, with total expenditures of ¥21 billion), the relining of No. 3 blast furnace at Kimitsu Works (blown-in in May 2001, ¥21 billion), the relining of No. 2 blast furnace of Hokkai Iron & Coke Co., Ltd., a Nippon Steel subsidiary, (blown-in in September 2001, ¥15 billion) and the renovation of a hot-dip galvanizing line at Yawata Works (start-up in April 2002, ¥13 billion). In addition, the relining of No. 4 blast furnace at Kimitsu Works (to be blown-in in April 2003, ¥24 billion) is planned.





Engineering and Construction

The severe operating environment continued for the engineering and construction sector throughout the year ended March 31, 2002, with increasingly intensive competition due to the decline in demand in Japan and abroad bringing down the prices of orders received. At Nippon Steel, orders were booked for natural gas-related projects and public construction projects under the private finance initiative (PFI) system in the year, but those for other products fell, namely orders for Nippon Steel-developed direct waste-melting plants which declined mainly due to seasonal factors in users' order placements. As a result, the value of order receipts in the sector was lower than in the previous year, to amount to ¥250.9 billion for the year.

Despite such unfavorable trends in new orders received, this sector's consolidated sales for the year showed a gain over the previous year (¥280.9 billion), to come to ¥294.3 billion, attributable primarily to steady implementation of the backlog of orders received in the previous year. Thoroughgoing measures taken for reducing project costs and similar endeavors also enabled the sector's consolidated operating profit to post a gain over the previous year (¥7.2 billion), to amount to ¥9.9 billion, an operating profit for the fourteenth consecutive year.

Henceforth, Nippon Steel will promote active business operations focusing on customer-oriented solution businesses especially in such priority areas as the environment, energy and urban redevelopment.

Plants and Machinery

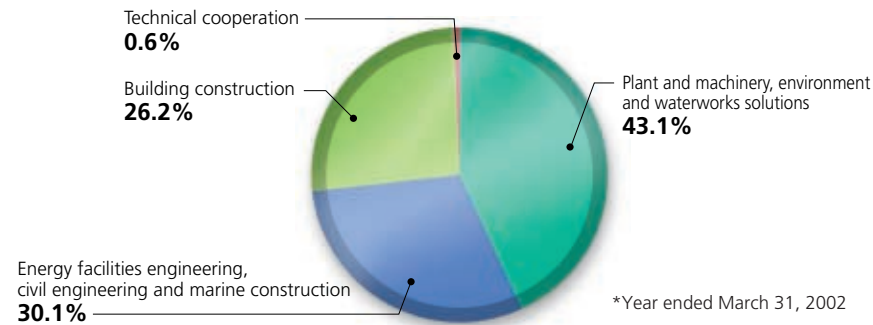
Such overseas projects as blast-furnace remodeling for Brazil and new installation of a continuous hot-dip galvanizing line for Turkey were successfully completed, indicative of the pace of this division's steadily increasing turnkey job capabilities abroad. Besides two new orders successfully received for CDQ equipment and steel sheet processing and treating lines for China where investments in equipment modernization have been brisk, successive orders for environmental-protection plant projects were received from electric-furnace steelmakers in Japan.

For the year started in April 2002, stepped-up marketing will be promoted by capitalizing on Nippon Steel's newly established schemes such as the China Business Development Center—a foothold for new business opportunities in China which is showing impressive growth—and alliance agreements with Ishikawajima-Harima Heavy Industries Co., Ltd. for blast furnaces and with Mitsubishi Heavy Industries, Ltd. for continuous casters.

Environment and Waterworks Solutions

In November 2001, the Environmental Solution Business Center was newly established in this business division, to promote customer-oriented environmental solution businesses aimed at taking up the challenge of various issues the market and customers are now—and will be—confronted with and at coming up with solutions to them. To that end, Nippon Steel's strong point—comprehensive capabilities—will be brought into full play through closer collaboration among the company's steelworks and the Nippon Steel Group enterprises, with total engineering capabilities as the basic thrust, which involves not only existing business

Sales by Operating Field in 2002\*  
(Consolidated basis: ¥294.3 billion)



fields such as environmental plants, waterworks and water treatment but also the treatment and recycling of wastes for which Nippon Steel has accumulated expertise for many years.

Energy Facilities Engineering

In response to the ongoing structural changes and deregulation of the energy sector and ever-growing social needs for environmental protection and energy saving, a wide range of engineering activities continue for facilities such as LNG terminals, natural gas liquefaction plants, natural gas arterial pipelines and industrial gas processing facilities. Opportunities in other business areas are being vigorously pursued as well. Such areas include distributed energy systems, power generation engineering and waste plastics gasification.

Civil Engineering and Marine Construction

Despite the continuing severe business environment domestically, thoroughgoing cost-cutting and the adoption of distinctive technologies for pipeline inspection and other purposes have led to steady order receipts in the domestic market. Overseas, orders were received in rapid succession for, or construction started on, offshore platforms for natural gas production and offshore pipelines in Southeast Asia. Possibilities for a growing number of similar order receipts are within sight for the future.

The Suez Canal Bridge Project in the Arab Republic of Egypt was completed, and the bridge was opened to traffic in October 2001 commemorating the friendship between Egypt and Japan.

Building Construction

This division is already active in meeting the challenge of new moves in the construction market, among them an entry into building construction projects under the private finance initiative (PFI) system—a new approach in the conventional public works field—and a response to emerging demand for office buildings in urban areas in the wake of the vitalization of the real estate liquidation market.

Henceforth, efforts will focus on the promotion of business operations clearly distinct from those of others in the same field, together with the reinforcement of business areas making use of the characteristics of a steelmaker, i.e. the promotion of such businesses as NS ECO-PILE screw-in pipe piles, marketed in 1999, and the base-isolation and vibration-control devices.

Technical Cooperation

As of the end of March 2002, Nippon Steel's technical cooperation records abroad in the iron- and steelmaking field amounted to a cumulative total of 1,216 projects for 162 companies in 50 countries.

Major technical cooperation projects implemented in the year included general technical services for Companhia Siderúrgica Paulista SA (COSIPA) and Usinas Siderúrgicas de Minas Gerais SA (USIMINAS) of Brazil and start-up operating guidance for the new cold-rolling mill of The Tata Iron & Steel Co., Ltd. (TISCO) of India. Positive promotion of technical cooperation is also being directed for customers mainly in South America, Europe and India.



## Urban Development

Consolidated sales in the urban development sector for the year ended March 31, 2002 dipped slightly from the previous year (¥141.9 billion), to come to ¥130.8 billion. But consolidated operating profit of ¥15.5 billion, virtually the same level as in the previous year (¥16.3 billion), was posted.

The Nippon Steel Group is also an urban developer, and is vigorously promoting the supply of condominiums and individual houses mainly in the Tokyo metropolitan area and the Kinki (Osaka-Kobe) region. Urban redevelopment projects requiring a high level of know-how and large-scale regional development projects in various parts of the country are also being aggressively pursued. In April 2002, to further solidify its business foundation, Nippon Steel integrated all operations of its Urban Development Division into Nippon Steel City Produce, Inc., a wholly-owned subsidiary. By solidly integrating the know-how and networks these two entities have thus far amassed, Nippon Steel City Produce, an urban developer with unique characteristics, will promote the urban development business of the Nippon Steel Group.

Nippon Steel City Produce has already started supply of condominiums under the brand of "LIVIO" (Living and Oasis). Henceforth, the company will direct its endeavors toward establishing the brand image of LIVIO in the condominium market and strategically strengthening real estate solutions operations so as to improve its profitability.



Urban Development in Hanada near Nippon Steel's Sakai Works

## Chemicals and Nonferrous Materials

Consolidated sales in the chemicals and nonferrous materials sector as a whole totaled ¥326.1 billion for the year ended March 31, 2002, declining from the previous year (¥359.1 billion), and consolidated operating profit in the year was ¥10.3 billion, dropping from the previous year (¥11.5 billion).

### Chemicals

Nippon Steel Chemical Co., Ltd. is the core enterprise of the Nippon Steel Group's chemicals business. Its basic operations are being promoted centering on two major fields: coal chemicals, to make effective use of coal tar, coke-oven gas, blast-furnace slag and other by-products derived from iron- and steelmaking processes, and petrochemicals.

The company has also put emphasis, more recently, on such high-performance products as specialty chemicals and electronic materials. In May 2001, Nippon Steel Chemical jointly



with Kuraray Co., Ltd. marketed the ESPANEX L-Series, an adhesive-free copper-clad laminated sheet for flexible printed circuit boards employing liquid crystal polymer film as the insulation layer. Further, in November 2001 two new products were marketed: a dry film-type permanent photo resist, PDF Series, offering high resolution and heat resistance, destined for use in portable electronic products, and an ultrahigh-heat resistant plastic cell substrate, HT Series, as a substitute for glass substrate for flat-panel displays. In addition, stepped-up endeavors are being directed toward meeting emerging environmental concerns, for example, through development of plastics recycling technologies.

### Titanium

Nippon Steel's shipments of titanium products in the year registered an all-time high for the second consecutive year. Major factors that supported the record shipments were demand from new application fields centering on automobiles—motorcycle mufflers and four-wheeled vehicle after markets—in addition to a notable recovery in demand from traditional markets—power plant projects in Japan and plate-type heat exchangers both in Japan and abroad.

Strengthened collaboration with overseas companies and overseas marketing are being vigorously promoted. Nippon Steel entered into collaborative relations with Titanium Metals Corporation of the U.S., the world's largest titanium company, concerning titanium alloys for automobile suspension springs. It participated in an international trade fair on structural materials in Germany in January 2002.

Henceforth, Nippon Steel will not only continue to precisely serve existing markets but also strive for the development of new products and for meeting the demand for construction materials in Japan and abroad.

### New Materials

On the strength of its high-level materials design and analysis capabilities, the Nippon Steel Group offers high-quality products which account for the leading shares in the market for advanced materials. In the market for semiconductor and electronic components, efforts are now being concentrated on new product development and capacity increase with the market's long- and medium-term growth potential in mind.

Already, the development of ultralow thermal expansion ceramics in the fine ceramics field and the marketing of micro balls as semiconductor bonding materials by Nippon Steel subsidiaries are meeting the needs of the semiconductor industry for far more downsizing and greater product precision. Also being vigorously pursued is the development of applications for carbon-fiber products as structural components for general industrial machinery taking advantage of such characteristics of carbon-fiber composite materials as extralight weight, extrahigh rigidity, high thermal conductivity and extralow thermal expansion. In the field of environmental components, metal catalyst carriers making use of extrathin stainless steel foil for treating automobile emissions have been put on the market. Metal catalyst carriers, highly rated for their high strength and high performance, are increasingly being fitted to many types of cars.



## System Solutions

Given the firm tone in system investments by domestic enterprises already in high gear to achieve stronger competitiveness and business reorganization, the operating results of the system solutions sector have remained steady.

In April 2001, aiming at a leap forward in its system solutions business that has growth potential, Nippon Steel integrated the operations of its Electronics & Information Systems Division and Nippon Steel Information & Communication Systems Inc. (ENICOM), a wholly-owned subsidiary, into a new company, NS Solutions Corporation. At NS Solutions, to bring into full play the strength of the integration, three pivotal areas—business solutions, network infrastructure solutions and business services—are positioned as the nuclei of its business operations. By making use of the advanced technological capability possessed by its Systems Research & Development Center, NS Solutions is thus fully prepared for providing a complete scope of integrated services ranging from the planning, design and development to operations and maintenance of solutions.

As a result of these approaches, consolidated sales for the year ended March 31, 2002 amounted to ¥149.3 billion, a gain of ¥5.7 billion over the previous year (¥143.6 billion), and consolidated operating profit ¥10.5 billion, a gain of ¥0.7 billion over the previous year (¥9.7 billion). Henceforth, NS Solutions will continue to be a unique enterprise complete with superior technologies and a menu of products and services that are distinctive from others, while also striving to achieve business growth at a rate that exceeds the average of the whole system solutions industry and thus to secure steady profits.

### Business Solutions

Optimum solutions in response to customer needs in specific lines of business are being extended.

#### Industrial System Solutions

With the progress of solutions and also to meet the trend toward larger-scale solutions projects, the needs are increasing for ERP (enterprise resource planning), SCM (supply chain management) and PDM (product data management). NS Solutions is promoting positive marketing of optimum solutions that accurately meet customer needs.

#### Financial System Solutions

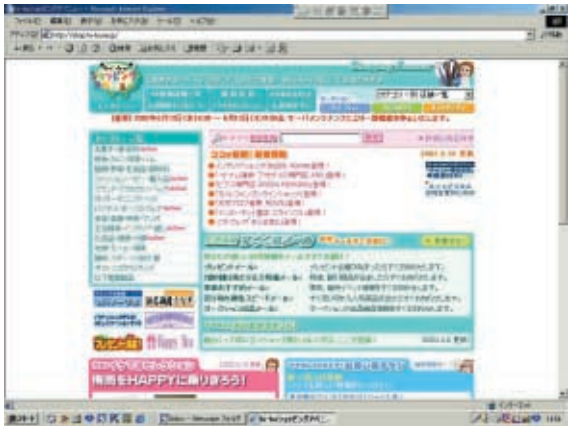
In addition to the risk management system solutions business, already a highly competitive area, orders were brisk in conjunction with system integration projects following the integration and reorganization of major financial institutions. The Sumitomo Trust & Banking Co., Ltd. adopted NS Solutions' distribution-type banking administration package, e-Fine. This was the first of such type used for an accounting system by a major domestic bank.

#### Public-sector System Solutions

In line with the recent trend toward electronic-based administration information to realize "electronic government," NS Solutions is attaining steady achievements for several government agencies as a partner to promote information-oriented administrative operations.

#### Internet Business Solutions

There is a change in the demand situation, a shift away from solution projects for dot.coms to electronic commerce and contents-management solution projects for existing



general enterprises. To keep pace with this, arrangements are underway for a structure that can meet the age of full-fledged broadband transmission in the near future.

### Network Infrastructure Solutions

Open system platforms composed of an optimum combination of network infrastructure solution products are being extended. In this field, the need is now growing for structuring network infrastructures in a short construction term that offer high-level functions and efficiency which can solve the issue of mission criticality. NS Solutions is one of only a few open system integrators with the capability.

### Business Services

NS Solutions is extending outsourcing services that continually offer a broad scope of services ranging from the planning, design and development to operation and maintenance of information systems. The need for such outsourcing services is expanding as enterprises are increasingly concentrating their managerial resources on core competency.

In this environment, NS Solutions is accurately responding to the diversifying needs of customers, including server hosting and monitoring of networks. In December 2001, the NS Solutions Kasai Center—the Internet data center of NS Solutions—obtained BS7799 certification, an international standard for the control of information security, and the certification of the Standard for the ISMS (Information Security Management Systems) Conformity Assessment, a domestic standard authorized by the Ministry of Economy, Trade and Industry. It was the first occasion in Japan for an enterprise to simultaneously obtain these two certifications. Thus, NS Solutions is highly rated for the high level of security involved in its business services.

## Other Businesses



Consolidated sales in the other businesses sector for the year ended March 31, 2002 amounted to ¥61.2 billion (¥59.4 billion in the previous year), and consolidated operating profit ¥1.4 billion (¥0.7 billion).

In the electricity supply business, two Nippon Steel works, Muroran and Oita Works, started electricity wholesale supply in October 2001 and in April 2002, respectively, following Hirohata and Yawata Works (in 1999), and Kamaishi Works (in 2000). Nippon Steel is also promoting the retail supply of electricity, which started in April 2001. In the service and other businesses, Nippon Steel Trading Co., Ltd. is set to implement a reduction of capital and to undertake a capital increase by means of the allocation to a third party.

Aggressive Promotion of Management with Environmental Considerations as the Basic Thrust

Nippon Steel has made efforts to implement aggressive environmental policies throughout corporate operations—environmental management. The Environment Management Committee, inaugurated in 1998 at Nippon Steel, has taken various steps to promote environmental management. Among them are publication of Nippon Steel Environmental Report, formulation of programs for reducing CO2 emissions and plant-generated by-products, and their follow-up surveys, adequate responses to legislation, planning for the development and marketing of eco-products, and creation of new environment-related businesses. Because of its environmentally advanced status, Nippon Steel has been qualified as a company for “Eco-Fund” investment trusts, and at the same time has acquired the highest AAA environmental rating of Innovest Strategic Value Advisors of the U.S. Further, surveys on the attainment of environmental management made by *Nihon Keizai Shinbun*, a leading economic newspaper in Japan, have given high assessment to Nippon Steel—25th place among 800 manufacturing companies in Japan and the top-ranking company among Japan’s material industry.

The twenty-first century will be the age of the environment, and environmental issues are becoming increasingly prominent and complex. Nippon Steel, while disseminating environment-related information extensively, established in April 2001 the Environmental Relations Dept. in its Environmental Management Div., in order to maintain constant communications with its stakeholders. The Nippon Steel Environmental Report and websites and other publicity approaches will help establish yet better communications in the future.

Approaches at Home and Abroad toward Prevention of Global Warming

Since the first oil crisis, the Nippon Steel Group has achieved an energy conservation of over 20% by the maximum use of such measures as steady plant-operation improvements, radical production process elimination and introduction of new waste-heat recovery technology.

The company will continue to strive for the challenging goal of achieving an 11.5% reduction in energy consumption—10% at iron- and steelmaking processes and 1.5% by charging waste plastics into coke ovens on the premise of improved collection systems by municipal governments—by 2010 (with 1990 as the base year), thereby contributing to the curbing of global warming. In addition, the company’s stepped-up contribution will be pursued globally through the overseas transfer of CO2 emission-reducing technology and other environmental technologies making the maximum use of the energy-saving technology the company has amassed over the years.

Recycling of By-products and Development of Environmental Plants

Nippon Steel is also actively undertaking the recycling of not only steel products but also such production process by-products as slag, dust and sludge. Today, its by-product recycling ratio exceeds 98%. For instance, blast-furnace slag is processed into good-quality cement and is in wide use at the Nippon Steel Group’s subsidiaries.

Another area at the focus of the resources-saving efforts is the recycling of general household refuse as resources, including waste plastic containers and packaging. Nippon Steel’s method of recycling waste plastics through conversion in coke ovens into chemical materials has been certified as a chemical recycling technology under the Container Packaging Recycling Law which went into full effect in April 2000. Systems capable of recycling a total of 120,000 tons of waste plastics per year at four steelworks—Yawata, Muroran, Nagoya and Kimitsu Works—have been completed.



