

# **Nippon Steel Corporation**

**Annual Report**

# **2003**

Year ended March 31, 2003

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## Contents

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Financial Highlights	1
To Our Shareholders	2
Medium-Term Consolidated Business Plan	4
Products and Services at a Glance	6
Business Review	
Steelmaking and Steel Fabrication	8
Engineering and Construction	14
Urban Development	18
Chemicals and Nonferrous Materials	19
System Solutions	21
Other Business Activities	22
Environmental Initiatives	23
Research and Development	26
Social Contribution Activities	30
Organization	32
Chronology	33
Executive Management	34
Financial Statements	35
Principal Subsidiaries and Affiliates	72
Directory	74
Investor Information	75

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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 of the year specified 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, 2003, and the previous term, the same period ended March 31, 2002.
- Tonnage figures are in metric tons; all dollars (\$) figures are in US currency and translated from Japanese yen at the rate of \$1=¥120.20 at the latest balance sheet date, unless otherwise specified.
- All of the product names and service names used in this publication are trademarks or registered trademarks of Nippon Steel Corporation in Japan or other countries. Please be aware that Nippon Steel may not use or have registered some of the aforementioned marks in reader's countries.

## Financial Highlights

<b>Consolidated</b>	Millions of yen			Millions of dollars
	2003	2002	2001	2003
As of or for the years ended March 31				
Net sales . . . . .	<b>2,749,306</b>	2,581,399	2,750,418	<b>22,872</b>
Net income (loss) . . . . .	<b>(51,686)</b>	(28,402)	26,494	<b>(430)</b>
Net income (loss) per share . . . . .	<b>(¥7.69)</b>	(¥4.17)	¥3.89	<b>(\$0.063)</b>
Shareholders' equity . . . . .	<b>789,443</b>	907,150	979,695	<b>6,567</b>
Total assets . . . . .	<b>3,757,175</b>	4,030,596	4,232,011	<b>31,257</b>

<b>Non-Consolidated</b>	Millions of yen			Millions of dollars
	2003	2002	2001	2003
As of or for the years ended March 31				
Net sales . . . . .	<b>1,789,706</b>	1,681,406	1,848,710	<b>14,889</b>
Net income (loss) . . . . .	<b>(20,447)</b>	(28,129)	18,355	<b>(170)</b>
Net income (loss) per share . . . . .	<b>(¥3.02)</b>	(¥ 4.13)	¥2.69	<b>(\$0.025)</b>
Cash dividends per share . . . . .	<b>¥ 1.50</b>	¥ 1.50	¥1.50	<b>\$0.012</b>
Shareholders' equity . . . . .	<b>713,772</b>	793,557	866,757	<b>5,938</b>
Total assets . . . . .	<b>2,588,698</b>	2,738,973	2,884,547	<b>21,536</b>

	Thousands of tons		
	2003	2002	2001
Crude steel production (Non-consolidated basis) . . . . .	<b>29,902</b>	26,140	27,837

Notes: Yen figures have been translated to U.S. dollars at the rate of ¥120.20 to US\$1 as of March 31, 2003, solely as a convenience to readers.

### **Formulation of New Medium-Term Consolidated Business Plan**

In March 2003, Nippon Steel formulated a new Medium-Term Consolidated Business Plan covering the period from fiscal 2003 to fiscal 2005. Under this plan, Nippon Steel will work to further improve the international competitiveness and profitability of its business operations, including its core steelmaking business. It will also target the early establishment of a solid financial structure.

Specific goals for fiscal 2005 include ordinary profit of ¥250 billion, an ordinary profit ratio of 9%, an ROA ratio of 9%, interest-bearing debt of ¥1,600 billion, and shareholders' equity of ¥1,000 billion.

In the steelmaking business, Nippon Steel is already one of the world's most competitive companies in terms of technology and development capabilities as well as quality and cost. It will work to enhance that competitiveness still further by providing a fine-tuned response to the needs of users in Japan and overseas. Nippon Steel will also strengthen and deepen its alliances with Japanese and foreign steel makers.

In other sectors, such as engineering and construction, Nippon Steel will utilize management resources from its core steelmaking activities, including its diverse technology, human resources and assets. It will seize every business opportunity and work to maintain and expand profitability by developing synergies between these businesses and its steelmaking business.

### **Environmental Management**

The environment will be a core focus for management through each business. Nippon Steel is working actively to combat global warming under a steel industry action plan designed to reduce carbon dioxide emissions. Nippon Steel is

also playing a leading role in the development of a recycling society. For example, it makes efficient use of waste plastic in its coking ovens and waste tires in its cold steel smelting furnaces. It also plans to supply environmental and energy-related solutions.

### **Compliance**

Nippon Steel has established autonomous management structures in each business segment. Under these structures, the general manager of each division has primary responsibility for the compliance, efficiency and management of business-related risks. This approach has been combined with corporate-level education programs and awareness activities to ensure the proper performance of divisional operations and total compliance with laws and regulations in all areas of activity. Nippon Steel has also monitored compliance and conformance through internal audits and established rules and systems to eliminate unsubstantiated or arbitrary decision-making. Employees can now seek assistance through a helpline operated by the newly established Corporate Life Advice Office. In addition, since 1999 three of Nippon Steel's six auditors have been appointed from outside the Company. By combining its efforts to achieve business goals with these measures to ensure equitable business operations, Nippon Steel aims to earn the confidence and respect of the public.

### **Operating Performance**

The pace of recovery in the Japanese economy has remained slow. Despite buoyant trends in the automobile and shipbuilding industries, overall demand for iron and steel has been slack. However, iron and steel exports have increased because of strong demand in East Asia, especially China.

Chairman Akira Chihaya (left) and  
President Akio Mimura (right)



Nippon Steel has worked to build a resilient management structure through sustained management efforts in collaboration with group companies. Net sales increased from ¥2,581.3 billion in the previous fiscal year to ¥2,749.3 billion for the year ended March 31, 2003 (Fiscal 2002). Operating profit was also higher at ¥142.9 billion, compared with ¥73.0 billion. Ordinary profit also improved, from ¥16.7 billion to ¥68.8 billion.

As regards special profit and loss, there was ¥34.0 billion special profit recorded mainly due to secondary offering of shares of NS Solutions Corporation. There was also a special loss of ¥140.3 billion, which was mainly from revaluation of real estate held by group companies, mandatory revaluation of investments in financial institutions and restructuring the business of a major subsidiary, Nippon Steel Chemicals Co., Ltd. As a result, loss before income taxes and minority interest increased by ¥12.3 billion to ¥37.3 billion compared to the previous fiscal year.

Despite these extremely harsh conditions, Nippon Steel was determined to maintain stable dividends. As in the previous fiscal year, the dividend to shareholders was set at ¥1.50 per share.

### **Future Outlook for Fiscal Year 2003**

In addition to Japan's slow economic recovery, uncertainty about the outlook for the U.S. economy has raised fears that exports, which have been buoyant until now, will stall in the coming fiscal year (fiscal 2003). Domestic demand for steel is also expected to fall below the previous

year's level, and it also possible that export markets will go through a moderate correction.