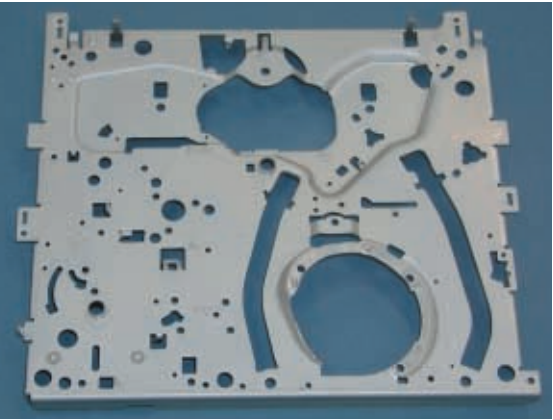
Environment-preservation Forests Grown at Steelworks



Waste Melting Plant of Kazusa Clean System



Waste Plastics Recycling Facility at Yawata Works



Chromate-free Galvanized Steel Sheets  
ZINKOTE 21, galvanized sheet containing no hexavalent chromium, is showing increasing applications from the aspect of global environmental preservation.

Contribution to Environmental Preservation through Eco-products

Nippon Steel is aggressively engaged in the development and marketing of eco-products which impose less burden on the environment. Specifically, these eco-products include:

- Resources- and energy-saving products (such as thin-gauge, lightweight automotive steel sheets conducive to the reduction of energy consumption and CO2 emissions, power-saving electrical steel sheets that improve motor efficiency and resources-saving extrathin tinplate for containers)
- Products featuring a long service life which help reduce refuse (such as highly corrosion-resistant coated steel sheets and seawater corrosion-resistant steel plates)
- Products free of toxic chemical substances (such as lead-free coated steel sheets)

By capitalizing on the technologies for environmental conservation and plant building accumulated in its long experience in iron- and steelmaking, Nippon Steel is also contributing to the creation of a recycling-oriented society in terms of such diverse fields as disposal of wastes, water treatment and utilization of steelworks waste heat as urban energy. On top of these, the company has newly established the Environment & Waterworks Solutions Division with the intention of further putting its management endeavors into environment solutions businesses.

Especially for waste disposal, the Nippon Steel-developed direct waste-melting furnace process was a domestic first of its kind. Backed by twenty years of stable operation of such plants, the company has received to date 21 orders for such plants throughout the country.

Environmental Accounting

Total environmental conservation costs for the year ended March 31, 2001 broke down into ¥32.1 billion of equipment investment (24% of Nippon Steel’s total investment) and ¥52.0 billion of general expenses. Meanwhile, 16% of Nippon Steel’s total R&D expenses was for environmental preservation.

Toward Better Environmental Performance

Nippon Steel not only abides by various environmental regulations but also has gone all-out in the voluntary management of new regulations pertaining to chemical substances. Thus, strict operating control and environmental conservation activities are now in place throughout the entire processes of iron- and steelmaking.

Besides, through afforestation at its steelworks throughout the country, participation in an eco-town project in Kitakyushu City, contributions to the Natural Protection Fund of Japan Business Federation and also to an afforestation movement in China and other activities, Nippon Steel has also contributed greatly to environmental conservation movements at each sector of communities at home and abroad. In addition, the company will actively participate in the nation’s life cycle assessment (LCA) research project and in networks associated with the “green procurement”-oriented move.

Thus, Nippon Steel is firmly committed to better comprehensive environmental performances.



At Nippon Steel, active business developments are underway in multi-faceted sectors, with its proprietary advanced technological capabilities amassed in steel production as the vital thrust. The key factor underlying the multiple-business operations is the widely ranged research and development being promoted under an integrated research and engineering (R&E) system from basic and applied research to commercialization, bringing about many successful achievements.

Among the major new products recently developed are high-strength steel products that help to reduce vehicle weight and to enhance collision safety, non-leaded free-cutting steel that offers high performances in strength, ductility and machinability, electrical steel sheets for high-efficiency motors and transformers and other products that are conducive to conservation of the environment and saving energy, steel plates with high heat-affected zone (HAZ) toughness that improve construction efficiency of steel-framed high-rise buildings and steel lampposts of U-shaped rib structure that ensures high fatigue strength.

New iron- and steelmaking process technologies have also been put on-stream—for example, an eco-friendly process in which waste plastics are recycled to reusable resources in coke ovens and technologies to help expand the types of raw material and fuel usable in blast-furnace operations for improvement of cost competitiveness of ironmaking.

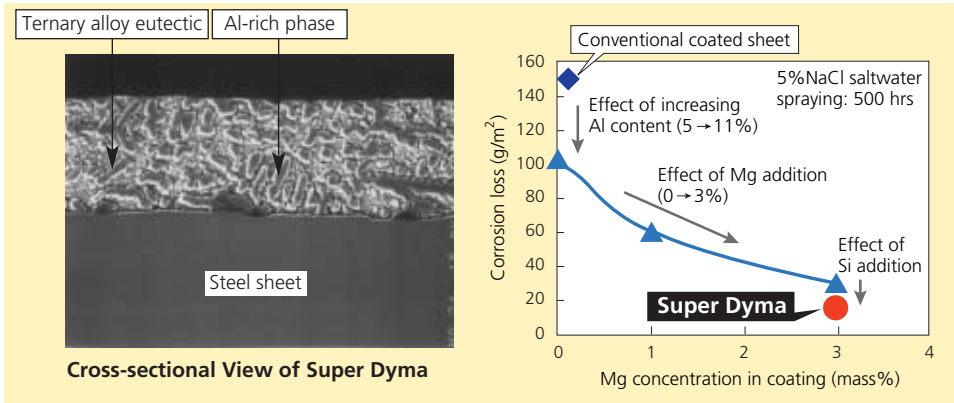
In the field of engineering, new materials and others, the development of new products and related fundamental research are steadily proceeding, which serve as the core issue to promote new business developments in each field. Examples are technologies to improve performances of direct waste-melting processes and development of waste plastics gasification technology, new semiconductor connecting materials and high-performance fine ceramics.

Introduced below are some of the recent achievements of the integrated R&E at Nippon Steel.

Highly Corrosion-resistant Coated Steel Sheet “Super Dyma”

Among key properties required of structures are a long service life and high durability—hence, metallic-coated steel. For saving resources, the need is also growing for achieving better corrosion resistance with less coating amount.

Thorough study on the composition and structure of Zn-alloy coating revealed that a high Mg content and the addition of Si in the Zn-alloy coating exhibited a far improved level of corrosion resistance. On the basis of this finding, Super Dyma with a Zn-11%Al-3%Mg-Si coating has been developed. A vastly superior product, this coated steel sheet shows exceptional corrosion resistance not only on the flat portion but also at cut edges and after paint coating. Its use is rapidly increasing as structural material and in other diverse fields.

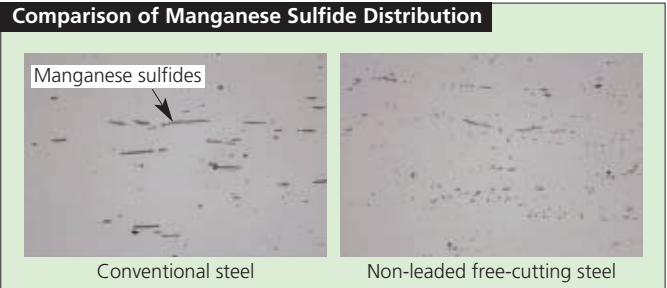


Non-leaded Free-cutting Steel

Structural steels intended for use in automobiles and general machinery must not only have strength and ductility, but also lend themselves to machining with ease, i.e. good machinability for precision in the fabrication of complex shapes. But, for steels in general, high strength and ductility and good machinability work against each other. Conventionally, to secure good machinability without impairing the strength and ductility of steel, the usual practice is to add lead to steel. However, in line with growing interest in eco-friendly products in recent years, the need has been increasing for the development of free-cutting steel containing no lead.

Among elements other than lead, sulfur forms MnS in steel, thereby helping improve machinability. But, the addition of large amounts of sulfur tends to coarsen the structure of MnS. During rolling and forging, the coarsened structure is elongated thus triggering rupture and deteriorating the strength, ductility and other properties of the steel. Thus, it was difficult to use sulfur as a substitute for lead.

Nippon Steel made full use of the company’s oxide metallurgical expertise and developed the technology to eliminate the ill effects of hard oxides and also to refine the coarse-grain MnS and disperse it uniformly. Eventually, Nippon Steel succeeded in realizing superior machinability of free-cutting steel compatible with its mechanical properties, equal to steel with the addition of lead. This newly developed technology is expected to be widely applied to many other products in the future.



Lamppost with High Fatigue Strength

Recently, steel structures are required to have high fatigue strength. Lampposts made of steel tubes are no exception. To meet the challenge, Nippon Steel has developed a lamppost embodying a combination of such considerations for fatigue strength:

- Improved fatigue strength at the base
- Prevention of the resonance phenomenon
- A fail-safe structure (designed to secure overall safety even in the case of partial failure)

Especially for its U-shaped rib structure developed to ensure high fatigue strength at the base, members individually bent into a U-shape are used as reinforcing ribs. Through the combined effects of reduced stress concentration and the introduction of residual compressive stress, this structure demonstrates very high fatigue strength. Lampposts of this unique structure are highly rated for their excellent fatigue strength achieved without recourse to any special material or special fabrication process, and are finding wide use throughout the country. Studies are now underway for the application of the U-shaped rib structure to steel



Lamppost with U-shaped Ribs at the Base

structures other than lampposts, and expectations are high for its wide-ranging application to improve fatigue strength.

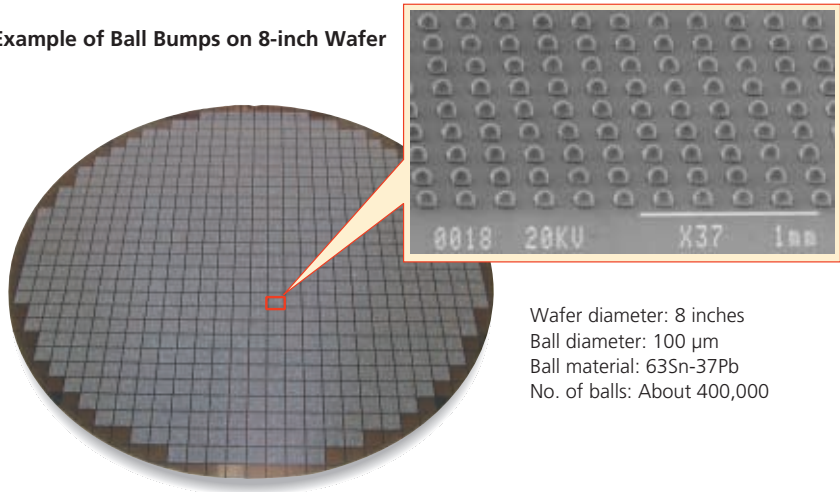
Meanwhile, the resonance phenomenon-preventing post profile and the fail-safe structure make use of the characteristics of Nippon Steel's original technique for manufacturing tapered steel tubes that allows tapering of both outside diameter and wall thickness and also the manufacture with ease of double-wall tube. This lamppost is expected to find yet wider acceptance for its good design and superb fatigue strength.

### Ball-bumping Technology—For High-density Semiconductor Packaging

LSI chips and printed circuit boards are, in most cases, connected by fine metallic lead wires (mainly gold wires), called bonding wires, of about a few dozen  $\mu\text{m}$  in diameter. However, the wire-bonding connection formula that uses the periphery of LSIs as the connection points has limitations in the trends toward higher density through the increase of the number of signal input-output points and toward higher speed through the shortening of signal transmission distances. Under the situation, the flip-chip (FC) connection formula has recently received attention as a means of shifting the connection points from side to face or decreasing the length of connection. With the FC formula, metal projections (soldered bumps) some 100  $\mu\text{m}$  high are formed at the connection points over the entire surface of LSIs, and the chips are connected directly to the printed circuit board. But the FC formula requires high precision in the height of bumps and resistance to thermal stress due to the difference in thermal expansion between LSIs and the printed circuit board. Conventional technologies to form bumps could not fulfill the requirements, an obstacle in the way of the broader diffusion of the FC formula.

Through combined use of its extensive knowledge of metallic materials and materials connection, technology to manufacture micro balls and newly developed high-precision ball-mounting technology, Nippon Steel has established new technology to form bumps en bloc and at high yield over the entire surface of an 8-inch wafer using about 400,000 micro balls of 100  $\mu\text{m}$  in diameter. This technology is getting much attention as a fundamental technology to press ahead with the wider application of the FC formula in LSIs. Nippon Steel is now implementing trial manufacturing services with the aim of diffusing this technology as a de facto standard.

Forming Example of Ball Bumps on 8-inch Wafer



## Support of Music Culture and Sports

### Music Culture

Nippon Steel has actively supported the development of music culture for many years.

The Nippon Steel Concerts—a publicly broadcast radio series spanning more than forty years—are highly acclaimed among classical music enthusiasts. Also, the year 2001 marked the twelfth presentation of the Nippon Steel Music Awards, which were established in commemoration of the twentieth anniversary of the founding of Nippon Steel Corporation.

In addition to these, Kioi Hall, the venue to support these and other such musical activities, opened to the public in 1995. Consisting of performance halls for classical Western music and traditional Japanese music, Kioi Hall earns high praise from music professionals and music lovers alike.

The Twelfth Nippon Steel Music Awards were presented—the Promising New Artist Prize to the flutist Ayako Takagi and the Special Prize to Kyoko Ito, the producer of music festival Argerich's Meeting Point in Beppu.



Kioi Hall



Kioi Hall

### Sports

Through its corporate sponsorship of sports, Nippon Steel has contributed greatly over many years to the development and promotion of sports in Japan.

The company's rugby team was the Japanese national champion for seven consecutive years from 1979. The volleyball team won consecutive championships in 1997 and 1998 in the V-League (the premier volleyball event in Japan). In addition, through the participation of its teams in the Intercity Baseball Championships, Nippon Steel has provided a springboard for many players who are currently active in the U.S. and Japanese major leagues, beginning with pitcher Hideo Nomo of the Los Angeles Dodgers. Add to this the victory of Hidehiko Yoshida in the 1999 World Judo Championships, and the significant impact of Nippon Steel on sports is clear.

In December 2000, Nippon Steel decided to switch from sponsorship of its intra-company teams to regional team sponsorships aimed at enhancing corporate symbiosis with local communities. This effort will involve the formation and support of high-level teams in cooperation with other companies, local government agencies and local communities. Two of such teams—a volleyball team "Sakai Blazers" and a rugby team "Kamaishi Seawaves RFC" have attracted attention as a new type of sports club in Japan.

Nippon Steel will continue to contribute to local revitalization and the promotion of sports through its support of regional teams with strong local ties.



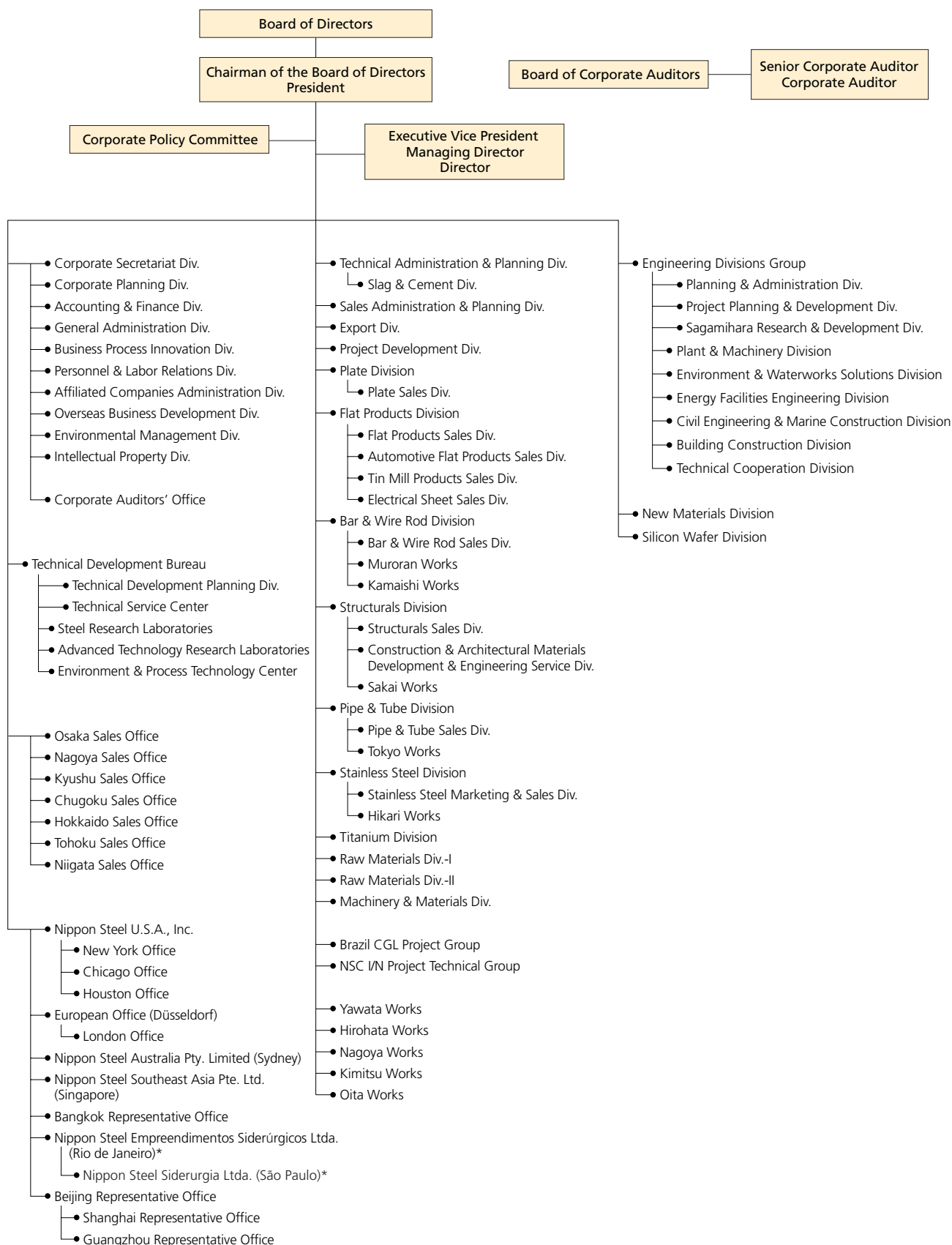
Sakai Blazers and Kamaishi Seawaves

"Sakai Blazers" and "Kamaishi Seawaves RFC" are playing an active part as regional teams with corporate symbiosis with local communities.