Nippon Steel will continue to give priority to price improvement in this environment and is committed to the continuing implementation of income improvement measures, including cost-cutting efforts and the adjustment of production and shipments based on cautious assessments of demand and inventory trends. Business conditions will also remain difficult in other businesses, including engineering and construction. However, every possible effort will be made to strengthen and improve profitability. Nippon Steel, together with other group companies, will continue to maximize the comprehensive ability of the Nippon Steel Group to the achievement of continuing progress toward the goals set down in its medium-term business plan.

Akira Chihaya *Chairman*

A handwritten signature in black ink, reading "Akira Chihaya" in a cursive style.

Akio Mimura *President*

A handwritten signature in black ink, reading "Akio Mimura" in a cursive style.

June 26, 2003

Medium-Term Consolidated Business Plan

The Nippon Steel Group has formulated a Medium-Term Consolidated Management Plan covering the period from fiscal 2003 to fiscal 2005. The Group will work under this plan to achieve further improvement in the international competitiveness and profitability of its business operations, including its core steelmaking business, and to build a solid financial structure. In addition to the early achievement of these goals, the Nippon Steel Group also aims to strengthen its integrated competitiveness in cooperation with users of its products and services.

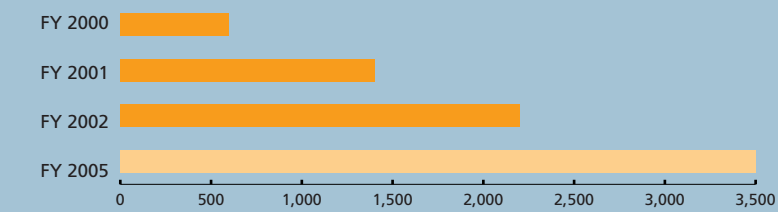
Consolidated Financial Targets

	Fiscal 2005 (Planned)	Fiscal 2002 (Estimated)
Ordinary profit	Approx. ¥250 billion	¥75 billion
Ratio of ordinary profit to sales	Approx. 9%	3%
Ratio of operating profit to total assets	Approx. 9%	3%
Balance of interest-bearing debt	Approx. ¥1,600 billion	¥1,940 billion
Shareholders' equity	Approx. ¥1,000 billion	¥800 billion
Net sales	Approx. ¥2,900 billion	¥2,700 billion

Income Targets by Segment

		Fiscal 2005 (Planned)			Fiscal 2002 (Estimated)		
			ROS	ROA		ROS	ROA
Totals for Nippon Steel Group	Net sales	Approx. ¥2,900 billion			2,700		
	Ordinary profit	Approx. ¥250 billion	9%	9%	75	3%	3%
Steelmaking and Steel Fabrication	Net sales	Approx. ¥2,050 billion			1,965		
	Ordinary profit	Approx. ¥230 billion	11%	11%	50	3%	3%
Engineering and Construction	Net sales	Approx. ¥400 billion			2,80		
	Ordinary profit	Approx. ¥10 billion	3%	5%	1	0%	1%
Urban Development	Net sales	Approx. ¥110 billion			105		
	Ordinary profit	Approx. ¥5 billion	5%	5%	2	2%	2%
System Solutions	Net sales	Approx. ¥200 billion			150		
	Ordinary profit	Approx. ¥20 billion	10%	17%	11	7%	12%
Chemicals and Nonferrous Materials	Net sales	Approx. ¥330 billion			340		
	Ordinary profit	Approx. ¥10 billion	3%	9%	7	2%	5%

Cost Improvement Targets for Steelmaking Business (Base Year: Fiscal 1999)



An Interview with the President  
The Arrival of a New Era of Revival for Iron & Steel

In the following interview, Nippon Steel President Akio Mimura talks about the Medium-Term Consolidated Business Plan and its importance to the revitalization of the steelmaking business.

Q. You have set high profitability targets for the Medium-Term Consolidated Business Plan. Please elaborate.

The Medium-Term Consolidated Business Plan is a plan to revitalize our steelmaking business. The Japanese economy as a whole is going through a major structural transition. Domestic demand for steel has fallen by 30%, or 20 million tons, from its peak level, and the iron and steel industry has faced harsh business conditions for several years. The industry is beginning to emerge from this period of turmoil thanks to unprecedented restructuring moves made possible by the determination, knowledge and wisdom of the companies concerned. That process has included the establishment of the JFE Group, the formation of capital and strategic alliances among Nippon Steel, Sumitomo Metal Industries and Kobe Steel, and a series of structural changes affecting iron and steel trading companies.

Dramatic economic growth has been paralleled by a conspicuous increase in the demand for iron and steel in East Asia, centering on China. Asia's growth economies are the markets for over 80% of Japan's iron and steel exports, and we have high hopes for the future.

The targets that we have set for the Medium-Term Consolidated Business Plan represent our minimum line. I am confident that we can achieve them.

Q. What are your policies for the revitalization of the steelmaking business?

I want Nippon Steel to become a global enterprise with steelmaking as its core business, and I want us to contribute to the revitalization of the Japanese manufacturing sector. The required attributes for a global enterprise in the iron and steel industry are dynamic investment in facilities and research and development, a core involvement in the steelmaking business, and the ability to compete in world markets. There are less than 10 companies in the world, including ourselves, that meet these requirements. One of the mechanisms that we have used is the formation of alliances with Japanese and foreign steel manufacturers, including POSCO and Arcelor. In addition to our own development efforts, we are also using our alliances to improve our development efficiency through joint research and other approaches. We are already starting to achieve considerable benefits.

Nippon Steel will essentially remain a Japan-based manufacturing enterprise. We have many excellent customers in Japan, and we are building stable, long-term partnerships with them. Our customers help us to refine and strengthen our technology, which is the source of our competitiveness. Our goal is to provide our customers with solutions so that we can advance and prosper together.

Q. What are your plans for business areas other than steelmaking?

Nippon Steel has diversified into many new business areas other than steelmaking, and we have selectively strengthened our involvement in some areas. The activities that remain now have extremely high potential. We will work steadily toward the realization of the goals set down in our medium-term business plan for such areas as engineering, new materials, urban development, system solutions and chemicals. I am determined to achieve further progress toward an integrated management structure for Nippon Steel.



Products and Services at a Glance

Steelmaking and Steel Fabrication

Steel Products

- Sections (rails, sheet piles, H-beams, other shapes; bars, bars-in-coils, low-carbon wire rods, high-carbon wire rods)
- 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)
- Tubulars (seamless, but-welded, electric-resistance welded, electric-arc welded, cold-drawn, coated pipe and tubes)
- 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)
- Secondary steel products (H-beam bridges, steel segments, gratings, PANZERMAST, vibration-damping sheets and plates,

NS Louver, columns, welding materials, drums, bolts/nuts/washers, wire products, OCTG accessories, building and civil engineering materials)

Pig Iron, Steel Ingots and Others

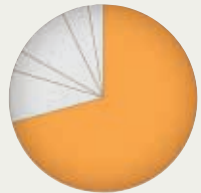
- Steelmaking pig iron, foundry pig iron, steel ingots, slag products, cement

Businesses Incidental to Steelmaking and Steel Fabrication

- 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

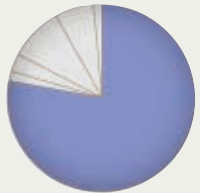


Consolidated Sales  
(2003\*: ¥2,749.3 billion)



70.6%

Consolidated Operating Profit  
(2003\*: ¥142.9 billion\*\*)



78.9%

Engineering and Construction

- Iron- and steelmaking plants, FA/distribution plants, molds, rolls, industrial machinery, industrial furnaces, Resources recycling/environmental restoration solutions
- Environmental plants, waterworks and water treatment facilities
- Energy facilities, chemical plants, storage tanks, on-land and offshore pipelines
- Various energy-related solutions, offshore structure fabrication/construction, civil engineering work, bridge fabrication/erection, pipe piling work
- Building construction, steel-structure construction, trusses, standardized buildings
- Urban redevelopment-related solutions
- Iron- and steelmaking plant construction engineering, operating assistance, steelmaking know-how provision



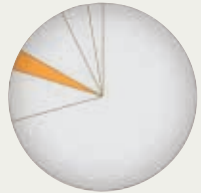
9.0%



1.7%

Urban Development

- Urban development, condominiums/real estate



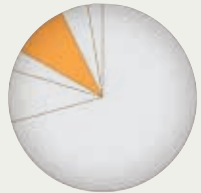
3.5%



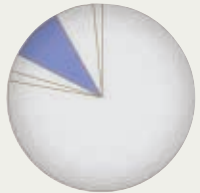
3.1%

Chemicals and Nonferrous Materials

- Coal tar, ammonium sulfates, coke, chemical products, electronic parts
- Rolled titanium products, aluminum products
- 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 device



9.6%



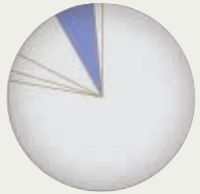
9.4%

System Solutions

- Engineering and consulting services pertaining to computer systems



4.6%



6.8%

Other Businesses

Power Supply

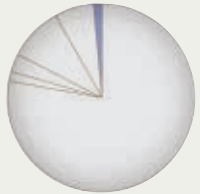
- Power supply

Services and Others

- Theme parks (operation of space-oriented training facilities and exhibition booth, amusement facilities)
- Energy (geothermal steam, hydrogen gas)
- Financing/insurance (money leasing and operations, non-life insurance brokerage)
- Others (planning of training courses, retail sales, food)



2.6%



-1.5%

\* Year ended March 31, 2003  
Business sector-wise ratio of sales to customers

\*\* The elimination of intersegment transactions accounts for 1.5%.

# Steelmaking and Steel Fabrication

The pace of Japan's economic recovery remained slow in the year ended March 31, 2003. Demand for iron and steel was buoyant in the automobile and shipbuilding industries, but total demand stagnated. On the other hand, demand for iron and steel was extremely strong in the East Asian economies, centering on China, and in volume terms, Japan's steel exports reached their highest level since 1976. National crude steel output increased by 7.69 million tons to 109.76 million tons over the level of the previous fiscal year.

Nippon Steel made the improvement of sale prices its first priority. It maintained a cautious stance on production and shipments based on close monitoring of demand trends and inventory levels. However, its crude steel production increased by 3.76 million tons to 29.9 million tons.

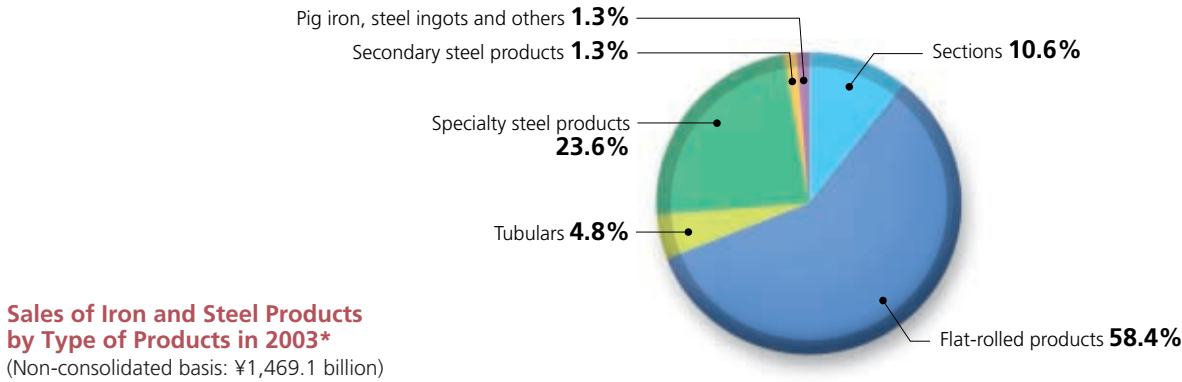
Consolidated sales in the steelmaking and steel fabrication sector or the year ended March 31,

2003 increased from ¥1,828.2 billion in the previous fiscal year to ¥1,980.8 billion in the year ended March 31, 2003. Consolidated operating profit was also higher at ¥112.8 billion, compared with ¥23.4 billion in the previous fiscal year. In addition to higher sales, this growth also reflects efforts to improve the cost structure.

Domestic demand is again expected to fall in the year ending March 31, 2004. Demand for iron and steel can be expected to expand over the medium-term and long-term perspective in East Asia, principally China. Nippon Steel will continue to maintain a cautious policy on production and shipments while working to improve its earnings through cost reductions and other measures.

## Collaboration with Domestic and Foreign Companies

Nippon Steel has been promoting collaboration with Sumitomo Metal Industries, Ltd. and Kobe



Steel, Ltd. for several years. In November 2002 the three companies signed an agreement concerning collaboration measures and the reciprocal acquisition of shares.

Nippon Steel has agreed to supply hot-rolled sheet to Sumitomo Metal Industries after the closure of the hot-rolling mill at its Wakayama Works in March 2005. Other areas of cooperation being considered by the two companies include reciprocal cooperation between Nippon Steel's Kimitsu Works and the Kashima Steel Works of Sumitomo Metal Industries, reciprocal supplying of steelmaking resources and other items during blast furnace

maintenance or in emergencies, cooperation on procurement and logistics, and the formation of collaborations among group companies. In addition, the two companies have implemented reciprocal share acquisitions worth around ¥5 billion.