# Organization

(as of July 2002)

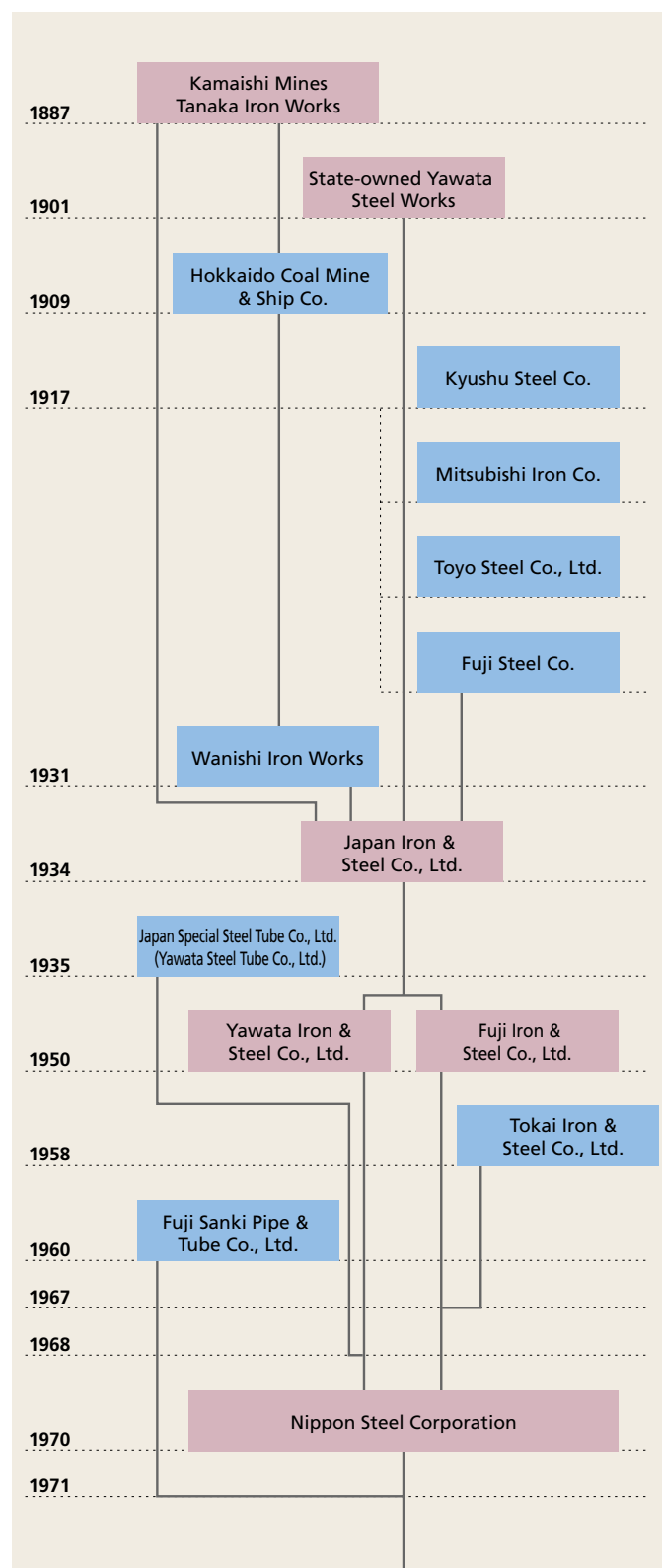


\*The two offices will be integrated in August 2002 to become Nippon Steel Empreendimentos Siderúrgicos Ltda. (São Paulo).



# Chronology

(as of July 2002)



Source for the names of the companies appearing before 1934: "History of Steel in Japan" published by Nippon Steel in 1973

- 1857** Japan's first blast furnace went into operation at Kamaishi.
- 1875** The Ministry of Industry started construction of a steelworks at Kamaishi.
- 1886** Iron was tapped at Kamaishi Mines Tanaka Iron Works (present Kamaishi Works).
- 1897** The Ministry of Agriculture and Commerce started construction of a steelworks at Yawata.
- 1901** The state-owned Yawata Steel Works began operation (present Yawata Works).
- 1909** Wanishi Iron Works of Hokkaido Coal Mine & Ship Co. started operation (present Muroan Works).
- 1934** Japan Iron & Steel Co., Ltd. was founded through merger of Yawata Steel Works with Wanishi Iron Works, Kamaishi Mines, Mitsubishi Iron, Fuji Steel, Kyushu Steel and Toyo Steel.
- 1939** Hirohata Works of Japan Iron & Steel began operation.
- 1950** Japan Iron & Steel was dissolved to form Yawata Iron & Steel Co., Ltd. and Fuji Iron & Steel Co., Ltd.
- 1955** Hikari Works of Yawata Steel began operation.
- 1958** Tokai Iron & Steel Co., Ltd. was established. Yawata Steel inaugurated the Tobata Area of Yawata Works.
- 1961** Sakai Works of Yawata Steel began operation.
- 1965** Kimitsu Works of Yawata Steel began operation.
- 1967** Tokai Steel became Nagoya Works of Fuji Steel.
- 1968** Yawata Steel absorbed Yawata Steel Tube Co., Ltd.
- 1970** Yawata Steel and Fuji Steel merged to form **Nippon Steel Corporation**.
- 1971** Oita Works began operation. Nippon Steel absorbed Fuji Sanki Pipe & Tube Co., Ltd.
- 1974** Engineering Divisions Group was organized.
- 1984** New Materials Projects Bureau was organized.
- 1986** Electronics Division was organized.
- 1987** Electronics & Information Systems Division, New Materials Division and Service Business Division were organized.
- 1991** Technical Development Bureau was organized by integrating Central R&D Bureau and Plant Engineering & Technology Bureau, and R&E Center began operation.
- 1993** Semiconductor Division was organized.
- 1997** Silicon Wafer Division was organized.
- 2000** A divisionally integrated operation system within the Group based on product item or business area was introduced in the steelmaking and steel fabrication sector.
- 2001** Operations of Nippon Steel's Electronics & Information Systems Division and its subsidiary Nippon Steel Information & Communication Systems Inc. were integrated.
- 2002** The urban development business was integrated into Nippon Steel City Produce, Inc.

# Executive Management

(as of July 2002)



Chairman Takashi Imai (left) and President Akira Chihaya (right)

## Executive Vice Presidents



Tetsuo Seki



Makoto Kihara



Iwao Koyama



Akio Mimura



Tetsuro Ohashi



Okitsugu Mantani

## Representative Director and Chairman of the Board of Directors

Takashi Imai

## Representative Director and President

Akira Chihaya

## Representative Directors and Executive Vice Presidents

Tetsuo Seki

Makoto Kihara

Iwao Koyama

Akio Mimura

Tetsuro Ohashi

Okitsugu Mantani

## Managing Directors

Jujiro Yagi

Toshio Yonezawa

Seiki Miyamoto

Haruhiko Okumura

Hideki Saito

Yasushi Sawada

Takashi Hirao

Nobuyoshi Fujiwara

Makoto Haya

Motoyoshi Nishikawa

Toshio Ochiai

## Directors

Hideki Furuno

Naoki Okumura

Kazuo Nagahiro

Hideaki Sekizawa

Nobuhiko Yoshida

Shinichi Kaminaga

Hiroshi Shima

Shoji Muneoka

Mitsuo Kitagawa

Koichi Nakamura

Tetsuo Imakubo

Bunyuu Futamura

Hiromu Fujii

Kiichiroh Masuda

Hidemi Ohta

Katsutoshi Kurikawa

Junji Oota

Tetsuo Eto

Atsushi Takeda

Yuki Iriyama

Itsuo Takahashi

Keisuke Kuroki

## Senior Corporate Auditor

Takeshi Yoshii

## Corporate Auditors

Akira Shohga

Muneyuki Higuchi

Josei Itoh

Hisashi Tanikawa

Yoichi Kaya

# FINANCIAL STATEMENTS

*Nippon Steel Corporation and Subsidiaries*

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Financial Summary

Net sales of Nippon Steel Corporation and its consolidated subsidiaries (collectively "NIPPON STEEL") for the year ended March 31, 2002 decreased by ¥169.0 billion from the year ended March 31, 2001 level to ¥2,581.3 billion (\$19,372 million). Operating profit for the year decreased by ¥89.6 billion over the year ended March 31, 2001 to ¥73.0 billion (\$548 million), while net loss was ¥28.4 billion (\$213 million), compared to ¥26.4 billion net income in the year ended March 31, 2001.

Segment Information

The Japanese economy is currently experiencing negative growth, resulting in reduced public spending, lower personal consumption and a drastic drop in private sector capital spending. The steel industry was no exception and domestic steel demand for the construction and manufacturing sectors dropped sharply. Exports were adversely affected due to deceleration of economies in other countries and the worsening market environment. National crude steel output was 102.06 million tons in the year ended March 31, 2002, down 4.83 million tons from the year ended March 31, 2001 and as demand dropped much more than expected during the first half of the year, a steep increase of inventories took place giving rise to sudden aggravated market conditions both at home and abroad. Under these circumstances, Nippon Steel made the greatest possible efforts to achieve a strong consolidated financial constitution and high consolidated profit performance founded on the Medium-Term Consolidated Business Plan (the years ended March 31, 2001~2003) by sharing strategies among the Group companies. The performance of each business segment in the year ended March 31, 2002 is, in brief, as follows:
Steelmaking and steel fabrication: The harsh operating conditions continued throughout the year ended March 31, 2002, as exemplified by the plunge in steel market prices both at home and abroad in the midst of sharply declining domestic steel demand and prolonged steel inventory adjustments worldwide. Nippon Steel gave priority to the improvement of steel market prices and exercised prudence in tuning its steel production and shipments to movement in market demand from the first half of the year ended March 31, 2002. As a result, Nippon Steel's crude steel production fell 1.69 million tons below the previous year's

level, to 26.14 million tons in the year ended March 31, 2002. Under the circumstances, the Nippon Steel Group as a whole strove for additional and advanced implementation of their projected cost-reducing and other profitability improvement measures. Nevertheless, the curtailment of steel production and steel shipments due to sharply reduced demand and the downward movement in steel sales prices that began in the first half of the year ended March 31, 2002 combined to directly affect the operating performance of NIPPON STEEL. Consolidated sales in this sector totaled ¥1,828.2 billion (\$13,720 million) during the year ended March 31, 2002, a decrease of ¥133.8 billion from the previous year (¥1,962.0 billion), and consolidated operating profit amounted to ¥23.4 billion (\$176 million), as a substantial decrease of ¥92.0 billion from the previous year (¥115.5 billion).
Engineering and construction: The severe operating environment continued for the engineering and construction sector throughout the year ended March 31, 2002 with increasingly intensive competition due to the decline in demand in Japan and abroad bringing down the prices of orders received. Despite such unfavorable trends in new orders received, this sector achieved gains in both sales and profits in the year. This was because thorough measures were taken for reducing project cost while steadily undertaking the backlog of orders received in the previous year. This sector's consolidated sales in the year showed a gain of ¥13.3 billion over the previous year (¥280.9 billion), to come to ¥294.3 billion (\$2,208 million), and consolidated operating profit also rose to ¥9.9 billion (\$74 million), a gain of ¥2.6 billion over the previous year (¥7.2 billion).
Urban development: As signs of the slowdown in growth began to appear throughout the market during the year ended March 31, 2002, sales were ¥130.8 billion (\$981 million), ¥11.1 billion down the previous year's ¥141.9 billion. But active efforts enabled this sector to post an operating profit of ¥15.5 billion (\$116 million), virtually the same level as in the previous year (¥16.3 billion).
Chemicals and nonferrous materials: Sales were ¥326.1 billion (\$2,447 million), 9.2% below the previous year's ¥359.1 billion. Operating profit of ¥10.3 billion (\$77 million) was also lower than the previous year's ¥11.5 billion.
System solutions: This sector is faced with increasingly fierce market competition. A major factor in this is the recent stagnation in the hardware business that has spurred computer manufactures to

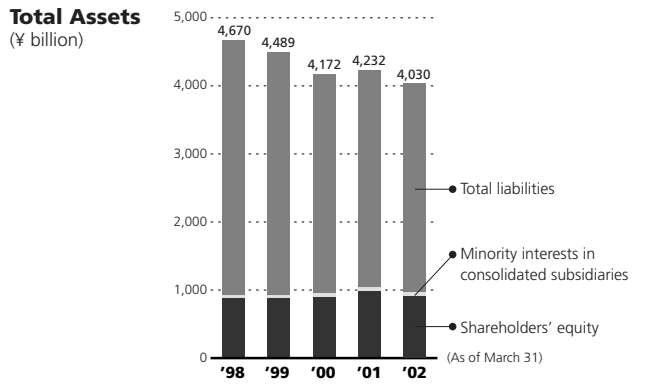
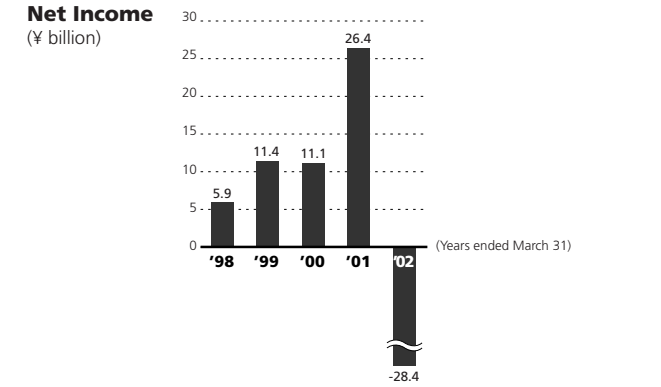
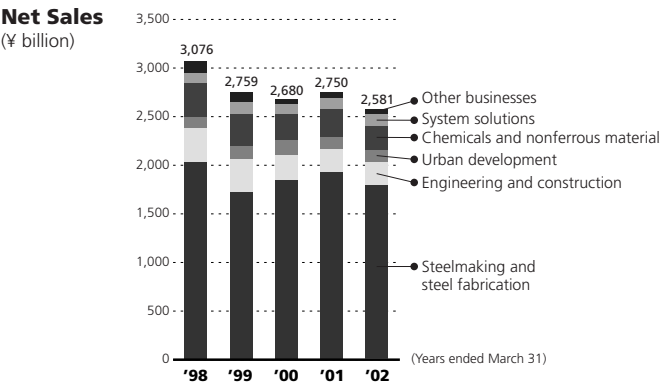
enter the system solutions market. However, the operating performance of this sector maintained a firm pace based on the strength of a markedly high reputation in the market for its technological capability. Sales advanced ¥5.7 billion from the previous year (¥143.6 billion), to reach ¥149.3 billion (\$1,121 million). Despite a nonrecurring cost involved in business integration, operating profit in the year edged ¥0.7 billion upward to ¥10.5 billion (\$78 million) from the previous year (¥9.7 billion).
Other businesses: Sales were ¥61.2 billion (\$459 million), 3.0% above the previous year's ¥59.4 billion, while operating profit was ¥1.4 billion (\$10 million), ¥0.6 billion above ¥0.7 billion of the previous year. As a result, consolidated sales for the year ended March 31, 2002 totaled ¥2,581.3 billion (\$19,372 million), 6.1% below the previous year's ¥2,750.4 billion. Operating profit decreased by ¥89.6 billion or 55.1% to ¥73.0 billion (\$548 million) from the previous year. Consolidated ordinary profit decreased to ¥16.7 billion (\$125 million), a decrement of ¥94.6 billion over the previous year's ¥111.3 billion. A total special loss of ¥96.7 billion (\$726 million) was recorded. This included a loss of ¥72.9 billion on devaluation of investments in securities mainly incurred due to the impairment of listed securities such as financial institutions' shares and unlisted securities. On the other hand, a total special profit of ¥54.9 billion (\$412 million) was recorded, including a gain of ¥15.6 billion on sales of tangible fixed assets; a gain of ¥22.3 billion on contribution of securities to employee retirement benefit trusts and the release of ¥14.6 billion of reserve for repairs for blast furnaces. As a result, the year saw a net loss of ¥25.0 billion (\$188 million) before income taxes and minority interest, a substantial worsening of ¥74.4 billion from the previous year's profit level. After taking account of income taxes-current of ¥19.0 billion (\$143 million) (the previous year: ¥55.3 billion) and deferred income taxes, a credit of ¥15.2 billion (\$114 million) (the previous year: a ¥35.8 billion expense); and the minority interest in consolidated subsidiaries of ¥0.4 billion (\$3 million) profit (the previous year: a ¥3.3 billion loss position), consolidated net loss for the current year was ¥28.4 billion (the year ended March 31, 2001: ¥26.4 billion of net income).

Financial Position

Consolidated total assets at March 31, 2002 decreased ¥201.4 billion from the level at March 31, 2001 (¥4,232.0 billion), to amount to ¥4,030.5 billion. This was attributable mainly to a substantial decline (¥156.5 billion) in investments in securities, incurred by the impairment of listed securities such as financial institutions' shares as well as unlisted stocks and also by a decrease in the unrealized gains of listed stocks caused by declining market values. Lastly, this was also attributable to a decline (¥65.3 billion) in current assets arising from reductions in cash and bank deposits, notes and accounts receivable, inventories and the like. Consolidated total liabilities at March 31, 2002 amounted to ¥3,057.8 billion (\$22,948 million), a decrease of ¥130.9 billion from the amount at March 31, 2001 (¥3,188.8 billion). Of this decreased amount, ¥84.4 billion was due to a reduction in loans and the redemption of bonds and notes. Shareholders' equity at March 31, 2002 came to ¥907.1 billion (\$6,807 million), a decrease of ¥72.5 billion from the figure at March 31, 2001.

The Statement of Cash Flows

Cash inflows from operating activities during the year totaled ¥215.6 billion (\$1,618 million) after adding or subtracting income before income taxes and minority interest of ¥25.0 billion (\$188 million), depreciation and amortization of ¥197.3 billion (\$1,480 million). Cash outflows from investing activities, however, totaled expenditure of ¥165.3 billion (\$1,241 million), ¥199.2 billion (\$1,495 million) and ¥6.9 billion (\$51 million) for the acquisition of tangible and intangible fixed assets and investments in securities, respectively, adding ¥28.9 billion (\$217 million) and ¥14.7 billion (\$110 million) from the sales of tangible and intangible fixed assets and investments in securities, etc., respectively. Cash outflows from financing activities totaled ¥104.0 billion (\$780 million) and included ¥94.8 billion (\$711 million) (net amount) for loans, bonds and notes, and ¥10.2 billion (\$76 million) for cash dividends and cash dividends to minority shareholders. As a result, cash and cash equivalents at the end of the year were ¥74.1 billion (\$556 million), a decrease of ¥49.7 billion from the previous year.