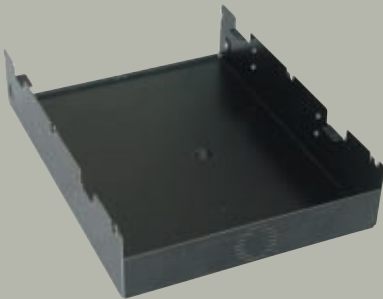


## TOPICS



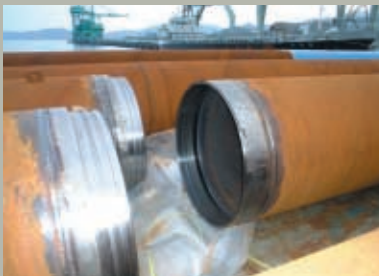
### ZINCOTE 21

ZINCOTE 21 is chromate-free electrogalvanized steel sheet. There has been a rapid increase in the use of this environment-friendly product by manufacturers of electrical appliances and office automation equipment. The product has excellent characteristics, including its anti-corrosion performance and paintability.



### High-Performance Heat-Absorbing Steel Sheet

The development and introduction of a special organic film with both heat-absorption and conductivity properties has allowed Nippon Steel to develop steel sheet with the ability to release heat from the interior of electrical equipment with increased efficiency.



### Raknikan Mechanical Joints for Large-Diameter Steel Pipes and Steel Pipe Sheet Piles

Raknikan was developed jointly with Kubota Corporation as an alternative to welding for joints in steel pipes and steel pipe sheet piles.



### NS-Box Soil Mixing Wall Method

The NS-Box Soil Mixing wall method was jointly developed by Nippon Steel and 34 major construction contractors. Because walls can be thinner there are savings in work and space, as well as a reduction of around 40% in construction costs. This earth retaining method can also be used for parts of buildings.



### Steel Houses

In September 2002, Nippon Steel, Toyota Motor Corporation and Mitsubishi Corporation established a joint venture with Beijing New Building Materials Co., Ltd. to manufacture steel houses in China. This business is also being expanded in Japan under the trade name "Nippon Steel's Super-frame Method."



### New S-TEN 1

New S-TEN 1 is a low-alloy steel that is three times more resistant to corrosion by hydrochloric acid and other substances than existing products. Its weldability and mechanical characteristics are also at least as equal to those of existing products. (Pictures are hydrochloric acid corrosion test)



Nippon steel will also strengthen its collaboration with Kobe Steel. Key aspects of the relationship include increased cooperation, especially region-based optimization of production, between group companies in the area of steel processing, and closer links between logistics subsidiaries. The two companies will also carry out joint studies concerning the use of new iron-making and steelmaking processes. In addition, Nippon Steel and Kobe Steel have acquired each other's shares to the value of approximately ¥3 billion. As part of the collaboration process, the two companies have also initiated studies concerning the integration of affiliated companies, with a view to implementation in the first half of fiscal 2003. The companies concerned are Kansai Steel Center, which operates plate fusing facilities, and Shinko Shearex.

Nippon Steel, Kobe Steel and Sumitomo Metal Industries have formed a Joint Study Committee. The three companies will cooperate to strengthen their individual competitiveness while maintaining a competitive relationship in the market.

Overseas, Nippon Steel is progressively implementing measures concerning its alliances with POSCO in South Korea and Arcelor in Europe. These relationships are already yielding important benefits. The link with POSCO encompasses joint research

and development and technology sharing, among others. Cooperation with Arcelor has included joint research and development in the field of automotive steel sheet, and the joint contribution of technology for world car projects by customers.

#### Integration of Stainless Steel Business

In October 2003, Nippon Steel and Sumitomo Metal Industries integrate their stainless steel operations through the formation of a new company, Nippon Steel & Sumikin Stainless Steel Corp. The aim of this move is to strengthen the profitability structure of this area of the two companies' activities. Benefits to customers include an enhanced product range, and improved service through the use of production facilities at the Hikari Works, the Yawata Works and the Kashima Steel Works. By concentrating production of each product type, it will be possible to improve production efficiency and centralize production facilities, resulting in significant cost reductions.

#### Steel Solutions (Technology Development)

In this area of business Nippon Steel identifies the needs of its customers and offers solutions. R&D achievements in fiscal 2002 include the New S-TEN 1, which dramatically improves the durability of

waste incinerators in relation to hydrochloric acid corrosion. Nippon Steel also developed a new type of steel sheet with anti-charging properties to prevent static electricity, which was a major obstacle to operating efficiency in user's plants. To meet the needs of users with stringent color tone requirements, Nippon Steel announced stainless steel sheet coated in clear paint. The product is being used in the manufacture of large-capacity refrigerators.

#### Business Development in China

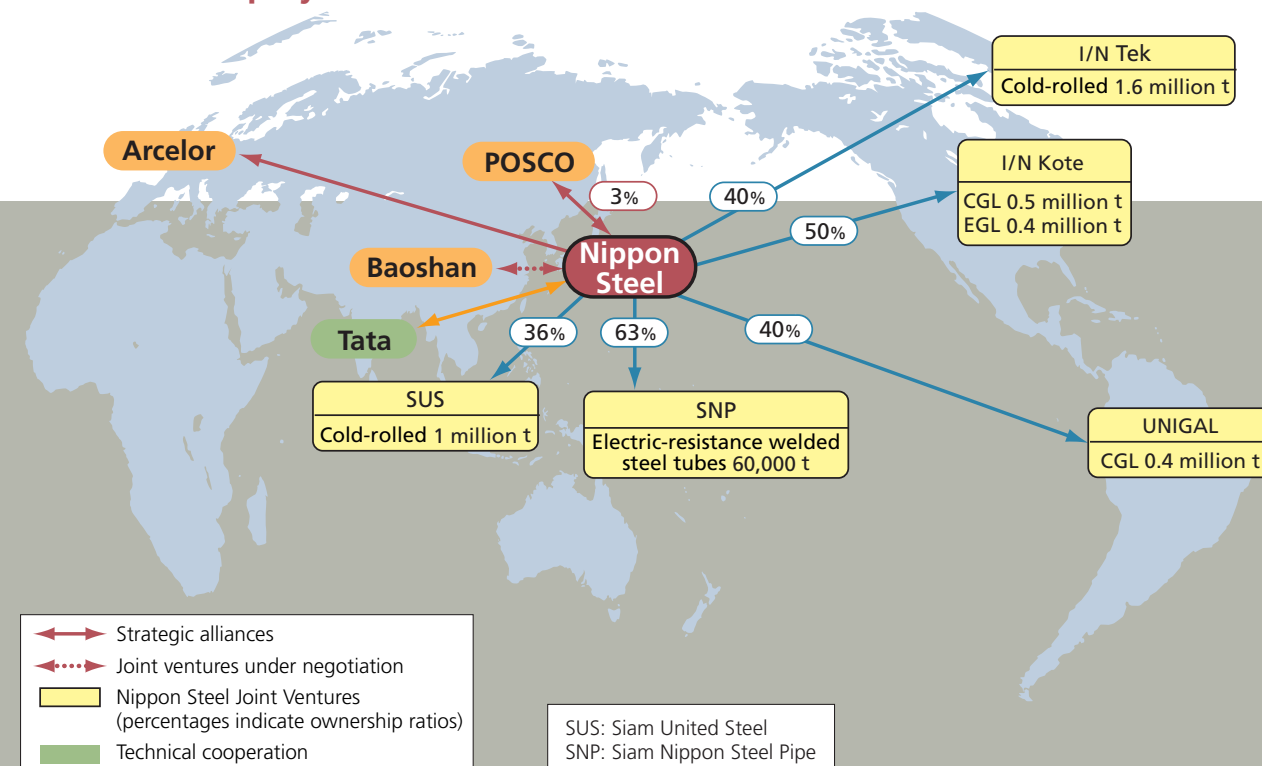
Nippon Steel is also engaging in developing its involvement in China's rapidly expanding economy. The Chinese government intends to prohibit the construction of brick houses in the 170 major cities before the end of 2003. The aim of this policy is to protect agricultural land and prevent atmospheric pollution. Nippon Steel and Beijing New Building Materials Co., Ltd., a leading Chinese manufacturer

of building materials, have established a joint venture, BNBM Home Co., Ltd. The new company will market the environment-friendly, energy-efficient Nippon Steel's Super-frame Method in the Chinese housing market, which is expected to expand rapidly in the years ahead.

Nippon Steel has been supplying electrical steel, which is used in the manufacture of motors, to TECO Electric & Machinery Co. Ltd. of Taiwan. It has acquired share capital in Wuxi TECO Electric & Machinery Co., Ltd., which was established by the Taiwanese company in Wuxi, China to manufacture and sell large and medium-sized motors.

Also in China, Nippon Steel is establishing a joint venture with Shanghai Baoshan Steel. The new company will manufacture high-grade automotive steel sheet.

#### The Company's Global Network—Overseas Alliances



#### High-Efficiency Thin Electrical Steel Sheet

Nippon Steel has developed a high-tensile electrical steel for use in super-high-speed electrical motors. The new product is more than twice as strong as existing products. It has also developed electrical steel with an increased magnetic flux density, high torque and excellent processing characteristics.



#### Antistatic VIEWCOAT

This high-quality color steel reduces static charging during electrical appliance manufacturing processes. It reduces work by preventing waste from clinging to products.

### Corporate Restructuring in Group Companies

The Japanese steel industry is going through a process of restructuring, including the alliance formation and business integration. The aim of the corporate restructuring that is occurring with the Nippon Steel Group is to establish a robust management structure and solid business infrastructure for the Group.

- **Galvanized color steel and building material products business:**

Daido Sheet Steel Corporation and Taiyo Steel Co., Ltd. integrated their business to form Nittetsu Steel Sheet Corporation in October 2002.

- **Transportation and logistics business:**

Nippon Steel Logistics Co., Ltd. absorbed Nittetsu Ryutsu Center in April 2002.

- **Welding materials and equipment business:**

In July 2002 the business operations of Nippon Steel Welding Products & Engineering Co. Ltd. were integrated with those of Sumikin Welding Industries, Ltd., a consolidated subsidiary of Sumitomo Metal Industries, Ltd., to form Nippon Steel & Sumikin Welding Co., Ltd.

- **Refractory brick business:**

In May 2002, Kyushu Refractories Co., Ltd. became a consolidated subsidiary of Kurosaki Harima Corporation.

- **Pail can business :**

In April 2003, the business integration of Metal One subsidiary Unicon, JFE Container, a JFE subsidiary and Daido Tekki, a subsidiary of Nittetsu Steel Sheet Corp., was announced.

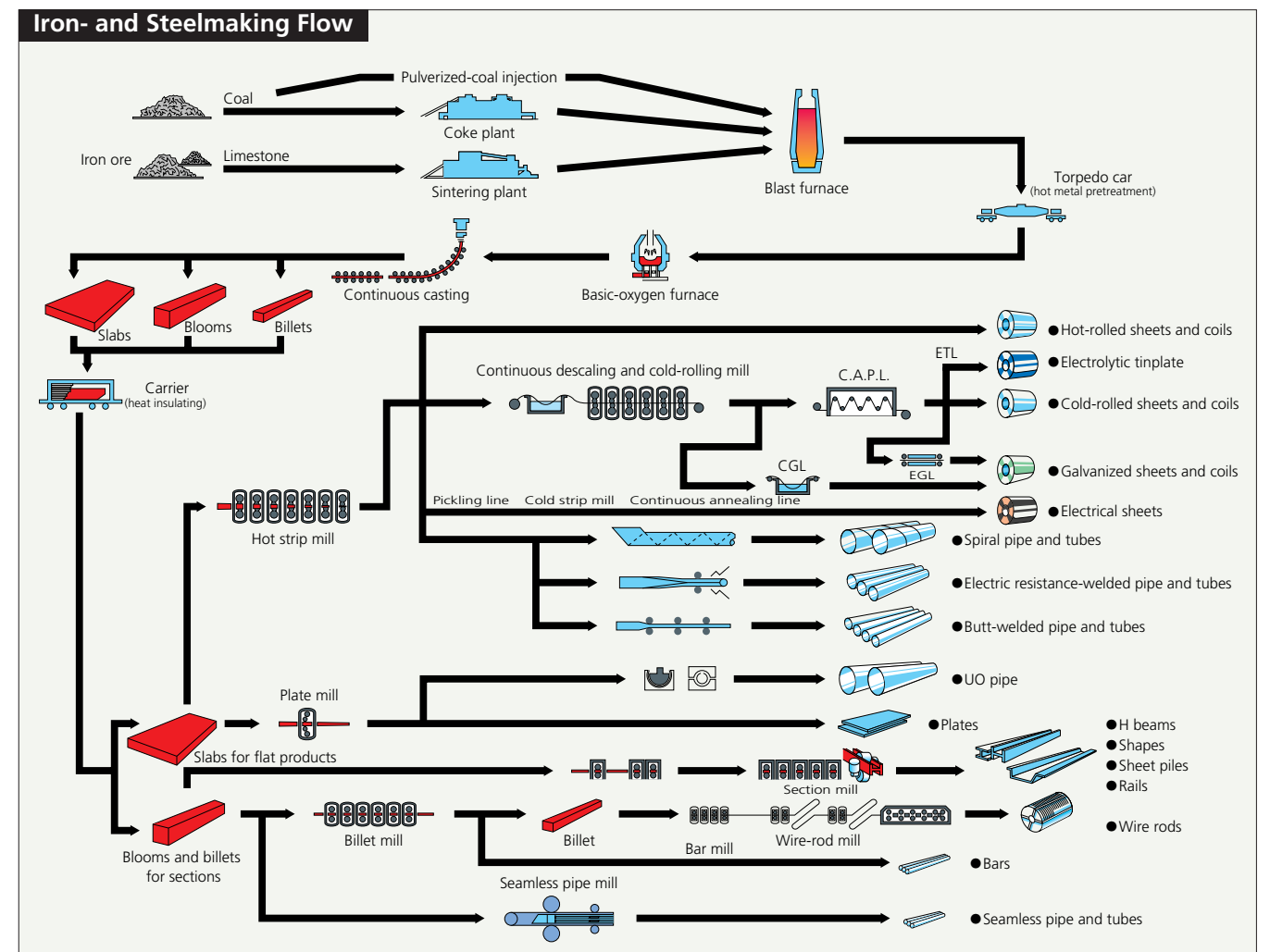
### Capital Investment

The relining of the No. 4 Blast Furnace at the Kimitsu Works, which is now the world's largest, was completed in May 2003 at a total cost of ¥24 billion. The relining of the No. 2 Blast Furnace at the Oita Works will begin in February 2004. At the completion of the ¥23 billion project, the facility will be even bigger than the No. 4 Blast Furnace at the Kimitsu Works and will be the world's largest.