Ten-Year Summary

NIPPON STEEL

CONSOLIDATED

As of or for the years ended March 31

CONSOLIDATED		Millions of yen	Thousands of dollars	Millions of yen					Millions of yen				
As of or for the years ended March 31		2002		2001	2000	1999	1998	1997	1996	1995	1994	1993	
Net sales	2,581,399	19,372,606		2,750,418	2,680,611	2,759,409	3,076,531	3,061,288	2,954,869	2,881,097	2,749,434	2,951,423	
Operating profit (loss)	73,044	548,176		162,644	120,296	92,396	181,640	142,090	193,429	92,269	(10,932)	115,964	
Ordinary profit (loss)	16,746	125,673		111,374	64,687	15,282	86,537	80,753	101,593	(12,193)	(36,725)	29,022	
Income (loss) before income taxes, etc.	(25,079)	(188,217)		49,403	2,171	14,096	39,234	(25,148)	56,961	(17,863)	(59,747)	(19)	
Net income (loss)	(28,402)	(213,151)		26,494	11,173	11,478	5,945	3,450	54,538	(3,971)	(54,093)	1,822	
Net income (loss) per share	(¥4.17)	(\$0.031)		¥3.89	¥1.64	¥1.68	¥0.86	¥0.50	¥7.91	(¥0.57)	(¥7.85)	¥0.26	
Shareholders' equity	907,150	6,807,883		979,695	889,220	878,849	878,702	891,134	903,359	868,186	971,882	1,045,444	
Total assets	4,030,596	30,248,376		4,232,011	4,172,459	4,489,753	4,670,669	4,509,536	4,527,304	4,547,466	4,346,286	4,475,501	
Capital expenditure	195,801	1,469,429		157,348	226,954	234,833	232,490	241,377	234,921	—	—	—	
Depreciation	197,336	1,480,945		206,987	214,186	221,359	241,003	232,543	237,994	—	—	—	
Research and development costs	35,183	264,040		39,364	40,575	—	—	—	—	—	—	—	
Interest-bearing debt	2,016,175	15,130,775		2,101,686	2,277,938	2,549,064	2,640,750	2,484,261	2,439,526	2,385,821	2,401,541	2,304,175	

Sales and operating profit (loss) by industry segment\*1

Sales

For the years ended March 31

<i>Sales</i>	Millions of yen	Thousands of dollars	Millions of yen			Millions of yen					
For the years ended March 31	2002		2001	2000	1999	1998	1997	1996	1995	1994	1993
Steelmaking and steel fabrication	1,828,206	13,720,126	1,962,019	1,877,582	1,743,018	2,040,444	2,015,666	1,993,867	1,998,367	1,960,783	2,200,090
Engineering and construction	294,323	2,208,805	280,929	300,054	419,841	426,852	490,165	430,667	458,475	490,349	465,179
Urban development	130,808	981,675	141,979	164,428	146,406	126,218	—	—	—	—	—
Chemicals and nonferrous materials	326,164	2,447,767	359,123	338,631	415,285	451,573	440,289	418,352	363,187	312,234	343,288
System solutions	149,398	1,121,192	143,670	136,198	160,954	151,111	156,261	187,445	—	—	—
Other businesses	61,251	459,676	59,440	56,491	222,908	239,616	314,403	292,945	423,396	373,041	338,231
Elimination of intersegment transactions	(208,754)	(1,566,637)	(196,745)	(192,776)	(349,005)	(359,284)	(355,498)	(368,408)	(362,329)	(386,975)	(395,366)

Operating profit (loss)

For the years ended March 31

Operating profit (loss) For the years ended March 31	Millions of yen	Thousands of dollars	Millions of yen					Millions of yen				
	2002		2001	2000	1999	1998	1997	1996	1995	1994	1993	
Steelmaking and steel fabrication	23,482	176,225	115,536	73,257	65,397	168,659	109,639	115,135	63,013	(53,480)	79,263	
Engineering and construction	9,913	74,395	7,287	12,209	11,972	10,610	35,510	28,158	33,992	48,190	37,781	
Urban development	15,576	116,893	16,320	20,787	16,975	15,766	—	—	—	—	—	
Chemicals and nonferrous materials	10,379	77,897	11,574	8,378	5,263	8,140	11,806	10,590	(5,119)	(10,559)	(3,278)	
System solutions	10,504	78,829	9,770	5,311	(19,333)	(26,491)	(26,504)	13,748	—	—	—	
Other businesses	1,457	10,938	772	(911)	11,000	9,782	17,796	16,066	2,624	(4,468)	4,629	
Elimination of intersegment transactions	1,731	12,994	1,384	1,262	1,120	(4,826)	(6,159)	9,729	(2,240)	9,385	(2,430)	

NON-CONSOLIDATED

As of or for the years ended March 31

NON-CONSOLIDATED	Millions of yen	Thousands of dollars	Millions of yen			Millions of yen					
As of or for the years ended March 31	2002		2001	2000	1999	1998	1997	1996	1995	1994	1993
Net sales	1,681,406	12,618,432	1,848,710	1,810,842	1,918,538	2,205,019	2,184,805	2,099,750	2,090,580	2,158,779	2,368,853
Ordinary profit (loss)	31,729	238,120	78,776	42,606	50,238	103,954	84,711	64,698	11,214	(18,349)	28,884
Net income (loss)	(28,129)	(211,103)	18,355	266	522	35,393	19,906	24,741	9,438	(30,904)	4,861
Net income (loss) per share	(¥4.13)	(\$0.031)	¥2.69	¥0.03	¥0.07	¥5.13	¥2.88	¥3.59	¥1.36	(¥4.48)	¥0.70
Cash dividends per share	¥1.50	\$0.011	¥1.50	¥1.50	¥1.50	¥2.50	¥2.50	¥2.50	¥2.50	¥2.50	¥6.00
Shareholders' equity	793,557	5,955,399	866,757	773,981	783,925	861,828	843,659	840,976	833,459	841,245	892,979
Total assets	2,738,973	20,555,150	2,884,547	2,793,067	3,051,391	3,150,110	3,145,249	3,145,269	3,229,979	3,229,945	3,335,537
Capital expenditure	175,000	1,313,320	135,000	180,000	135,000	100,000	100,000	120,000	130,000	170,000	200,000
Depreciation	144,363	1,083,401	150,904	153,327	139,441	148,111	149,319	154,281	146,794	141,664	146,794
Research and development costs	28,705	215,428	35,598	35,727	41,900	47,500	51,100	55,700	67,400	77,900	83,600
Interest-bearing debt	1,240,474	9,309	1,205,352	1,273,687	1,464,531	1,457,895	1,509,132	1,446,531	1,544,065	1,701,664	1,690,029

Shares

Shares outstanding at year-end (in thousands)

Common stock price range (high/low: yen)

	2002		2001	2000	1999	1998	1997	1996	1995	1994	1993
	6,806,981		6,806,981	6,806,981	6,806,981	6,889,904	6,889,904	6,889,903	6,889,903	6,889,903	6,889,903
	229/146		270/165	314/215	272/177	392/146	388/283	375/271	403/293	420/295	344/229

Production and Shipments

For the years ended March 31

Production and Shipments		Thousands of tons					Thousands of tons				
For the years ended March 31		2002	Thousands of tons			Thousands of tons					
			2001	2000	1999	1998	1997	1996	1995	1994	1993
Crude steel output	26,140		27,837	25,620	23,201	26,619	25,706	26,173	26,565	25,123	25,320
Steel products output* <sup>2</sup>	25,487		26,226	24,566	22,751	25,378	24,747	25,620	25,314	24,338	24,085
Steel products shipments* <sup>2</sup>	26,312		26,789	25,633	24,026	26,580	25,871	25,684	25,374	24,440	24,103

Employees

As of March 31

As of March 31	2002									
		2001	2000	1999	1998	1997	1996	1995	1994	1993
Number of employees* <sup>3</sup>	17,370	18,918	19,816	21,414	22,560	24,527	27,583	31,072	34,619	36,316

\*1 Industry segment was changed at the beginning of 2001 as follows:

- Transfer of some companies so far engaged in “Chemicals, nonferrous metals, and ceramics” to “Steelmaking and steel fabrication,” and an accompanying change in business designation from that of “Chemicals, nonferrous metals, and ceramics” to “Chemicals and nonferrous materials”
- Transfer of all companies so far engaged in “Transportation” to “Steelmaking and steel fabrication” and an accompanying abolition of “Transportation”
- Transfer of some companies so far engaged in “Engineering and construction” to “Steelmaking and steel fabrication,” and “Services and others”
- Transfer of some companies so far engaged in “Services and others” to “Steelmaking and steel fabrication”

As a result of these changes, sales and operating profit (loss) for 2000 and 2001 are presented under the new segments.

Additionally, at the beginning of 2002, the name of “Electronics and information systems” was changed to “System solutions.”

\*2 Including sub-products

\*3 Excluding employees seconded to subsidiaries and other organizations. The numbers of such employees at March 31, 2002 and 2001 were 7,993 and 7,415, respectively.

Note:

Tonnage figures are in metric tons; all dollars (\$) figures are in US currency and translated from the Japanese yen at the rate of \$1=¥133.25 at the latest balance sheet date.

Consolidated Balance Sheets

NIPPON STEEL  
As of March 31, 2002 and 2001

	Millions of yen		Thousands of dollars (Note 3)
	2002	2001	2002
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits (Note 5)	¥ 74,343	¥ 119,470	\$ 557,926
Marketable securities (Note 13)	1,255	4,842	9,424
Receivables:			
Notes and accounts receivable (Note 4)	452,258	499,944	3,394,059
Less: Allowance for doubtful accounts	(1,205)	(2,893)	(9,046)
	451,052	497,051	3,385,013
Inventories	591,307	615,553	4,437,577
Deferred tax assets (Note 7)	40,331	30,320	302,676
Other	145,659	102,095	1,093,126
<b>Total current assets</b>	<b>1,303,950</b>	<b>1,369,332</b>	<b>9,785,745</b>
<b>Fixed assets:</b>			
<b>Tangible fixed assets:</b>			
Buildings and structures (Note 5)	1,500,276	1,481,364	11,259,112
Machinery and equipment (Note 5)	4,540,573	4,410,649	34,075,601
	6,040,850	5,892,013	45,334,714
Less: Accumulated depreciation	(4,682,275)	(4,544,381)	(35,139,024)
	1,358,575	1,347,632	10,195,689
Land (Notes 5 and 6)	350,515	343,341	2,630,511
Construction in progress	92,557	81,781	694,612
	1,801,648	1,772,755	13,520,813
<b>Intangible fixed assets:</b>			
Patents and utility rights	5,226	6,936	39,220
Software	10,248	18,240	76,911
Excess of cost over the underlying net equity of investments in subsidiaries and affiliates	—	1,970	—
	15,474	27,147	116,131
<b>Investments and others:</b>			
Investments in securities (Notes 5 and 13)	412,625	569,200	3,096,623
Investments in unconsolidated subsidiaries and affiliates (Note 13)	237,730	235,311	1,784,095
Deferred tax assets (Notes 6 and 7)	41,123	36,759	308,620
Other (Note 5)	229,562	234,640	1,722,796
Less: Allowance for doubtful accounts	(11,519)	(13,136)	(86,449)
	909,522	1,062,776	6,825,686
<b>Total fixed assets</b>	<b>2,726,645</b>	<b>2,862,678</b>	<b>20,462,631</b>
<b>Total assets</b>	<b>¥4,030,596</b>	<b>¥4,232,011</b>	<b>\$30,248,376</b>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of dollars (Note 3)
	2002	2001	2002
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term loans and long-term loans due within one year (Note 5)	¥ 721,097	¥ 779,281	\$ 5,411,614
Commercial paper (Note 5)	116,000	20,000	870,544
Bonds and Notes and Convertible bonds due within one year (Note 5)	112,508	115,000	844,337
Notes and accounts payable (Note 4)	421,677	404,388	3,164,558
Accrued expenses	280,840	253,750	2,107,620
Reserve for estimated loss on shut down of steel production facilities	—	5,318	—
Advances received	41,484	59,937	311,326
Accrued income taxes and enterprise taxes	12,630	47,455	94,787
Other	37,408	26,500	280,737
<b>Total current liabilities</b>	<b>1,743,646</b>	<b>1,711,631</b>	<b>13,085,526</b>
<b>Long-term liabilities:</b>			
Bonds and notes (Note 5)	275,000	385,000	2,063,789
Convertible bonds (Note 5)	109,433	112,765	821,264
Long-term loans (Note 5)	676,747	683,169	5,078,780
Deferred tax liabilities (Notes 6 and 7)	50,162	76,429	376,453
Accrued pension and severance costs (Note 14 )	116,930	111,907	877,529
Reserve for repairs for blast furnaces	49,253	68,541	369,631
Other reserve allowances	2,495	—	18,727
Other	34,218	39,440	256,799
<b>Total long-term liabilities</b>	<b>1,314,241</b>	<b>1,477,253</b>	<b>9,862,976</b>
<b>Total liabilities</b>	<b>3,057,888</b>	<b>3,188,885</b>	<b>22,948,503</b>
<b>MINORITY INTEREST</b>			
<b>IN CONSOLIDATED SUBSIDIARIES</b>	<b>65,557</b>	<b>63,430</b>	<b>491,990</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock:</b>			
Authorized — 9,917,077,000 shares			
Issued and outstanding, par value			
¥50 per share:			
6,806,980,977 shares as of March 31, 2002 and 2001	419,524	419,524	3,148,405
<b>Additional paid-in capital</b>	<b>105,518</b>	<b>105,518</b>	<b>791,883</b>
<b>Unrealized gains on revaluation of land (Note 6)</b>	<b>7,488</b>	<b>5,675</b>	<b>56,200</b>
<b>Retained earnings (Note 9)</b>	<b>338,565</b>	<b>378,282</b>	<b>2,540,826</b>
<b>Unrealized gains on available-for-sale securities (Note 13)</b>	<b>54,898</b>	<b>94,187</b>	<b>411,992</b>
<b>Foreign currency translation adjustments</b>	<b>(18,822)</b>	<b>(23,491)</b>	<b>(141,260)</b>
Less: Treasury stock, at cost	(21)	(1)	(163)
<b>Total shareholders' equity</b>	<b>907,150</b>	<b>979,695</b>	<b>6,807,883</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥4,030,596</b>	<b>¥4,232,011</b>	<b>\$30,248,376</b>



Consolidated Statements of Income

NIPPON STEEL  
Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of dollars (Note 3)
	2002	2001	2000	2002
Operating revenues:				
Net sales (Note 12)	¥2,581,399	¥2,750,418	¥2,680,611	\$19,372,606
Operating costs and expenses:				
Cost of sales	2,245,335	2,305,538	2,265,376	16,850,545
Selling, general and administrative expenses	263,020	282,234	294,938	1,973,883
	2,508,355	2,587,773	2,560,314	18,824,429
Operating profit	73,044	162,644	120,296	548,176
Non-operating profit and loss:				
Non-operating profit:				
Interest and dividend income	7,047	9,612	9,275	52,891
Equity in net income of unconsolidated subsidiaries and affiliates	—	1,335	7,372	—
Miscellaneous	14,174	19,165	15,704	106,377
	21,222	30,114	32,351	159,268
Non-operating loss:				
Interest expenses	32,904	39,215	47,535	246,938
Loss on valuation of marketable securities	—	—	5,041	—
Equity in net loss of unconsolidated subsidiaries and affiliates	12,452	—	—	93,454
Miscellaneous	32,163	42,169	35,384	241,377
	77,521	81,384	87,960	581,771
Ordinary profit	16,746	111,374	64,687	125,673
Special profit and loss:				
Special profit (Note 8):				
Gain on sales of tangible fixed assets	15,626	15,809	23,171	117,273
Gain on sales of investments in securities and investments in subsidiaries and affiliates	2,234	26,439	34,439	16,766
Gain on contribution of securities to employee retirement benefit trust	22,367	68,705	—	167,859
Release of reserve for repairs for blast furnaces	14,690	—	—	110,249
Other	—	1,023	1,909	—
	54,918	111,977	59,519	412,149
Special loss (Note 8):				
Loss on disposal of tangible fixed assets and other assets	7,732	5,255	2,626	58,033
Loss on valuation of investments in securities	72,952	10,376	15,026	547,483
Loss on dissolution of subsidiaries, affiliates and others	—	—	5,108	—
Special retirement allowances for voluntary retirement	8,134	6,981	38,159	61,049
Past service cost under the retirement pension plan	—	—	17,382	—
Amortization of transition obligation in respect of new accounting standard for retirement benefits	6,166	107,409	—	46,280
Reserve for doubtful accounts	498	6,349	913	3,738
Loss on shut down of steel production facilities	—	26,228	—	—
Loss on business restructuring	1,259	2,774	—	9,455
Loss on completion of land development	—	3,255	—	—
Loss on valuation of real estate for sale	—	2,183	—	—
Exchange losses on foreign currency transactions	—	—	6,704	—
Write-off of software preparation costs, etc.	—	—	20,635	—
Loss for blast furnace trouble	—	—	5,158	—
Industrial water obligation fee	—	—	3,613	—
Loss on disposal of unfeasible land	—	—	1,049	—
Write-off of examination and research costs	—	—	2,873	—
Other	—	3,132	2,784	—
	96,744	173,948	122,036	726,040
Income (loss) before income taxes and minority interest	(25,079)	49,403	2,171	(188,217)
Income taxes-current (Note 7)	19,062	55,371	12,835	143,056
Income taxes-deferred (Note 7)	(15,257)	(35,803)	(19,708)	(114,501)
Minority interest (loss) in net income of consolidated subsidiaries	482	(3,340)	2,129	3,621
Net income (loss)	¥ (28,402)	¥ 26,494	¥ 11,173	\$ (213,151)
Per share (stated in yen and in dollars):				
Net income (loss)	(¥4.17)	¥3.89	¥1.64	(\$0.031)
Cash dividends applicable to the year	¥1.50	¥1.50	¥1.50	\$0.011
Weighted average number of shares outstanding (in thousands)	6,806,948	6,806,974	6,806,976	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

NIPPON STEEL  
Years ended March 31, 2002, 2001 and 2000

	Thousands	Millions of yen		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	6,806,981	¥419,524	¥105,518	¥353,810
Net income for the year ended March 31, 2000	—	—	—	11,173
Increase due to the change in the number of consolidated companies	—	—	—	12,209
Cash dividends	—	—	—	(10,210)
Directors' and corporate auditors' bonuses	—	—	—	(77)
Decrease due to merger of a subsidiary	—	—	—	(4,234)
Balance at March 31, 2000	6,806,981	¥419,524	¥105,518	¥362,671
Net income for the year ended March 31, 2001	—	—	—	26,494
Increase due to the change in the number of consolidated companies (Note 9)	—	—	—	3,556
Cash dividends	—	—	—	(10,210)
Directors' and corporate auditors' bonuses	—	—	—	(61)
Decrease due to reversal of unrealized gains on revaluation of land	—	—	—	(4,169)
Balance at March 31, 2001	6,806,981	¥419,524	¥105,518	¥378,282
Net income for the year ended March 31, 2002	—	—	—	(28,402)
Increase due to the change in the number of consolidated companies (Note 9)	—	—	—	168
Cash dividends	—	—	—	(10,210)
Directors' and corporate auditors' bonuses	—	—	—	(86)
Decrease due to reversal of unrealized gains on revaluation of land	—	—	—	(1,185)
Balance at March 31, 2002	6,806,981	¥419,524	¥105,518	¥338,565