The expansion and relining of blast furnaces will increase Nippon Steel's pig iron production capacity. The resulting reduction in scrap purchases will result in a cost reduction of ¥10 billion annually.



After a relining project, the No.4 Blast Furnace at Kimitsu Works is now the largest in the world by volume. The resulting increase in pig-iron production capacity will lower costs by reducing the amount of scrap purchased.



### Color Clear Coating for Stainless Steel Sheets

This high-quality product combines ease of processing with excellent results, plus antibacterial, anti-soiling and weather-resistance characteristics. Even on large-scale panels, it is possible to maintain an excellent shaping characteristics and a uniform external appearance between the base material and the colored layer.



### Electric-welded Line Pipes

Nippon Steel has received an order for stitch-welded line pipes for use in a sea-bed natural gas pipeline. The order, from Kraft Corporation of Australia, is reflection of Nippon Steel's reputation for rigorous quality assurance and rapid delivery.

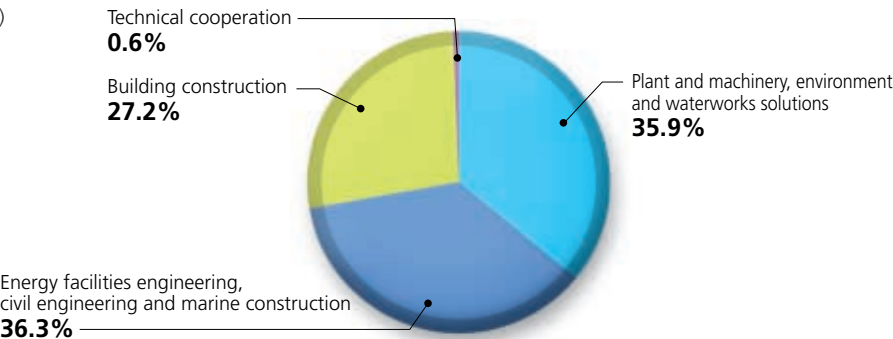


Engineering and Construction

Competition for orders received remained fierce. Nippon Steel worked to restore the level of its orders received through active marketing activities. These efforts resulted in a number of important orders received, including a PCB processing facility for the Kitakyushu Eco-Town Project, and a continuing order for gasification melting facilities. Nippon Steel also won the first PFI order placed by the Japanese government, covering development work for the Akabane Government Employee Housing Development Scheme (provisional name). Major

overseas orders received included the Sakhalin I Pipeline Project. Total orders received amounted to ¥328.3 billion, a massive ¥77.4 billion increase over the previous year's result. However, consolidated sales for the engineering and construction sector were substantially lower at ¥274.9 billion, compared with ¥294.3 billion in the previous year. This reflects a decline in orders in the previous year. Performance was adversely affected by the erosion of profit margins due to lower sales and escalating competition for orders, and operating profit

Sales by Operating Field in 2003\*  
(Consolidated basis: ¥274.9 billion)



Hibikinada Wind Power Plant Business

declined by ¥7.4 billion to ¥2.5 billion. However, it remained in positive figures for the 15th consecutive year.

Nippon Steel will continue to respond to the needs of its customers and society by strengthening its proposal-based business operations. It is also committed to the active expansion of its overseas business operations.

Plant and Machinery

The most important region in terms of business strategies in this division is China, which is expected to modernize its steelmaking facilities. Nippon Steel is involved in a wide spectrum of business development in China, including the activities of its Chinese subsidiary, Nippon Steel Plant Engineering (Shanghai) Co., Ltd. Future plans call for the development of a solutions business based on customer-focused plan-

ning and proposal, and the aggressive expansion of overseas business development. Nippon Steel's advantages in this area include its proven capabilities in overseas turnkey projects, and the alliances that it has built in the field of blast furnaces and continuous casters.

Environment and Waterworks Solutions

In this field, Nippon Steel offers a wide range of infrastructure systems designed to contribute to the development of an environment-friendly recycling society. Activities include the construction of waste recycling plants, the installation, replacement and repair of water pipes, and the construction of water supply and sewage treatment plants. Nippon Steel's assets in this field include accumulated environment-related technology resources, a reputation for technical expertise earned through an extensive

Contracts Covering C.A.P.L. and No. 1 CGL Signed with Shanghai Baoshan Steel

Baoshan Steel has awarded Nippon Steel contracts to design and fabricate a continuous annealing and processing line (C.A.P.L.) and continuous galvanizing line (CGL), which will be major facilities at its No. 4 cold rolling plant. The comprehensive contracts also cover the provision of personnel to supervise the installation and operation of the facilities, and the provision of training.



TOPICS



Six Direct Melting Systems Completed

In December 2002, Japan tightened its regulations concerning dioxin emissions. Since then Nippon Steel has completed six direct melting systems based on shaft furnace gasification technology.



Vending Machine Processing Factory Completed at Sanden Corporation's Akagi Plant

Nippon Steel provided overall engineering, project management and procurement services for Sanden's factory construction project.



Contract to Supply Direct Melting Technology to POSCO E&C

In November 2002 Nippon Steel signed contracts covering the supply of direct melting furnace technology to POSCO E&C, which is the engineering subsidiary of POSCO.

involvement in facility construction and joint research, and a network of business partners. Nippon Steel will continue to develop a planning and proposal approach based on its total strengths, in collaboration with its group companies and 10 steel works in Japan.

### Energy Facilities Engineering

In Japan, Nippon Steel is expanding its involvement in the areas of LNG-related plants and natural gas pipelines. Overseas, it is an active participant in major petroleum and natural gas projects, including projects in the increasingly important source regions of Sakhalin and East Asia. Another expand-

ing area of involvement for Nippon Steel is energy solutions, including electricity retailing and on-site energy supply services. In April it began to supply electricity from its own power stations at Sodegaura City in Chiba Prefecture and Nobeoka City in Miyazaki Prefecture.

### Civil Engineering and Marine Construction

Nippon Steel has won and completed a lot of major overseas contracts, including the Sakhalin I Pipeline Project for an offshore oil and gas scheme near Sakhalin Island, and the New Tacoma Narrows Bridge projects in Washington State, U.S.A. It is targeting further growth in overseas orders received, especially in Asia, including continuing work on the Sakhalin scheme. Nippon Steel also commenced work on its first wind power facility in the Hibikinada district of Kitakyushu City. The facility became operational in March 2003. Nippon Steel will continue to focus



### Kanmon Strait-Crossing Gas Pipeline

Nippon Steel has constructed a shield tunnel across the Kanmon Strait to carry a natural gas pipeline between its Yawata Works in Kitakyushu City and the facilities of Yamaguchi Gohdoh Gas Co., Ltd. in Shimonoseki City. The project was completed in November 2002.