	Thousands	Thousands of dollars (Note 3)		
	6,806,981	\$3,148,405	\$791,883	\$2,838,892
Balance at March 31, 2001	—	—	—	(213,151)
Net income for the year ended March 31, 2001	—	—	—	1,265
Increase due to the change in the number of consolidated companies (Note 9)	—	—	—	(76,626)
Cash dividends	—	—	—	(652)
Directors' and corporate auditors' bonuses	—	—	—	—
Decrease due to reversal of unrealized gains on revaluation of land	—	—	—	(8,899)
Balance at March 31, 2002	6,806,981	\$3,148,405	\$791,883	\$2,540,826

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

NIPPON STEEL  
Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of dollars (Note 3)
	2002	2001	2000	2002
Cash flows from operating activities:				
Income before income taxes and minority interest	¥ (25,079)	¥ 49,403	¥ 2,171	\$ (188,217)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	197,336	206,987	214,186	1,480,945
Write-off of software preparation costs and examination and research costs	—	—	23,508	—
Decrease in reserve for retirement allowances	—	—	(10,166)	—
Interest and dividend income (accruals basis)	(7,047)	(9,612)	(9,275)	(52,891)
Interest expense (accruals basis)	32,904	39,215	47,535	246,938
Exchange losses (gains) on foreign currency transactions	(3,174)	(14,384)	4,170	(23,823)
Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates	2,197	2,309	2,160	16,495
Equity in net income of unconsolidated subsidiaries and affiliates	12,452	(1,335)	(7,372)	93,454
Gain on sales of marketable securities	—	—	(2,199)	—
Gain on sales of investments in securities	(1,562)	(26,102)	(32,615)	(11,729)
Loss on valuation of investments in securities	72,336	7,073	13,720	542,860
Amortization of transition obligation in respect of new accounting standard for retirement benefits	6,166	107,409	—	46,280
Gain on contribution of securities to employee retirement benefit trust	(22,367)	(68,705)	—	(167,859)
Loss on disposal of tangible and intangible fixed assets	7,279	12,555	7,188	54,630
Gain on sales of tangible and intangible fixed assets	(15,894)	(15,572)	(24,850)	(119,280)
Changes in reserve for doubtful accounts	(113)	7,035	—	(852)
Loss on shut down of steel production facilities	—	12,970	—	—
Loss on completion of land development	—	3,255	—	—
Changes in operating assets and liabilities:				
Changes in notes and accounts receivable	53,870	(2,124)	237,740	404,284
Changes in inventories	17,601	(27,842)	64,842	132,092
Changes in notes and accounts payable	738	17,525	(20,712)	5,538
Other	(30,858)	45,948	(35,772)	(231,587)
Interest and dividend income (cash basis)	8,396	12,143	11,805	63,011
Interest expense (cash basis)	(33,674)	(39,740)	(48,475)	(252,713)
Income taxes (cash basis)	(55,864)	(16,280)	(11,271)	(419,246)
Cash flows from operating activities	215,642	302,132	426,317	1,618,331
Cash flows from investing activities:				
Acquisition of marketable securities	—	—	(528)	—
Proceeds from sales of marketable securities	—	—	5,238	—
Acquisition of investments in securities	(6,909)	(39,791)	(108,821)	(51,850)
Proceeds from sales of investments in securities	14,731	22,995	49,542	110,553
Acquisition of cash owned by new subsidiaries, net of payment for purchase of subsidiaries' shares	1,011	139	—	7,593
Proceeds from sale of subsidiaries' shares, net of cash owned by those subsidiaries	(81)	9,623	—	(607)
Acquisition of tangible and intangible fixed assets	(199,285)	(172,014)	(224,334)	(1,495,574)
Proceeds from sales of tangible and intangible fixed assets	28,917	26,054	44,239	217,016
Advances to non-consolidated subsidiaries and affiliates	(19,323)	(35,933)	(21,894)	(145,017)
Proceeds from collections on advances to non-consolidated subsidiaries and affiliates	10,629	22,335	8,661	79,772
Other	4,943	3,277	5,217	37,097
Cash flows from investing activities	(165,365)	(163,313)	(242,680)	(1,241,015)
Cash flows from financing activities:				
Net decrease in short-term loans	(39,647)	(97,985)	(35,912)	(297,545)
Proceeds from commercial paper	96,000	20,000	—	720,450
Proceeds from long-term loans	86,785	50,970	63,802	651,295
Payments of long-term loans	(122,169)	(92,581)	(144,831)	(916,841)
Redemption of bonds and notes	(115,823)	(63,207)	(170,651)	(869,219)
Cash dividends	(10,210)	(10,210)	(10,210)	(76,626)
Cash dividends to minority shareholders	(423)	(231)	(276)	(3,176)
Other	1,434	(441)	—	10,764
Cash flows from financing activities	(104,054)	(193,686)	(298,079)	(780,898)
Effect of exchange rate changes on cash and cash equivalents	4,184	5,241	(8,344)	31,405
Net decrease in cash and cash equivalents	(49,592)	(49,626)	(122,786)	(372,177)
Cash and cash equivalents at beginning of year	123,910	172,702	288,114	929,910
Increase (decrease) from the change in companies consolidated	(123)	834	7,374	(923)
Cash and cash equivalents at end of year (Note 10)	¥ 74,194	¥123,910	¥172,702	\$ 556,809

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

NIPPON STEEL

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Nippon Steel Corporation and its subsidiaries (collectively “NIPPON STEEL”) in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law in conformity with accounting principles and practices generally accepted and applied in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their financial statements, which are prepared in conformity with accounting principles and practices generally accepted in the respective countries in which the subsidiaries are incorporated. No adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in conformity with Japanese accounting principles and practices followed by Nippon Steel Corporation.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

Nippon Steel Corporation had 274 and 277 subsidiaries (majority-owned companies), respectively, as of March 31, 2002 and 2001. The consolidated financial statements include the accounts of Nippon Steel Corporation and 254 of its subsidiaries (the previous fiscal year: 256 subsidiaries) based on the control criterion.

For details of the subsidiaries and affiliates included in the consolidation, reference should be made to the list of major subsidiaries and affiliates of Nippon Steel Corporation on page 66 in this document.

All subsidiaries, with a few exceptions, use a fiscal year ended on March 31 of each year, which is the same as that of Nippon Steel Corporation. For subsidiaries using a fiscal year end other than March 31, certain adjustments have been made, if appropriate, in preparing the consolidated financial statements to reflect material transactions which might have taken place between their fiscal year-end and March 31 of each year. For Tokai Special Steel Co, Ltd., a new consolidated subsidiary for 2002 having a fiscal year-end date of November 30, its interim accounts as at March 31, 2002 prepared under the method similar to that for year-end closing were used for consolidation purposes.

For the purposes of preparing the consolidated financial statements, all inter-company transactions and balances, as well as unrealized profits among NIPPON STEEL have been eliminated, together with the portion thereof attributable to minority interest being charged to minority interest.

Elimination of investments in consolidated subsidiaries has been made to include the equity in the net income of the subsidiaries for the period subsequent to the date of acquisition, in the consolidated statements of income. In accordance with the revised regulation for preparing consolidated financial statements effective for the year ended March 31, 2000, the full market value method has been adopted, for the valuation of assets and liabilities of consolidated subsidiaries and affiliates.

In accordance with the revised regulation for preparing consolidated financial statements, the excess of cost over the under-

lying net equity of investments in subsidiaries and affiliates accounted for on the equity basis is amortized over the period for which the excessive cost is expected to contribute to consolidated net income, if it is possible to estimate such a period, using the straight-line method. Otherwise, it is amortized over five years, same as in the previous year.

(2) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and material affiliates (20 % to 50 % owned companies) are accounted for on the equity basis.

Although Nippon Steel Corporation had 20 unconsolidated subsidiaries (the previous year: 21 unconsolidated subsidiaries) and 160 affiliates (the previous year: 162 affiliates), the equity method has been applied to the investments in 87 significant affiliates (the previous year: 88 affiliates) based on the influence criterion, since non-adoption of the equity method to the others would not have any material effect on net income or retained earnings of the consolidated financial statements.

(3) Appropriation of Retained Earnings

Consolidated Statements of Shareholder's Equity are based on the appropriations of retained earnings which were approved at the ordinary general meetings of shareholders held in the year ended March 31, 2002.

(4) Foreign Currency Translation

All monetary assets and liabilities including long-term items denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date.

Additional Information (2001)

Effective from the year ended March 31, 2001, NIPPON STEEL adopted the new accounting standard relating to foreign currency-denominated transactions (The Business Accounting Deliberation Board's Opinion on the Setting of Accounting Standards relating to Foreign Currency-Denominated Transactions, October 22, 1999).

As a result of this change, “Ordinary profit” and “Income before income taxes and minority interest” for the year ended March 31, 2001 increased by ¥298 million, and “Total assets” at March 31, 2001 increased by ¥615 million, compared to the previous method.

In addition, in accordance with the revised regulation for preparing consolidated financial statements, “Foreign currency translation adjustments” which had previously been classified in the “Assets” section on the balance sheet as at March 31, 2000, were reclassified to the “Shareholders' equity” section and “Minority interest in consolidated subsidiaries” section, resulting in these two sections being decreased by ¥23,491 million and ¥437 million, respectively.

(5) Securities

Securities held by NIPPON STEEL are classified into three categories:

Held-to-maturity debt securities, that NIPPON STEEL intend to hold to maturity, are valued at cost after accounting for premiums or discounts on acquisition, and are amortized over the period to maturity.

Investments of NIPPON STEEL in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are valued at cost as the potential effect of application of the equity method would be immaterial.

Available-for-sale securities with available market quotations are valued at fair value. Net unrealized gains or losses on these securities are reported as a separate component in shareholders' equity at a net of tax amount. Cost is determined by the moving-average method.

Available-for-sale securities without any available market quotations are valued at cost, except as stated in the next paragraph.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities has declined significantly and such impairment of value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

**Additional Information (2001)**

Effective from the year ended March 31, 2001, NIPPON STEEL adopted the new accounting standard relating to financial instruments (The Business Accounting Deliberation Board's Opinion on the Setting of Accounting Standards relating to Financial Instruments, January 22, 1999). In accordance with the new standard, NIPPON STEEL changed its method of valuation of securities.

As a result of this change, "Ordinary profit" and "Income before income taxes and minority interest" for the year ended March 31, 2001 increased by ¥12,306 million.

In addition, securities held by NIPPON STEEL have been reclassified as of April 1, 2000, and trading securities and debt securities due within one year have been presented as "current" and all the other securities have been presented as "fixed".

As a result of such reclassification, "Marketable securities" at April 1, 2000 decreased by ¥1,853 million and "Investments in securities" increased by the same amount.

In addition, marketable securities with resale agreements which had previously been recognized as "Marketable securities" in the "Current assets" section on the balance sheet, have been reclassified to "Other" in the same section.

As a result, "Marketable securities" at March 31, 2001 decreased by ¥1,599 million and "Other" in the "Current assets" have increased by the same amount.

On the other hand, as a result of revaluation of available-for-sale securities, "Investments in securities" increased by ¥158,537 million, "Deferred tax liabilities" increased by ¥64,541 million, and "Minority interest in consolidated subsidiaries" decreased by ¥191 million, respectively, at March 31, 2001. "Unrealized gain on available-for-sale securities" of ¥94,187 million is shown in shareholders' equity.

As a result of all of this, "Total assets" at March 31, 2001 increased by ¥170,844 million.

**(6) Inventories**

Finished products, semi-finished products and raw materials are valued at cost which is mainly determined by the periodic average method.

Other inventories are valued at the lower of cost or market value, cost being determined by (i) the job order cost method with respect to work in process, and (ii) the first-in first-out method or the periodic average method with respect to supplies.

**(7) Tangible Fixed Assets**

Tangible fixed assets are stated at cost. Significant renewals and additions are capitalized while maintenance, repairs, minor renewals and improvements are charged to income as incurred.

Depreciation is generally computed using the declining-balance method (excluding buildings acquired on April 1, 1998 or later, for which the straight-line method is applied) over the useful life of the asset ranging from 7-60 years for "Buildings and structures" and 4-20 years for "Machinery and equipment".

**(8) Intangible Fixed Assets**

Amortization is generally computed using the straight-line method.

For purchased software which is a commercial completed product and software for which a contract has been concluded for the receiving of a usage charge, through leasing to a third party, the straight-line method over its useful life (5 years) is adopted.

**(9) Research and Development Costs and Other**

Research and development costs, new products/market development costs, and bond/note issue expenses are generally charged to income as incurred.

**(10) Allowance for Doubtful Accounts**

The allowance for doubtful accounts is computed based on the experience ratio in the past for normal receivables, as well as the estimated irrecoverable portion of specific doubtful receivables calculated on an individual basis.

**(11) Reserve for Repairs for Blast Furnaces**

NIPPON STEEL's blast furnaces and hot blast stoves, including related machines, are periodically required to undergo overhauls and repairs on their main components. The estimated future costs of such works are charged to income on a straight-line basis over the periods from the last works to the anticipated dates of the next ones.

**(12) Accounting for Revenues on Construction Contracts**

Nippon Steel Corporation adopts the percentage-of-completion method in recognition of revenues and costs relating to certain construction contracts which are large scale (contract amount of ¥3 billion or more) and long-term (construction period of 12 months or over). The completion-of-contract method is applied to all small or short-term contracts.

Revenues on construction contracts accounted for on the percentage-of-completion method aggregated ¥79,846 million (\$599,225 thousand), ¥58,818 million and ¥44,197 million for the years ended March 31, 2002, 2001 and 2000.

**(13) Retirement Benefits**

NIPPON STEEL's employees are generally entitled to receive a pension and/or a lump-sum retirement payment when they leave NIPPON STEEL. The amount of retirement allowances is determined by reference to the length of service and basic salary at the time of retirement.

NIPPON STEEL records "Accrued pension and severance costs" at the estimated present value of the projected benefit obligations in excess of the fair value of the plan assets, less/plus the unrecognized balance of the transition obligation arising from adopting the new standard at April 1, 2000, the unrecognized balance of prior service costs and the unrecognized actuarial differences, as permitted under the new standard. The transition obligation was fully recognized through the securities contribution to the employee retirement benefit trust for Nippon Steel Corporation and certain subsidiaries in the year ended March 31, 2001, and was amortized on a straight-line basis over approximately 5 years for the remaining subsidiaries. Prior service costs for Nippon Steel Corporation and certain consolidated subsidiaries are amortized on a straight-line basis over a period of time within the average remaining service period for the employees in service (Nippon Steel Corporation; 14 years, certain consolidated subsidiaries; approximately 1-5 years), starting from the year in which they occur. Unrecognized actuarial differences are mainly amortized on a straight-line basis over a period of time within the average remaining service period for the employees in service (Nippon Steel Corporation; 14 years, consolidated subsidiaries; approximately 7-15 years), starting from the next year in which they occur.

**Additional Information (2001)**

Effective from the year ended March 31, 2001, NIPPON STEEL adopted the new accounting standard relating to retirement benefits (The Business Accounting Deliberation Board's Opinion on the Setting of Accounting Standards relating to Retirement Benefits, June 16, 1998).

As a result of this change, "Cost of sales" for the year ended March 31, 2001 decreased by ¥1,999 million, "Selling, general and administrative expenses" decreased by ¥731 million, "Operating profit" increased by ¥2,731 million, and "Ordinary profit" increased by ¥2,716 million.

Furthermore, Nippon Steel Corporation recorded "Gain on contribution of securities to employee retirement benefit trust" of ¥67,115 million and "Amortization of transition obligation in respect of new accounting standard for retirement benefits" of ¥93,866 million, in the "Special profit and loss" section, result in "Income before income taxes and minority interest" for the year ended March 31, 2001 decreasing by ¥19,243 million.

**(14) Hedge Accounting**

Gains or losses arising from changes in fair value of derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period in which the gains or losses on the underlying hedged items or transactions are recognized.

In principal, NIPPON STEEL adopts the deferral hedging accounting method. In addition, for interest swaps whose amounts, index and period meet with the conditions for hedged items, the "exceptional" method is adopted. In this method, NIPPON STEEL does not account for gains and losses of those interest swaps on a fair value basis and recognizes swap interest on an accrual basis.

Derivatives designated as hedging instruments by NIPPON STEEL are principally interest swaps, forward exchange contracts and commodity futures. The related hedged items are trade accounts receivable and payable, long-term bank loans, and debt securities issued by NIPPON STEEL.

NIPPON STEEL has a policy which aims to utilize these hedging instruments in order to reduce its exposure to the risk of interest rate fluctuations, foreign exchange rate and price fluctuations of raw nickel. Therefore, NIPPON STEEL's purchase of hedging instruments is limited to the amount of the hedged items.

NIPPON STEEL continues to evaluate the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

**(15) Consumption Tax**

Consumption tax generally withheld upon sale, as well as that paid for purchases of goods or services, is recorded as a liability or an asset, and is excluded from the relevant revenue, costs or expenses.

**(16) Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, bank deposits on demand and short-term investments due within three months at the date of purchase, that represent insignificant risk of changes in value.

**(17) Income Taxes**

The income taxes of Nippon Steel Corporation and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Deferred income taxes are provided for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

**3. Japanese Yen and U.S. Dollar Amounts**

Nippon Steel Corporation and its domestic subsidiaries maintain accounting records in yen. Yen amounts included in the financial statements are stated in millions of yen, where fractions less than ¥1 million are omitted, as required by the Japanese Commercial Code. Therefore, total or subtotal amounts presented in the financial statements may not tie in with the sum of the individual balances. The U.S. dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could have been converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥133.25 = U.S. \$1, the effective exchange rate prevailing at the latest balance sheet date of March 31, 2002, has been used for the purpose of presentation of the U.S. dollar amounts.

**4. Notes Receivable and Payable due on the Balance Sheet Date**

In prevailing business practices in Japan, while notes receivable and payable are often issued with a month-end due date, actual settlement of the notes is postponed to the first business day of the next month in the case that the month-end date is a bank holiday. In such cases, settlement of notes is recorded on the date that actual settlement is made for NIPPON STEEL. Since March 31, 2002 and 2001 was a bank holiday, the following balances are included in the respective balances on the consolidated balance sheet at that date.

Notes receivable with March 31, 2002 due date: ¥5,057 million (\$37,958 thousand)

Notes payable with March 31, 2002 due date: ¥8,252 million (\$61,929 thousand)

Notes receivable with March 31, 2001 due date: ¥7,074 million

Notes payable with March 31, 2001 due date: ¥10,156 million

5. Bonds and Notes, Convertible Bonds and Loans  
Bonds and Notes, convertible bonds, and loans of NIPPON  
STEEL at March 31, 2002 and 2001 consisted of the following:

		Millions of yen		Thousands of dollars
		2002	2001	2002
Bonds and Notes:				
Nippon Steel Corporation	5.05% SB due February 2003	¥ 60,000	¥ 60,000	\$ 450,281
	2.3% SB due November 2001	—	50,000	—
	2.8% SB due February 2003	50,000	50,000	375,234
	3.3% SB due March 2017	10,000	10,000	75,046
	3.175% SB due September 2017	10,000	10,000	75,046
	2.35% SB due December 2007	40,000	40,000	300,187
	2.55% SB due December 2009	10,000	10,000	75,046
	1.775% SB due December 2003	30,000	30,000	225,140
	2.75% SB due February 2008	20,000	20,000	150,093
	2.60% SB due April 2008	15,000	15,000	112,570
	2.27% SB due May 2008	10,000	10,000	75,046
	2.23% SB due June 2008	30,000	30,000	225,140
	1.30% SB due July 2001	—	30,000	—
	2.00% SB due July 2004	50,000	50,000	375,234
	2.50% SB due July 2008	30,000	30,000	225,140
	1.12% SB due December 2001	—	15,000	—
	1.74% SB due December 2005	10,000	10,000	75,046
	Floating rate SB without call option due December 2001 (¥10,000 million each)	—	20,000	—
	Floating rate SB without call option due December 2007	10,000	10,000	75,046
		385,000	500,000	2,889,305
	Less: portion due within one year	(110,000)	(115,000)	(825,515)
		¥275,000	¥385,000	\$2,063,789
Convertible bonds:				
Nippon Steel Corporation	1.5% CB due September 2004	¥ 98,729	¥ 98,729	\$740,930
Nippon Steel Chemical Co.,Ltd.	2.20% secured CB due March 2003	2,508	2,687	18,821
	2.50% secured CB due March 2004	5,261	5,539	39,482
	2.00% secured CB due March 2005	5,443	5,810	40,851
		111,941	112,765	840,086
		(2,508)	—	18,821
		¥109,433	¥112,765	\$821,264

The floating rates on SBs shown above are generally determined by reference to the interest rate in Tokyo applicable to 10-year Yen term swap with 0% floor rate.

The 1.5% CB due September 2004 was issued in June 1989 with the aggregate principal amount of ¥100,000 million.

The current conversion price of this CB is ¥898.6 per share. This conversion price is subject to adjustment for subsequent free share distributions and other circumstances. This CB is convertible up to and including September 29, 2004.

The 2.20% secured CB due March 2003, the 2.50% secured CB due March 2004 and the 2.00% secured CB due March 2005 were issued in December, 1987, 1988 and February 1990 with the aggregate principal amount of ¥15,312 million.

The current conversion price of these CBs are ¥880.1, ¥947.8, and ¥1210.0 per share, respectively, which are subject to adjustment for subsequent free share distributions and other circumstances. These CBs are convertible in the period up to March 28, 2003, March 30, 2004, and March 30, 2005, respectively (including respective date).

\*“SB” = straight bond and “CB” = convertible bond

	Millions of yen		Thousands of dollars
	2002	2001	2002
Loans:			
Short-term loans	¥ 635,533 <sup>*2</sup>	¥ 666,822	\$ 4,769,478
Loans principally from banks and insurance companies due 2001-2031 <sup>*1</sup>	762,312 <sup>*3</sup>	795,628	5,720,916
Commercial paper	116,000 <sup>*4</sup>	20,000	870,544
	¥1,513,845	¥1,482,450	\$11,360,938
*1 Including a portion due within one year of ¥85,564 million (\$642,135 thousand) for 2002 and ¥112,458 million for 2001.			
*2 Average interest-rate at March 31, 2002 is 0.6 %.			
*3 Average interest-rate at March 31, 2002 is 2.5 %.			
*4 Average interest-rate at March 31, 2002 is 0.1 %.			
NIPPON STEEL's assets pledged as collateral primarily to secure long-term loans, short-term loans, CBs and others aggregated ¥121,012 million (\$908,164 thousand) at March 31, 2002 and ¥139,477 million at March 31, 2001, respectively, as follows:			
	Millions of yen		Thousands of dollars
	2002	2001	2002
(Industrial foundation)			
Buildings and structures	¥ 27,879	¥ 29,421	\$209,230
Machinery and equipment	72,904	77,875	547,127
Land	23,590	29,552	177,042
	¥124,375	¥136,850	\$933,400
(Pledged assets)			
Cash and bank deposits	¥ 302	¥ 302	\$ 2,266
Buildings and structures	17,281	19,955	129,694
Machinery and equipment	7,677	13,033	57,615
Land	27,667	23,954	207,639
Investments in securities	3,583	4,975	26,891
Other	71	62	534
	¥56,583	¥62,284	\$424,641

6. Revaluation of Land for Business

(Year ended March 31, 2002)  
Revaluation of land used for business purpose was carried out in accordance with the ‘Law concerning Revaluation of Land’ and relating amendments for some Nippon Steel Corporation’s consolidated subsidiaries and affiliates to which the equity method is applied.

Evaluation differences computed by consolidated subsidiaries, net of tax and minority interest, which were charged to “Deferred tax assets or liabilities” and “Minority interest in consolidated subsidiaries,” respectively, were recorded as a separate component of shareholders’ equity with a name of “Unrealized gains on revaluation of land.”

Additionally, evaluation differences accounted for by affiliates were recorded as a separate component of shareholders’ equity with a name of “Unrealized gains on revaluation of land” in proportion to equity rate.

• Method of revaluation  
Calculations were made in accordance with the Law concerning Revaluation of Land.

(Revaluation made on March 31, 2000)  
• Difference between the fair value and carrying amounts of the revalued land at the end of March 31, 2001: ¥10,936 million (\$82,078 thousand)

(Revaluation made on March 31, 2002)  
• Book-value of the land for business before the revaluation thereof: ¥2,199 million (\$16,507 thousand)  
• Book-value of the land for business after the revaluation thereof: ¥5,675 million (\$42,596 thousand)

(Year ended March 31, 2001)  
Revaluation of land used for business purpose was carried out in accordance with the ‘Law concerning Revaluation of Land’ and relating amendments for some Nippon Steel Corporation’s consolidated subsidiaries and affiliates to which the equity method is applied.

Evaluation differences, net of tax and minority interest, which were charged to “Deferred tax assets or liabilities” and “Minority interest in consolidated subsidiaries,” respectively, were recorded as a separate component of shareholders’ equity with a name of “Unrealized gains on revaluation of land.”

• Method of revaluation  
Calculations were made in accordance with the Law concerning Revaluation of Land.  
• Date of revaluation  
March 31, 2000  
• Difference between the fair value and carrying amounts of the revalued land at the end of March 31, 2001: ¥6,159 million

7. Deferred Tax Accountings  
(1) The components of deferred tax assets and liabilities at March 31,2002 and 2001, as follows:

	Millions of yen		Thousands of dollars
	2002	2001	2002
Deferred tax assets			
Reserve for accrued bonuses	¥ 10,400	¥ 10,368	\$ 78,054
Allowance for doubtful accounts	1,368	1,477	10,272
Accrued fixed asset tax	3,494	3,691	26,228
Enterprise tax payable	—	4,394	—
Accrued pension and severance costs	28,330	41,716	212,612
Loss on valuation of investments in securities	13,415	10,168	100,678
Depreciation in excess of the limit	21,734	16,090	163,108
Tax losses carried forward	59,137	28,737	443,806
Unrealized gain on tangible fixed assets	45,599	54,664	342,211
Revaluation of available-for-sale securities	797	434	5,988
Other	14,689	14,917	110,239
Subtotal	198,969	186,662	1,493,201
Valuation allowance	(18,170)	(20,948)	(136,367)
Total	180,798	165,713	1,356,833
Deferred tax liabilities			
Special tax purpose reserve	(99,533)	(98,517)	(746,967)
Revaluation of available-for-sale securities	(39,194)	(64,976)	(294,146)
Net unrealized gain on assets and liabilities of consolidated subsidiaries acquired after the adoption of the new consolidation standard	(5,599)	(5,599)	(42,023)
Other	(67)	(1,115)	(505)
Total	(144,395)	(170,208)	(1,083,642)
Net deferred tax assets (liabilities)	¥ 36,402	¥ (4,494)	\$ 273,191

In addition to net deferred tax assets of ¥36,402 million (\$273,191 thousand) and net deferred tax liabilities of ¥4,494 million at March 31, 2002 and 2001, respectively, mentioned above, deferred tax liabilities relating to revaluation gains of the lands were also recognized, resulted in the net deferred tax assets of ¥31,292 million (\$234,843 thousand) and the net deferred tax liabilities of ¥9,350 million being recognized on the consolidated balance sheet at March 31, 2002 and 2001, respectively.

(2) Reconciliation of the differences between the effective tax rate and the actual tax rate is as follows:

(Year ended March 31, 2002)  
Loss before income taxes and minority interest was recorded at this year and, therefore, in accordance with the revised Regulation concerning Consolidated Financial Statements, the difference between the effective tax rate and the actual tax rate would not described.

(Year ended March 31, 2001)  
The difference between the effective tax rate and the actual tax rate is not significant (less than 5% of the actual tax rate) and, therefore, in accordance with the revised Regulation concerning Consolidated Financial Statements, no reconciliation of these two rate is presented.

8. Explanatory Notes on Special Profit and Loss

Special profit

(1) Gain on contribution of securities to employee retirement benefit trust  
The “Gain on contribution of securities to employee retirement benefit trust” represents a gain realized when securities were contributed to the employee retirement benefit trust.

(2) Release of reserve for repairs for blast furnaces  
The “Release of reserve for repairs for blast furnaces” represents a gain from release of the reserve due to certain blast furnaces no longer needing provision against future repair costs after considering the results and plans of recent repairs.

Special loss

(1) Loss on valuation of investments in securities  
The “Loss on valuation of investments in securities” consists of a loss on valuation on the following:  
Investments in securities: ¥71,839 million (\$539,131 thousand)  
Investment in shares of affiliated companies: ¥141 million (\$1,059 thousand)  
Golf memberships: ¥971 million (\$7,292 thousand)

(2) Amortization of transition obligation in respect of new accounting standard for retirement benefits  
The “Amortization of translation obligation in respect of new accounting standard for retirement benefits” represents amortization of the transition obligation arising from adopting the new standard for retirement benefits at the beginning of the previous year.  
The transition obligation was amortized on a straight-line basis over approximately 5 years for consolidated subsidiaries.

(3) Allowance for doubtful accounts  
The “Allowance for doubtful accounts” consists of reserve for receivables with bankrupt customers.

(4) Loss on business restructuring  
The “Loss on business restructuring” represents business restructuring costs in compounds and structurals business of Nippon Steel Chemical Co., Ltd.

9. Notes on Consolidated Statements of Shareholders’ Equity

(Year ended March 31, 2002)  
In accordance with the Japanese Commercial Code, appropriations of retained earnings are recorded in the accounts when the shareholders’ approval is obtained. The following appropriations of retained earnings of Nippon Steel Corporation for the year ended March 31, 2002 were approved at the ordinary general meeting of shareholders held on June 26, 2002. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2002, but will be recorded in those for the year ending March 31, 2003.

	Millions of yen	Thousands of dollars
Appropriations for:		
Cash dividends at ¥1.5 (\$0.01126) per share	¥10,210	\$76,623
Transfer to special reserve	5,906	44,323

The “Increase due to the change in the number of consolidated companies” on the consolidated statements of shareholders’ equity represents an increase due to adoption of the equity method to the investment in Osaka Port Terminal Co. Ltd., at the year ended March 31, 2002.

(Year ended March 31, 2001)  
On November 2, 2000, in accordance with a basic partnership agreement between Wacker-Chemie GmbH and Nippon Steel Corporation for the manufacture and sale of silicon wafers, Wacker-Chemie GmbH paid additional capital to NSC Electron Corporation, a company which had been included as one of the consolidated subsidiaries for the year ended March 31, 2000. As a result, Nippon Steel Corporation’s ownership in the outstanding shares of NSC Electron Corporation fell to 45% (from 100% in the previous fiscal year). NSC Electron Corporation was therefore deconsolidated and included in the affiliate companies accounted for on the equity basis. (NSC Electron Corporation changed its trade name to “Wacker NSCE Corporation” from November 2000).

The “Increase due to the change in the number of consolidated companies” on the consolidated statements of shareholders’ equity represents an increase due to the above change.

10. Consolidated Statements of Cash Flows

Cash and cash equivalents consists of:

	Millions of yen		Thousands of dollars
	2002	2001	2002
Cash and bank deposits	¥74,343	¥119,470	\$557,926
Less - Time deposits with original maturity of 3 months or more	(1,061)	(1,612)	(7,963)
Securities due within 3 months	770	4,026	5,786
Books with resale agreements included in “Other” under “Current assets”	141	2,025	1,060
Cash and cash equivalents	¥74,194	¥123,910	\$556,809

Detail of assets and liabilities of Tokai Special Steel Co., Ltd. and Nippon Contec Co, Ltd., which were newly included in the consolidation in the year ended March 31, 2002 as a result of additional acquisition of shares by NIPPON STEEL, as at the date of consolidation, is as follows:

	Millions of yen	Thousands of dollars
	2002	2002
Current assets	¥ 4,117	\$ 30,902
Fixed assets	10,270	77,079
	¥14,388	\$107,982

	Millions of yen	Thousands of dollars
	2002	2002
Current liabilities	¥11,834	\$88,817
Long-term liabilities	1,721	12,916
	¥13,556	\$101,733

Detail of assets and liabilities of Taiyo Steel Co., Ltd., which was newly included in the consolidation in the year ended March 31, 2001 as a result of additional acquisition of shares by Nippon Steel Corporation, as at the date of consolidation, is as follows:

	Millions of yen
	2001
Current assets	¥18,657
Fixed assets	33,173
	¥51,831

	Millions of yen
	2001
Current liabilities	¥26,204
Long-term liabilities	12,755
	¥38,959

Detail of assets and liabilities of companies, which were excluded from consolidation in the year ended March 31, 2001 as a result of sales of shares, as at the date of deconsolidation, is as follows:

Nippon Steel Chemical Corporation of America and its consolidated subsidiaries, and NS & N (UK) Ltd. and its consolidated subsidiaries

	Millions of yen
	2001
Current assets	¥4,099
Fixed assets	5,426
	¥9,526

	Millions of yen
	2001
Current liabilities	¥3,700
Long-term liabilities	442
	¥4,142

11. Lease Commitments, Contingent Liabilities and Commitment Line Contracts

(1) Finance Leases

Finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees, are accounted for using a method similar to the operating lease method.

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of dollars
	2002	2001	2002
Lease rental expenses	¥15,138	¥18,546	\$113,606

The amount of outstanding future lease payments due at March 31, 2001 and 2000, which included the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of dollars
	2002	2001	2002
Future lease payments			
Within one year	¥11,610	¥13,285	\$ 87,130
Over one year	20,251	24,636	151,983
	¥31,861	¥37,921	\$239,114

Had they been capitalized on the balance sheets, the following item would have been recognized on the balance sheets and the statements of income as at and for the years ended March 31, 2002 and 2001.

	Millions of yen		Thousands of dollars
	2002	2001	2002
Acquisition cost	¥94,226	¥114,448	\$707,137
Accumulated depreciation	(62,364)	(76,526)	(468,022)
Net book value	¥31,861	¥37,921	\$239,114
Depreciation	¥15,138	¥18,546	\$113,606

(2) Contingent Liabilities

	Outstanding amounts in the year ended		Substantial amounts	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
	2002	2002	2002	2002
Contingent liabilities for:				
Guarantee of loans				
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥25,850	\$194,000	¥25,850	\$194,000 <sup>*3</sup>
The Siam United Steel (1995) Co., Ltd.	20,224	151,775	20,224	151,775
UNIGAL Ltda.	10,547	79,156	10,547	79,156
I/N Tek	10,514	78,905	10,514	78,905
I/N Kote	9,724	72,982	9,724	72,982
Wacker NSCE Malaysia Sdn. Bhd.	7,995	60,000	7,995	60,000
Guanghou Pacific Tinsplate Co., Ltd.	3,308	24,831	3,308	24,831
Other	6,672	50,072	3,765	28,256 <sup>*1</sup>
	¥94,837	\$711,723	¥91,930	\$689,907



	Outstanding amounts in the year ended		Substantial amounts	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
	2002	2002	2002	2002
Contingent liabilities for:				
Reserved guarantee of loans				
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥25,939	\$194,671	¥ 9,286	\$69,690*2,3
T & T Maritime S.A.	2,423	18,185	2,423	18,185
Nisp Maritime S.A.	2,112	15,849	2,112	15,849
Puissant Shipping Enterprise S.A.	1,855	13,928	1,855	13,928
Muroran Co-Operative Electric Power Co., Ltd.	1,778	13,346	1,778	13,346
Nilax Inc.	1,679	12,604	1,007	7,562*4
Hibikinada Development Co., Ltd.	1,454	10,913	1,454	10,913
Makuhari Techno-Garden Co., Ltd.	1,058	7,939	1,058	7,939
Other	3,979	29,864	3,979	29,864
	¥42,280	\$317,303	¥24,955	\$187,280

- \*1 These represent substantial amounts excluding that portion which is re-guaranteed by other parties.  
\*2 These represent substantial amounts excluding that portion which is re-guaranteed by Hitachi, Ltd.  
\*3 Total maximum liability concerning to Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd. is limited to ¥5,681 million (\$42,640 thousand) by joint venture agreement.  
\*4 These represent substantial amounts excluding that portion which is re-guaranteed by business corporations and trading companies other than NIPPON STEEL.

NIPPON STEEL is not a party to or involved in any material litigation.