### Nice Corporation Kisarazu Warehouse

This major warehouse overlooking Tokyo Bay was completed in December 2002. Innovative design concepts and structural plans allowed Nippon Steel to complete the facility in just four months while ensuring the high standard of quality required by the customer.

on the development of new technologies, including offshore wind power generation facilities and new types of bridge structures.

### Building Construction

Nippon Steel has been an active participant in projects based on the private finance initiative (PFI) method, which has attracted considerable interest as a new approach to social capital development. It has also stepped up its involvement in the new con-

struction market in response to demand for urban office buildings resulting from the revitalization of the real estate liquidation market. Nippon Steel will continue to target differentiation from its competitors by further expanding its range of products and technologies that reflect its capabilities as a steel-maker, such as NS ECO-PILE screw-in pipe piles, and seismic isolation and anti-vibration devices.

### Technical Cooperation

By the end of March 2003, Nippon Steel had undertaken a cumulative total of 1,237 steel-related technical cooperation projects for 166 companies in 50 countries. In fiscal 2003 it rendered comprehensive technical cooperation to Companhia Siderúrgica Paulista SA (COSIPA) and Usinas Siderúrgicas de Minas Gerais SA (USIMINAS), both of Brazil. It also assisted Tata Iron & Steel Co., Ltd. (TISCO) of India with technology relating to production of automotive steel sheet. Nippon Steel will continue its activities in technical cooperation, especially in Latin America and India.



### Facilities for Oil and Gas Development in Malaysia

Nippon Steel is currently fulfilling an order from a company affiliated with Malaysia's state-owned petroleum company, Petronas, for the construction of an offshore platform and undersea pipeline. The 4,700 ton jacket construction project is the largest ever undertaken by Nippon Steel.



### NS Energy Sodegaura Co., Ltd. and NS Energy Nobeoka Co., Ltd. Commence Operations

Nippon Steel has long sought to establish its own power generation capabilities. That goal was realized with the commencement of generation by NS Energy Sodegaura Co., Ltd. and NS Energy Nobeoka Co., Ltd. on April 1, 2003. The two companies are currently supplying approximately 100,000kW of power to customers in Tokyo and Kyushu.



### NS Wind Power—Hibikinada Wind Power Development Scheme

Work has begun on a wind power development scheme which is harmonizing with the environmental policies promoted by Kitakyushu City's Eco-Town Project. The facility is using sea breezes to produce into environment-friendly electricity through 10 wind turbines.



### NS Eco-Pile Method

The Eco-Pile method produces no waste soil. Vibration and noise are minimal, and the piles offer excellent support strength and anti-seismic performance. Other advantages of this revolutionary method include lower costs and quicker completion times.

The method has already been used in numerous projects and was recently selected for the foundations of a rail bridge for the Kyushu Shinkansen (Bullet Train) Line.



### Oita Prefecture Women's- and Consumer Life-Center Development Project

This complex was completed in December 2002 as the first PFI project in Oita Prefecture. The core facilities are the Consumer Life Center and Women's Center. Tenants include the Japan Telecom Data Center.



### Technical Cooperation for Tata Iron & Steel Co., Ltd. (India)

Nippon Steel is currently assisting Tata Iron & Steel Co., Ltd. (TISCO) of India with technical cooperation for automotive steel sheet.



## Urban Development

In April 2002, Nippon Steel integrated its urban development sector with a subsidiary, Nippon Steel City Produce, Inc. The purpose of this change was to strengthen the Group's real estate business. The integrated company combines the extensive know-how and powerful networks of both companies. It is involved in the development of condominiums and housing subdivisions, mainly in the Tokyo metropolitan area and Kinki (Osaka-Kobe) region. It is also applying its unique capabilities as a developer to development projects throughout Japan, including large-scale district development projects and urban redevelopment schemes requiring advanced knowledge.

Business performance was affected by the general weakness of the overall real estate market. From the previous fiscal year's total of ¥130.8 billion, consolidated sales in the urban development sector for the year ended March 31, 2003 declined by ¥25.6 billion, to ¥105.1 billion. Operating profit was ¥11.1 billion lower at ¥4.4 billion, compared with ¥15.5 billion in the previous fiscal year.

The priority for this area of business is the establishment of a robust business foundation,

and Nippon Steel endeavors to further strengthen profitability. The real estate solutions business will also be strategically strengthened. Nippon Steel aims to contribute to the solution of urban problems through the development of asset value restoration business.



Urban Development in Higashida

### TOPICS



#### Hanada Development Project in Sakai City, Osaka Prefecture

This integrated redevelopment scheme will turn the 13-hectare site of housing at Nippon Steel's Sakai Works into a mixture of housing and major commercial facilities, together with parks and other facilities. The housing development will consist of six buildings with 715 units in the Grand Avenue district of Kita-Hanada.



#### I Tower

This Type 1 urban redevelopment scheme involves an area adjacent to Ukima-Funado station on the JR Saikyo line. It includes 153 housing units, together with a nursery school, business revitalization center, community interaction support facilities and other public facilities for Tokyo's Itabashi Ward. The complex also includes a clinic, medical fitness club and shops.

## Chemicals and Nonferrous Materials

Consolidated total sales in the chemicals and nonferrous materials sector amounted to ¥346.2 billion for the year ended March 31, 2003. This represents an increase of ¥20 billion from the previous fiscal year's result of ¥326.1 billion. Consolidated operating profit increased by ¥3 billion to ¥13.4 billion, compared with ¥10.3 billion in the previous fiscal year.

### Chemicals

The core chemical enterprise in the Nippon Steel Group is Nippon Steel Chemical Co., Ltd. The basic activities of Nippon Steel Chemical are the production of coke, which is an essential material for steel manufacture, and the use of coal tar, coke-oven gas, blast furnace gas and other by-products from steelmaking processes to manufacture coal chemicals and petrochemicals. Another key focus in recent years has been functional products, such as electronic materials and functional chemicals.

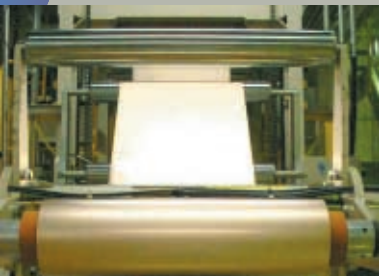
Fiscal 2002 brought a recovery in overseas markets for styrene monomers, which are key products in the chemicals area, and both volumes and prices remained strong. In the functional chemicals area, Nippon Steel Chemical steadily expanded its presence in the markets for new products, such as organic EL materials, special solvents and highly functional lubricants.

In the electronic materials field, there was a substantial increase in sales of ESPANEX adhesive-free copper-clad laminated sheets for use in printed circuit boards for mobile telephones. Nippon Steel Chemicals has a dominant share of the market for these sheets, which are growing into a flagship product for the company. Demand is buoyant, and in May 2003 Nippon Steel Chemicals completed a facility expansion project that increased its annual production capacity from 1.2 million m<sup>2</sup> to 3 million m<sup>2</sup>. It has already commenced a new expansion project that will raise capacity to 5.5 million m<sup>2</sup> per annum by April 2004.