	Outstanding amounts in the year ended		Substantial amounts	
	Millions of yen		Millions of yen	
	2001		2001	
Contingent liabilities for:				
Guarantee of loans				
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥ 36,054		¥ 36,054*3	
The Siam United Steel (1995) Co., Ltd.	15,487		15,487	
I/N Kote	12,730		12,730	
I/N Tek	11,069		11,069	
Wacker NSCE Malaysia Sdn. Bhd.	9,292		9,292	
UNIGAL Ltda.	8,654		8,654	
Guanghou Pacific Tinplate Co., Ltd.	3,236		3,236	
Planet Co., Ltd.	1,375		1,375	
Other	8,148		3,969*1	
	¥106,051		¥101,871	

	Outstanding amounts in the year ended		Substantial amounts	
	Millions of yen		Millions of yen	
	2001		2001	
Contingent liabilities for:				
Reserved guarantee of loans				
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥31,816		¥11,389*2, 3	
T & T Maritime S.A.	2,804		2,804	
Nisp Maritime S.A.	2,256		2,256	
Muroran Co-Operative Electric Power Co., Ltd.	2,052		2,052	
Nilax Inc.	2,015		1,343*4	
Puissant Shipping Enterprise S.A.	1,983		1,983	
Hibikinada Development Co., Ltd.	1,461		1,461	
Makuhari Techno-Garden Co., Ltd.	1,058		1,058	
Other	4,780		4,780	
	¥50,227		¥29,129	

- \*1 These represent substantial amounts excluding that portion which is re-guaranteed by other parties.  
\*2 These represent substantial amounts excluding that portion which is re-guaranteed by Hitachi, Ltd.  
\*3 Total maximum liability concerning to Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd. is limited to ¥5,581 million by joint venture agreement.  
\*4 These represent substantial amounts excluding that portion which is re-guaranteed by business corporations and trading companies other than NIPPON STEEL.

NIPPON STEEL is not a party to or involved in any material litigation.

(3) Notes and Bills Discounted and Endorsed

	Millions of yen		Thousands of dollars
	2002	2001	2002
Notes and bills discounted	¥5,389	¥6,470	\$40,444
Notes and bills endorsed	1,528	2,336	11,470
	¥6,917	¥8,807	\$51,915

(4) Commitment Line Contracts on Loans (NS Finance, Inc.)

NS Finance, Inc., a consolidated subsidiary of Nippon Steel Corporation, has made some affiliates commitment line contracts which are agreements to lend to them when they apply for, to the prescribed amount as long as there is no violation of any condition established in the contracts.

The total amounts of commitment lines and the amount of unused commitments at March 31, 2002 are as follows:

	Millions of yen	Thousands of dollars
	2002	2002
Total amount of commitment lines	¥5,028	\$37,733
Used commitments	4,550	34,146
Unused commitments	¥ 478	\$ 3,587

12. Segment Information

The segment information of NIPPON STEEL for 2002, 2001 and 2000 is presented as follows:

(1) Information by Industry Segment

NIPPON STEEL operates in the following seven industry segments.

Industry segment	Major products and businesses
Steelmaking and steel fabrication	Sections; plates and sheets; pipes and tubes; specialty steels; fabricated and processed steels; pig iron and ingots; slag products; transportation
Engineering and construction	Technical cooperation; plant and machinery; civil engineering and marine construction; building construction
Urban development	Urban development; real estate; rental of buildings
Chemicals and nonferrous materials	Coke; coal chemicals; titanium products; aluminum products; ceramic coated products;
System solutions	Engineering and consulting on computer systems
Power supply	Electricity supply
Services and others	Energy; finance and insurance; others

Since Wacker NSCE Corporation was deconsolidated effective from November 2000, “silicon wafers” is eliminated from “Major products and businesses” of the “Chemicals and nonferrous materials” segment for the year ended March 31, 2002.

The name of “Electronics and information systems” segment was changed to “System solutions” at the year ended March 31, 2002.

In order to enhance the usefulness of segment information, the basis of dividing industry segments changed at the beginning of the year ended March 31, 2001 as follows:

- Some companies which had been included in “Chemicals, non-ferrous metals, and ceramics” were transferred to “Steelmaking and steel fabrication.” Therefore a change in the name of the industry segment from “Chemicals, nonferrous metals, and ceramics” to “Chemicals and nonferrous materials” was made.
- All companies which had been included in “Transportation” were transferred to “Steelmaking and steel fabrication” and the “Transportation” segment was subsequently abolished.
- Some companies which had been included in “Engineering and construction” were transferred to “Steelmaking and steel fabrication,” and “Services and others.”

- Some companies which had been included in “Services and others” were transferred to “Steelmaking and steel fabrication.” Of the above segments, “Power supply,” and “Services and others” are included in “Other businesses” in the industry segment information shown on the next page.

	Millions of yen			Thousands of dollars
	2002	2001	2000	2002
Sales				
Steelmaking and steel fabrication				
Customers	¥1,791,743	¥1,925,366	¥1,850,373	\$13,446,481
Intersegment	36,463	36,653	27,209	273,645
Total Sales	1,828,206	1,962,019	1,877,582	13,720,126
Engineering and construction				
Customers	245,018	238,094	252,626	1,838,787
Intersegment	49,304	42,835	47,428	370,017
Total Sales	294,323	280,929	300,054	2,208,805
Urban development				
Customers	120,865	131,513	154,892	907,057
Intersegment	9,942	10,466	9,535	74,617
Total Sales	130,808	141,979	164,428	981,675
Chemicals and nonferrous materials				
Customers	248,176	288,880	269,462	1,862,490
Intersegment	77,988	70,243	69,169	585,276
Total Sales	326,164	359,123	338,631	2,447,767
System solutions				
Customers	122,087	113,758	102,831	916,231
Intersegment	27,311	29,912	33,366	204,960
Total Sales	149,398	143,670	136,198	1,121,192
Other businesses				
Customers	53,507	52,806	50,424	401,557
Intersegment	7,744	6,633	6,066	58,119
Total Sales	61,251	59,440	56,491	459,676
Elimination of intersegment transactions	(208,754)	(196,745)	(192,776)	(1,566,637)
Consolidated total	¥2,581,399	¥2,750,418	¥2,680,611	\$19,372,606
Operating profit (loss)				
Steelmaking and steel fabrication	¥23,482	¥115,536	¥ 73,257	\$176,225
Engineering and construction	9,913	7,287	12,209	74,395
Urban development	15,576	16,320	20,787	116,893
Chemicals and nonferrous materials	10,379	11,574	8,378	77,897
System solutions	10,504	9,770	5,311	78,829
Other businesses	1,457	772	(911)	10,938
Elimination of intersegment transactions	1,731	1,384	1,262	12,994
Consolidated total	¥73,044	¥162,644	¥120,296	\$548,176
Identifiable assets*				
Steelmaking and steel fabrication	¥2,963,927	¥3,091,404	¥2,913,348	\$22,243,360
Engineering and construction	246,122	228,064	230,110	1,847,074
Urban development	193,400	219,360	254,010	1,451,413
Chemicals and nonferrous materials	316,898	351,117	414,078	2,378,225
System solutions	72,944	64,225	62,092	547,424
Other businesses	400,858	460,762	527,392	3,008,321
Elimination of intersegment transactions	(163,556)	(182,923)	(228,573)	(1,227,442)
Consolidated total	¥4,030,596	¥4,232,011	¥4,172,459	\$30,248,376
Depreciation of identifiable assets				
Steelmaking and steel fabrication	¥164,693	¥172,955	¥175,087	\$1,235,973
Engineering and construction	2,008	2,042	2,227	15,074
Urban development	4,754	5,108	5,629	35,683
Chemicals and nonferrous materials	17,264	18,947	24,263	129,565
System solutions	1,160	1,192	1,480	8,710
Other businesses	7,819	7,098	6,055	58,684
Elimination of intersegment transactions	(365)	(358)	(558)	(2,745)
Consolidated total	¥197,336	¥206,987	¥214,186	\$1,480,945
Capital expenditure for identifiable assets				
Steelmaking and steel fabrication	¥165,202	¥123,610	¥186,158	\$1,239,796
Engineering and construction	1,949	2,288	1,284	14,632
Urban development	904	4,773	7,064	6,787
Chemicals and nonferrous materials	10,442	10,939	11,518	78,370
System solutions	1,720	1,658	846	12,909
Other businesses	19,543	16,824	21,997	146,664
Elimination of intersegment transactions	(3,961)	(2,745)	(1,915)	(29,731)
Consolidated total	¥195,801	¥157,348	¥226,954	\$1,469,429

\* Some affiliates and real estates which had been included in “Urban development” segment were transferred to “Other businesses” segment and “Steelmaking and steel fabrication” segment, respectively, at January 2002. This change was made because the managing department of these assets were changed and in order to enhance the usefulness of segment information.

Accordingly, identifiable assets of “Urban development” segment decreased by ¥31,119 million and those of “Other businesses” segment increased by ¥25,731 million and those of “Steelmaking and steel fabrication” segment increased by ¥5,388 million.

## (2) Overseas Sales

Overseas sales, which include export sales of Nippon Steel Corporation and its domestic subsidiaries and sales (other than exports to Japan) recorded by the foreign subsidiaries, are as follows:

	Millions of yen		Thousands of dollars
	2002	2001	2002
Overseas sales	¥ 514,672	¥ 489,808	\$ 3,862,460
Consolidated net sales	2,581,399	2,750,418	19,372,606
Percentage of overseas sales against consolidated net sales	19.9%	17.8%	19.9%

Note: Neither sales nor identifiable assets of overseas consolidated subsidiaries are of significant (domestic sales and identifiable assets are more than 90% of consolidated sales and consolidated total assets) and therefore, geographic segment information is not presented.

## 13. Securities

### (Year ended March 31, 2002)

The information on marketable securities and investments in securities at March 31, 2002 is as follows:

#### (1) Held-to-maturity debt securities for which market quotations are available

	Millions of yen		
	2002		
	Carrying amount	Current price	Unrealized gain (loss)
Other	¥722	¥724	¥1
Total	¥722	¥724	¥1

	Thousands of dollars		
	2002		
	Carrying amount	Current price	Unrealized gain (loss)
Other	\$5,424	\$5,437	\$13
Total	\$5,424	\$5,437	\$13

#### (2) Available-for-sale securities with available market quotation are summarized as follows:

	Millions of yen		
	2002		
	Cost	Carrying amount	Unrealized gain (loss)
Available-for-sale securities whose carrying amounts on the balance sheet are in excess of the related cost;			
Corporate shares	¥ 87,550	¥177,486	¥ 89,936
Bonds and debentures			
Government bonds and municipal bonds	61	63	2
Debentures	675	689	13
Other	25,365	40,342	14,977
Sub total	¥113,652	¥218,582	¥104,930

Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost;

Corporate shares	¥148,081	¥134,321	¥(13,759)
Bonds and debentures			
Government bonds and municipal bonds	20,067	19,736	(330)
Debentures	68	48	(19)
Other	1,458	871	(587)
Sub total	¥169,675	¥154,978	¥(14,697)
Total	¥283,328	¥373,560	¥90,232

	Thousands of dollars		
	2002		
	Cost	Carrying amount	Unrealized gain (loss)
Available-for-sale securities whose carrying amounts on the balance sheet are in excess of the related cost;			
Corporate shares	\$657,038	\$1,331,984	\$674,945
Bonds and debentures			
Government bonds and municipal bonds	458	477	19
Debentures	5,070	5,173	102
Other	190,358	302,760	112,401
Sub total	852,926	1,640,395	787,468
Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost;			
Corporate shares	\$1,111,303	\$1,008,042	\$(103,261)
Bonds and debentures			
Government bonds and municipal bonds	150,600	148,117	(2,483)
Debentures	515	365	(149)
Other	10,944	6,538	(4,406)
Sub total	1,273,365	1,163,063	(110,301)
Total	\$2,126,291	\$2,803,459	\$677,167

(3) Available-for-sale securities sold in the year ended March 31, 2002

	Millions of yen		
	2002		
	Amount of sales	Gain on sales	Loss on sales
	¥15,352	¥2,319	¥(2,152)
	Thousands of dollars		
	2002		
	Amount of sales	Gain on sales	Loss on sales
	\$115,218	\$17,404	\$(16,151)

(4) Securities without any available market quotation are summarized as follows:

	Millions of yen
	2002
Held-to-maturity debt securities	¥ 18
Available-for-sale securities	
Shares of private companies, etc.	38,808
Money management funds, etc.	770
	Thousands of dollars
	2002
Held-to-maturity debt securities	\$ 135
Available-for-sale securities	
Shares of private companies, etc.	291,242
Money management funds, etc.	5,786

(5) Details of the maturity dates of available-for-sale debt securities and held-to-maturity debt securities are as follows:

	Millions of yen			
	2002			
	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Bonds and debentures;				
Government bonds and municipal bonds	¥ 18	¥ 75	¥ 94	¥18
Debentures	47	778	—	—
Other	482	245	—	—
Other	679	82	18	—
	¥1,228	¥1,180	¥112	¥18
	Thousands of dollars			
	2002			
	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Bonds and debentures;				
Government bonds and municipal bonds	\$ 141	\$ 565	\$706	\$141
Debentures	356	5,842	—	—
Other	3,620	1,838	—	—
Other	5,101	615	138	—
	\$9,220	\$8,861	\$845	\$141

(Year ended March 31, 2001)

The information on marketable securities and investments in securities at March 31, 2001 is as follows:

(1) Held-to-maturity debt securities for which market quotations are available

Not applicable

(2) Available-for-sale securities with available market quotation are summarized as follows:

	Millions of yen		
	2001		
	Cost	Carrying amount	Unrealized gain (loss)
Available-for-sale securities whose carrying amounts on the balance sheet are in excess of the related cost;			
Corporate shares	¥187,342	¥356,261	¥168,919
Bonds and debentures			
Government bonds and municipal bonds	57	60	3
Debentures	10,744	10,875	130
Other	25,798	26,182	383
Sub total	¥223,941	¥393,379	¥169,435
Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost;			
Corporate shares	¥112,739	¥ 99,146	¥ (13,592)
Bonds and debentures			
Government bonds and municipal bonds	10,000	9,847	(152)
Debentures	151	106	(45)
Other	1,599	1,115	(483)
Sub total	¥124,490	¥110,216	¥(14,274)
Total	¥348,430	¥503,593	¥155,163

(3) Available-for-sale securities sold in the year ended March 31, 2001

	Millions of yen		
	2001		
	Amount of sales	Gain on sales	Loss on sales
	¥30,501	¥21,408	¥(1,177)

(4) *Securities without any available market quotation are summarized as follows:*

	Millions of yen
	2001
Held-to-maturity debt securities	¥ 1,849
Available-for-sale securities	
Shares of private companies, etc.	38,255
Money management funds, etc.	4,016

(5) *Details of the maturity dates of available-for-sale debt securities and held-to-maturity debt securities are as follows:*

	Millions of yen			
	2001			
	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Bonds and debentures;				
Government bonds and municipal bonds	¥ 18	¥ 75	¥ 94	¥37
Debentures	249	1,518	—	—
Other	174	415	—	—
Other	70	880	51	—
	¥513	¥2,889	¥145	¥37

14. Retirement Benefits

NIPPON STEEL prepares three defined benefit retirement plans which consist of a welfare pension plan, a tax-qualified pension scheme and a lump-sum retirement payment plan.

NIPPON STEEL may pay special retirement allowances on voluntary retirement which is excluded from the projected benefit obligations.

Projected benefit obligations as of March 31, 2002 and 2001 are analyzed as follows:

	Millions of yen		Thousands of dollars
	2002	2001	2002
Projected benefit obligations	¥(690,217)	¥(660,840)	\$(5,179,868)
Plan assets	475,812	481,317	3,570,825
Accrued pension and severance costs	116,930	111,907	877,527
Prepaid pension cost	(68,504)	(23,679)	(514,106)
Balance	(165,979)	(91,294)	(1,245,621)
Consisting of:			
Unrecognized balance of the transition obligation	(19,163)	(25,382)	(143,818)
Unrecognized actuarial differences	(162,721)	(67,000)	(1,221,171)
Unrecognized balance of prior service costs*2	15,905	1,088	119,367
	(165,979)	(91,294)	(1,245,621)

\*1 The above table includes the amounts relating to the portion subject to the Japanese Welfare Pension Insurance Law.

\*2 The discount rate and annuity benefit ratio used in the tax-qualified pension scheme and welfare pension plan for Nippon Steel Corporation and certain consolidated subsidiaries decreased , which made the balance of prior service costs lower.

\*3 The projected benefit obligations for certain consolidated subsidiaries are determined by the easier method permitted by the new standard.

The net pension expense relating to retirement benefits for the year ended March 31,2002 and 2001 are as follows:

	Millions of yen		Thousands of dollars
	2002	2001	2002
Service costs*2, 4	¥18,974	¥19,473	\$142,397
Interest costs	20,015	19,844	150,209
Expected return on plan assets	(12,465)	(13,137)	(93,550)
Amortization of transition obligation	6,220	107,903	46,684
Amortization of actuarial differences	5,261	362	39,489
Amortization of prior service costs*3	(799)	(237)	(6,002)
Net pension expense	37,207	134,208	279,228

\*1 In addition to the net pension expense above, special benefits for early retirement of ¥8,251 million (*\$61,923 thousand*) were paid for the year ended March 31, 2002, ¥8,134 million (*\$61,049 thousand*) of which was recorded as a special loss, and ¥7,927 million were paid for the year ended March 31, 2001, ¥6,981 million of which was recorded as a special loss.

\*2 This amount excludes contributions to welfare pension plans made by employees.

\*3 This amount represents amortization of prior service costs.

\*4 All pension expenses except amortization of the transition obligation of consolidated subsidiaries, for which the easier method permitted by the new standard is adopted, are included in “Service costs”.

Assumptions used in the calculation of the above information are as follows:

	As of March 31, 2002	As of March 31, 2001
Method of attributing the projected benefits to periods of service	Mainly straight-line basis	Mainly straight-line basis
Discount rate	1.5%-3.5% (mainly 2.1%)	1.4%-3.5% (mainly 3.1%)
Expected rate of return on plan assets	0.0%-5.5% (mainly 3.1%)	1.5%-5.5% (mainly 3.1%)
Amortization of unrecognized prior service cost*1	1-14 years (mainly 14 years)	1-5 years
Amortization of unrecognized actuarial differences*2	1-15 years (mainly 14 years)	Approximately 7-15 years (mainly 14 years)
Amortization of transition obligation*3	1-15 years	1-15 years (mainly 5 years)

\*1 Amortized on a straight-line basis over a period of time within the average remaining service period for the employees in service

\*2 Amortized on a straight-line basis over a period of time within the average remaining service period for the employees in service starting from the next year.

\*3 Amortized in a lump at the year ended March 31, 2001 for Nippon Steel Corporation and consolidated certain subsidiaries, while mainly 5 years for the other.

15. Information on Derivatives

NIPPON STEEL utilizes derivative financial instruments, which comprise principally of foreign exchange forward contracts, interest rate and currency swap agreements and nickel future contracts, to reduce its exposure to market risks from fluctuations in foreign currency exchange, interest rates and price of nickel. NIPPON STEEL does not hold or issue derivative financial instruments for trading purposes.

Although NIPPON STEEL may be exposed to losses in the event of nonperformance by counterparties or fluctuations of interest, currency and price of nickel, it does not anticipate significant losses because all of the counterparties are trading companies or financial institutions with high credit ratings and the usage of derivatives is limited for hedging purpose as described above.

NIPPON STEEL has adopted the Japanese accounting standard for hedge accounting, which is effective for periods beginning on or after April 1, 2000. As a result of implementation of this standard, derivative financial instruments generally are recognized at fair value on the balance sheet and therefore disclosure of detailed information for derivatives for hedging purpose is not required.

## 16. Related Party Transactions

Transactions of Nippon Steel Corporation with its directors are as follows:

(Year ended March 31, 2002)

(a) Name of Director (b) Title of related parties (c) Equity ownership percentage of Nippon Steel Corp.	Millions of yen				Thousands of dollars		Notes
	Transactions made during the year ended March 31, 2002		Resulting account balances		Transactions made during the year ended March 31, 2002	Resulting account balances	
	Description of transactions	Amounts	Account	Amounts	Amounts	Amounts	
(a) Akira Chihaya [Representative Director and President of Nippon Steel Corp.] (b) Chairman of The Nippon Steel Arts Foundation (c) 0.0%	Contribution	¥370	—	—	\$2,776	—	(1)
(a) Kazuo Nagahiro [Director of Nippon Steel Corp.] (b) Chairman of The Tokai Industrial Medical Foundation (c) 0.0%	Sale site for parking lot	167	Accounts receivable	¥167	1,255	\$1,255	(2)
(a) Josei Ito [Corporate Auditor of Nippon Steel Corp.] (b) Representative Director and Chairman of the Board of Directors of Nippon Life Insurance Company (c) 0.0%	Reserved guarantee of loans	9	—	—	67	—	(3)

Notes:

- (1) The amount of contribution was determined by considering the planned activities of the Foundation and the need of social contribution, and the results of operation of Nippon Steel Corporation.
- (2) The terms and conditions applicable to the said transactions have been determined on an arm's length basis and by reference to normal market price levels.
- (3) Provision of guarantee for borrowing from the said related party by a Nippon Steel Corp. affiliate.

(Year ended March 31, 2001)

		Millions of yen		
(a) Name of Director (b) Title of related parties (c) Equity ownership percentage of Nippon Steel Corp.	Transactions made during the year ended March 31, 2001	Resulting account balances		
	Description of transactions	Amounts	Account	Amounts
(a) Shigeto Tanaka [Director of Nippon Steel Corp.] (b) Representative of Nippon Steel Corp., Kajima Corp., Taisei Corp. & Takenaka Corp. JV (c) 0.0%	Contract for construction	¥2,110	—	—
(a) Shigeto Tanaka [Director of Nippon Steel Corp.] (b) Representative of Nippon Steel Corp., Ieshima & Hourai special JV (c) 0.0%	Contract for construction	88	Accounts receivable	¥92
(a) Shigeto Tanaka [Director of Nippon Steel Corp.] (b) Representative of Nippon Steel Corp. & Construction in Sasebo JV (c) 0.0%	Contract for construction	20	—	—
(a) Josei Ito [Corporate Auditor of Nippon Steel Corp.] (b) Representative Director and Chairman of the Board of Directors of Nippon Life Insurance Company (c) 0.0%	Reserved guarantee of loans	9	—	—

Notes:

- (1) The terms and conditions applicable to the said transactions have been determined on an arm's length basis and by reference to normal market price levels.
- (2) Provision of guarantee for borrowing from the said related party by a Nippon Steel Corp. affiliate.

## 17. Subsequent Events

There are no important subsequent events at March 31, 2002 and 2001.

# Report of Independent Certified Public Accountants

The Board of Directors  
Nippon Steel Corporation

We have audited the accompanying consolidated balance sheets of Nippon Steel Corporation and its subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese 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 consolidated financial statements referred to above present fairly, the consolidated financial results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis except for the change, with which we concur, in the basis of dividing industry segments as described in Note 12.

As described in Note 2, Nippon Steel Corporation and subsidiaries have adopted new Japanese accounting standards for financial instruments, retirement benefit, and foreign currency translation effective for the year ended March 31, 2001.

The amounts in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



ChuoAoyama Audit Corporation

Tokyo, Japan  
June 26, 2002



(Reference-Unaudited)  
Non-Consolidated Balance Sheets

Nippon Steel Corporation  
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of dollars
	2002	2001	2002
ASSETS			
Current assets:			
Cash and bank deposits	¥ 16,411	¥ 36,134	\$ 123,163
Receivables:			
Notes receivable	6,082	8,746	45,643
Accounts receivable - trade	197,107	224,511	1,479,228
Accounts receivable	52,342	41,142	392,816
Less: Allowance for doubtful accounts	(1,475)	(1,831)	(11,069)
	254,056	272,569	1,906,619
Inventories	427,251	455,404	3,206,391
Deferred tax assets	26,700	19,500	200,375
Other	95,374	53,142	715,758
Total current assets	819,794	836,750	6,152,307
Fixed assets:			
Tangible fixed assets:			
Buildings and structures	1,107,156	1,091,869	8,308,866
Machinery and equipment	3,738,186	3,641,545	28,053,933
	4,845,343	4,733,415	36,362,799
Less: Accumulated depreciation	(3,900,427)	(3,808,286)	(29,271,498)
	944,915	925,129	7,091,301
Land	225,900	216,993	1,695,310
Construction in progress	81,461	71,854	611,345
	1,252,277	1,213,977	9,397,957
Intangible fixed assets:			
Goodwill	140	220	1,050
Patents and utility rights	1,453	1,768	10,909
Software	6,693	15,086	50,233
	8,287	17,074	62,193
Investments and others:			
Investments in securities	365,991	515,071	2,746,654
Investments in subsidiaries and affiliates	264,179	270,735	1,982,588
Other	36,424	40,690	273,357
Less: Allowance for doubtful accounts	(7,982)	(9,753)	(59,907)
	658,613	816,744	4,942,692
Total fixed assets	1,919,178	2,047,796	14,402,843
Total assets	¥2,738,973	¥2,884,547	\$20,555,150

	Millions of yen		Thousands of dollars
	2002	2001	2002
LIABILITIES			
Current liabilities:			
Short-term loans and long-term loans due within one year	¥ 188,606	¥ 174,526	\$ 1,415,433
Bonds and notes due within one year	110,000	115,000	825,515
Commercial paper	116,000	20,000	870,544
Payables:			
Notes payable	5,140	5,231	38,575
Accounts payable - trade	143,282	153,317	1,075,289
Accounts payable	82,950	61,504	622,516
	231,372	220,052	1,736,382
Accrued income taxes and enterprise taxes	128	37,919	963
Accrued expenses	256,845	264,274	1,927,546
Advances received	35,044	52,112	262,999
Reserve for estimated loss on shut down of steel production facilities	—	5,318	—
Other	6,955	6,271	52,198
Total current liabilities	944,953	895,474	7,091,583
Long-term liabilities:			
Bonds and notes	275,000	385,000	2,063,789
Convertible bonds	98,729	98,729	740,930
Long-term loans	452,139	412,097	3,393,165
Deferred tax liabilities	48,800	86,700	366,228
Accrued pension and severance costs	78,013	76,422	585,470
Reserve for repairs for blast furnaces	46,949	62,738	352,344
Other	831	628	6,237
Total long-term liabilities	1,000,463	1,122,315	7,508,167
Total liabilities	1,945,416	2,017,789	14,599,750
SHAREHOLDERS' EQUITY			
Common stock:			
Authorized — 9,917,077,000 shares			
Issued and outstanding, par value ¥50 per share:			
6,806,980,977 shares			
as of March 31, 2002 and 2001	419,524	419,524	3,148,405
Statutory reserve:			
Additional paid-in capital	105,518	105,518	791,883
Legal reserve	99,302	98,280	745,233
	204,820	203,798	1,537,117
Special tax-purpose reserve	107,016	112,397	803,124
Voluntary reserves	20,000	20,000	150,093
Retained earnings	(7,575)	26,405	(56,853)
Unrealized gains on available-for-sale securities	49,792	84,630	373,676
Less: Treasury stock, at cost	(21)	—	(163)
Total shareholders' equity	793,557	866,757	5,955,399
Total liabilities and shareholders' equity	¥2,738,973	¥2,884,547	\$20,555,150

(Reference-Unaudited)  
Non-Consolidated Statements of Income

Nippon Steel Corporation  
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of dollars
	2002	2001	2002
Operating revenues:			
Net sales	¥1,681,406	¥1,848,710	\$12,618,432
Operating costs and expenses:			
Cost of sales	1,483,813	1,541,924	11,135,561
Selling, general and administrative expenses	165,863	189,338	1,244,750
	1,649,676	1,731,262	12,380,311
Operating profit	31,729	117,447	238,120
Non-operating profit and loss:			
Non-operating profit:			
Interest and dividend income	14,416	12,959	108,193
Miscellaneous	9,821	13,105	73,706
	24,238	26,065	181,899
Non-operating loss:			
Interest expenses	24,139	27,270	181,160
Miscellaneous	31,125	37,465	233,588
	55,265	64,735	414,749
Ordinary profit	702	78,776	5,270
Special profit and loss:			
Special profit:			
Gain on sales of tangible fixed assets	4,794	5,737	35,982
Gain on sales of investments in securities and investments in subsidiaries and affiliates	1,016	21,392	7,630
Release of reserve for repairs for blast furnaces	14,690	—	110,249
Gain on contribution of securities to employee retirement benefit trust	22,265	67,115	167,092
	42,767	94,245	320,955
Special loss:			
Loss on valuation of investments in securities	84,780	7,535	636,248
Special retirement allowances for voluntary retirement	6,319	5,317	47,423
Amortization of transition obligation in respect of new accounting standard for retirement benefits	—	93,866	—
Reserve for doubtful accounts	—	5,162	—
Loss on shut down of steel production facilities	—	26,228	—
Loss on completion of land development	—	3,255	—
	91,099	141,366	683,671
Income (loss) before income taxes and minority interest	(47,629)	31,655	(357,445)
Income taxes-current	700	40,800	5,253
Income taxes-deferred	(20,200)	(27,500)	(151,594)
Net income (loss)	¥ (28,129)	¥ 18,355	\$ (211,103)
Per share (stated in yen and in dollars):			
Net income (loss)	(¥4.13)	¥2.69	(\$0.031)
Cash dividends applicable to the year	¥1.50	¥1.50	\$0.011
Weighted average number of shares outstanding (in thousands)	6,806,948	6,806,981	

(Reference-Unaudited)  
Non-Consolidated Statements of Shareholders’ Equity

Nippon Steel Corporation  
Years ended March 31, 2002 and 2001

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Special tax-purpose reserve	Voluntary reserve	Retained earnings
Balance at March 31, 2000	6,806,981	¥419,524	¥105,518	¥97,258	¥111,028	¥20,000	¥20,651
Net income (loss) for the year ended March 31, 2001	—	—	—	—	—	—	18,355
Year-end cash dividends	—	—	—	—	—	—	(10,210)
Transfer to legal reserve	—	—	—	1,022	—	—	(1,022)
Transfer to special tax-purpose reserve	—	—	—	—	1,369	—	(1,369)
Balance at March 31, 2001	6,806,981	¥419,524	¥105,518	¥98,280	¥112,397	¥20,000	¥26,405
Net income (loss) for the year ended March 31, 2002	—	—	—	—	—	—	(28,129)
Year-end cash dividends	—	—	—	—	—	—	(10,210)
Transfer to legal reserve	—	—	—	1,022	—	—	(1,022)
Transfer to special tax-purpose reserve	—	—	—	—	(5,381)	—	5,381
Balance at March 31, 2002	6,806,981	¥419,524	¥105,518	¥99,302	¥107,016	¥20,000	¥(7,575)

	Thousands	Thousands of dollars					
Balance at March 31, 2001	6,806,981	\$3,148,405	\$791,883	\$737,564	\$843,508	\$150,093	\$198,163
Net income (loss) for the year ended March 31, 2002	—	—	—	—	—	—	(211,103)
Year-end cash dividends	—	—	—	—	—	—	(76,625)
Transfer to legal reserve	—	—	—	7,669	—	—	(7,669)
Transfer to special tax-purpose reserve	—	—	—	—	(40,383)	—	40,383
Balance at March 31, 2002	6,806,981	\$3,148,405	\$791,883	\$745,233	\$803,124	\$150,093	\$(56,851)

# Principal Subsidiaries and Affiliates

(as of March 31, 2002)

**Consolidated Subsidiaries** (254 companies)

Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacture/sale and other operations)
<b>Steelmaking and Steel Fabrication</b> (164 companies)			
Hokkai Iron & Coke Co., Ltd.	80.0	9,255	Pig iron, blast-furnace slag, coke
Osaka Steel Co., Ltd.	60.9	8,769	Shapes, deformed bars, fabricated products, billets
Nippon Steel Metal Products Co., Ltd.	83.0	5,912	Structural materials for buildings and civil engineering work, prepainted galvanized sheets, steelmaking fluxes and CC powders
Nittetsu Steel Pipe Co., Ltd.	54.4	3,497	Small-diameter pipe and tubes, lining/coating
Nippon Steel Logistics Co., Ltd.	58.1	2,238	Marine and land transportation, warehousing
Nippon Steel Shipping Co., Ltd.	76.0	2,227	Marine transportation
Nippon Steel Welding Products & Engineering Co., Ltd.	68.2	2,200	Welding materials and apparatuses
Taiyo Steel Co., Ltd.	66.7	1,800	Galvanized, prepainted galvanized and surface-treated sheets, building materials
Nippon Steel Drum Co., Ltd.	55.4	1,654	Drums
Nippon Steel Blast Furnace Slag Cement Co., Ltd.	100.0	1,500	Cement, slag products
Nittetsu Cement Co., Ltd.	55.0	1,500	Cement
Nittetsu Elex Co., Ltd.	90.3	1,032	Electrical instrumentation apparatuses
Nippon Steel Transportation Co., Ltd.	86.4	500	Marine and land transportation, loading/unloading
Nippon Steel U.S.A., Inc.	100.0	US\$22 million	Investment in U.S. companies, information collection
Nippon Steel Australia Pty. Limited	100.0	A\$21 million	Participation in mine development in Australia
Siam Nippon Steel Pipe Co., Ltd.	63.3	THB779 million	Machine structural ERW pipe and tubes
Nippon Steel Development Canada Ltd.	100.0	C\$10 million	Sales of coal produced in Alberta, Canada
Daido Steel Sheet Corporation	43.0	9,562	Galvanized, prepainted galvanized and surface-treated sheets, building materials
146 other companies			
<b>Engineering and Construction</b> (12 companies)			
<b>Urban Development</b> (11 companies)			
Nippon Steel City Produce, Inc.	100.0	750	Real estate
10 other companies			
<b>Chemicals and Nonferrous Materials</b> (32 companies)			
Nippon Steel Chemical Co., Ltd.	67.8	40,966	Coke, chemical products
Yutaka Electric Mfg. Co., Ltd.	75.3	975	Power supply equipment for electronic devices, transformers
30 other companies			
<b>System Solutions</b> (12 companies)			
NS Solutions Corporation	99.4	6,838	Engineering and consulting services pertaining to computer systems
11 other companies			

Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacture/sale and other operations)
<b>Services and Others</b> (23 companies)			
Nittetsu Finance Co., Ltd.	100.0	1,000	Money lending and operation
Sunvenus Takarazuka Co., Ltd.	100.0	775	Management of private homes for senior citizens
Nittetsu Kagoshima Geothermal Co., Ltd.	70.0	700	Geothermal steam for power generation
Nippon Steel International Finance PLC	100.0	US\$10 million	Capital procurement and operation in the Euromoney market
Nippon Steel Southeast Asia Pte. Ltd.	100.0	S\$16 million	Investment in Asian companies, information collection
Space World, Inc.	46.0	2,000	Operation of space-oriented training facilities and exhibition booth, amusement facilities
17 other companies			

**Affiliates Accounted for by the Equity Method** (87 companies)

Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacture/sale and other operations)
Nichia Steel Works, Ltd.	24.1	8,604	Wire products, bolts, prepainted galvanized sheets
Japan Casting & Forging Corporation	42.0	6,000	Castings, forgings, ingots, blooms
Krosaki Harima Corporation	45.7	5,537	Refractories, refractory construction
Taihei Kogyo Co., Ltd.	38.0	5,468	Civil engineering work, building construction, machinery and equipment
Nittetsu Mining Co., Ltd.	20.4	4,176	Limestone, dolomite, crushed stone, electrolytic copper
Geostr Corporation	26.0	3,352	Concrete products for building construction and civil engineering work
Daiwa Can Company	33.4	2,400	Metal, plastics and paper containers
Seitetsu Unyu Co., Ltd.	30.0	2,000	Marine and land transportation, loading/unloading
Sanko Metal Industrial Co., Ltd.	17.4	1,980	Metal roofs, building materials
Takasago Tekko K.K.	19.4	1,504	Cold-finished stainless and specialty steel sheets
Suzuki Metal Industry Co., Ltd.	22.2	1,200	Wire products
Sanyu Co., Ltd.	17.2	1,028	Cold-finished bars, cold-heading wire
Kyushu Refractories Co., Ltd.	15.2	754	Refractories
The Siam United Steel (1995) Co., Ltd.	36.3	THB9,000 million	Cold-rolled sheets
Guangzhou Pacific Tinplate Co., Ltd.	27.3	US\$36 million	Tinplate
Wacker NSCE Corporation	45.0	13,500	Silicon wafers
Nippon Steel Trading Co., Ltd.	49.6	11,978	Trades of iron and steel, nonferrous metals, machinery and raw materials
Kyushu Oil Co., Ltd.	36.0	6,300	Petroleum refining, sale of petroleum products
Tetra Co., Ltd.	22.4	2,251	Civil engineering work, block business
68 other companies			

# Directory

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10 East 50th Street, 29th Floor  
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Telefax: 1-212-593-3049  
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in November 2002.)  
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# Investor Information

(as of March 31, 2002)

## Nippon Steel Corporation

### Head Office

6-3, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8071  
Japan

### Date of Establishment

March 31, 1970

### Common Stock

¥419,524 million

### Common Stock: Issued

6,806,980,977 shares

### Common Stock: Authorized

9,917,077,000 shares

### Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.  
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574 Japan  
Phone: 81-3-5232-3331

### Number of Employees

17,370

### URL

<http://www.nsc.co.jp>

### Listings

Tokyo Stock Exchange, Osaka Securities Exchange,  
Nagoya Stock Exchange, Fukuoka Stock Securities and  
Sapporo Securities Exchange

### Ten Major Shareholders

Japan Trustee Services Bank, Ltd.  
The Mitsubishi Trust & Banking Corporation  
Mitsui Asset Trust and Banking Company, Limited  
Nippon Life Insurance Co.  
State Street Bank and Trust Company  
The Industrial Bank of Japan, Ltd.  
UFJ Trust Bank Limited  
Trust & Custody Service Bank, Ltd.  
The Meiji Mutual Life Insurance Co.  
The Dai-ichi Mutual Life Insurance Co.

**Nippon Steel Corporation**