In March 2003, Nippon Steel Chemical announced the START-EX Plan, a medium-term consolidated business plan with fiscal 2003 as its base year. A key element in this plan is the conversion of the Nippon Steel Chemical into a wholly owned subsidiary of Nippon Steel. This move, which is scheduled for July 2003, will be followed by elimination of cumulative losses through a combination of capital increases and decreases.

Nippon Steel Chemical's financial structure has been weakened by recent developments, including the liquidation or restructuring of subsidiaries with poor growth prospects, and decisions to sell idle assets. As a wholly owned subsidiary of Nippon

### TOPICS



#### ESPANEX Production Capacity to Reach 5.5 Million m<sup>2</sup>

ESPANEX adhesive-free copper-clad laminated sheets have become a flagship product category for electronic materials business. Production capacity was recently increased to 3 million m<sup>2</sup> per annum. Work has now started on a project that will further expand capacity to 4 million m<sup>2</sup> by December 2003, and 5.5 million m<sup>2</sup> by April 2004.



#### Completion of BPA Facility for Kumho P&B Chemicals, Inc.

A bisphenol A (BPA) facility with an annual production capacity of 100,000 tons was recently completed at the Yosu Plant of Kumho P&B Chemicals, Inc. in South Korea. The facility was successfully put into production in January 2003. The photograph shows the completion ceremony held at the Yosu Plant on January 17, 2003.



#### Nippon Techno-Carbon Established

Nippon Techno-Carbon commenced operations on January 1, 2003 under a new structure formed through the merger of NSCC Techno-Carbon Co., Ltd, a member of the Nippon Steel Chemical Group, and the special carbon products division of Nippon Carbon.

Steel, its financial health will be restored by measures to be implemented by the parent company. In addition, the implementation of the START-EX Plan will provide a strong impetus for the evolution of unique business structure. The goal is to build Nippon Steel Chemicals into a company that combines a high profitability with a sound financial structure and is capable of functioning as an “excellent core company” in the Nippon Steel Group.

### Titanium

Despite a decline in national shipments of rolled, drawn and extruded titanium products, especially for use in industrial plants, Nippon Steel maintained its shipments of titanium products at the previous fiscal year's level in fiscal 2002. This result reflects determined efforts to develop new uses in such products as automotive mufflers and eyeglasses. Evidence of the success of this strategy included a decision by Fuji Heavy Industries to produce a limited edition of its Subaru Impreza as the first Japanese 4-wheel drive vehicle with a titanium muffler. In addition, Nissan decided to offer a titanium muffler as a factory-installed option for the Fairlady Z.

Nippon Steel is also stepping up its overseas marketing efforts. In March 2003, it exhibited titanium products at China's eighth trade fair for construction materials.

While continuing to respond promptly to the needs of existing markets, Nippon Steel will also work to expand demand for titanium in Japan and

overseas. It will focus in particular on the development of new demand.

### New Materials

Nippon Steel's success in the area of new materials is driven by sophisticated design and analysis capabilities. It has continually created products that have gained leading shares in markets for advanced materials. Markets for semiconductor materials and materials for electronic components offer growth potential in the medium-term and long-term perspective. Nippon Steel is focusing on product development and capacity expansion in this area. It has supported the efforts of semiconductor manufacturers to miniaturize devices and increase densities by developing ceramic materials with ultra-low thermal expansion properties, and by supplying micro-ball semiconductor bonding materials through a subsidiary. Another focus is carbon fiber products. Nippon Steel is actively developing carbon fiber composites as structural materials for general industrial machinery. The advantages of these materials include their extreme lightness and toughness, their excellent conductivity, and their low thermal expansion properties. In the area of environmental materials and parts, Nippon Steel supplies metal catalyst carriers made from ultra-thin stainless steel foil for use in automotive catalytic converters. These products have gained a reputation for excellent durability and performance and are being used increasingly in a variety of vehicles.



#### Sony Network Walkman

The specific strength, deep-drawing characteristics, and quality appeal of titanium led to its selection by Sony as a material for its new Network Walkman.



#### Titanium Muffler for Nissan Fairlady Z

For the first time in Japan, titanium mufflers have become available as a factory-fitted option on the Nissan Fairlady Z. Titanium mufflers contribute to the reduction of vehicle weight and fuel consumption.



#### TOWSHEET (Carbon-Fiber Sheets for Structure Reinforcement)

Nippon Steel has combined the high-strength and ultra-lightweight of carbon fibers with quick-curing resins to create a product that allows repairs to be completed rapidly and effectively. The product is also being used to reinforce buildings.

## System Solutions

The subsidiary responsible for the Nippon Steel Group's systems solutions sector is NS Solutions Corporation. There has marked tendency for businesses to reduce or delay systems investment, and the market environment is harsh. However, the Nippon Steel Group's capabilities, experience and reputation continue to attract orders and new customers. In the year ended March 31, 2003, consolidated sales increased by ¥3.7 billion to ¥153.1 billion, compared with the previous fiscal year's result of ¥149.3 billion. At ¥9.7 billion, consolidated operating profit was at virtually the same level as the previous fiscal year's total of ¥10.5 billion.

On October 11, 2002, NS Solutions Corporation laid an important foundation stone for its future by listing its shares on the first section of the Tokyo Stock Exchange. This status will strengthen the company's financial foundation and raise its industry profile.

### Business Solutions

#### For the manufacturing and retailing sectors:

Systems investment relating to global development and the improvement of competitiveness and business efficiency remained generally firm. Customers in industries ranging from automobile-related to electrical and electronic machinery expressed satisfaction with solutions provided by NS Solutions.

#### For the financial sector:

Market-related systems for use with financial instrument transactions and other financial sector activities continued to earn the respect of numerous financial institutions, including major banks. There is a particularly strong need for management control systems, especially among regional banks, and demand remained strong.

#### For the government, government agencies and public administration sector:

Government organizations are building a variety of information systems as part of the shift toward electronic government. NS Solutions continues to build its reputation as an information technology partner for central and regional governments.

### Platform Solutions

NS Solutions has earned the respect of its customers as an open systems integrator by virtue of its ability to develop and supply highly sophisticated systems infrastructure to meet mission-critical needs within tight time frames.

### Business Services

Business services provided by NS Solutions include outsourcing services spanning all stages from the planning and design of information systems to ongoing operation and maintenance. It also offers server hosting and network diagnosis, design, development maintenance and monitoring. In addition, NS Solutions has built an organization capable of providing integrated support throughout a system life cycle, from development through to operation and maintenance. This approach has already started to yield positive benefits.

Nippon Steel is helping to enhance the international competitiveness of NS Solutions through strategies that include the establishment of a supply chain management (SCM) project in the automotive steel sheet area.

## TOPICS



#### TSE Listing

On October 11, 2002, the shares of NS Solutions were listed on the first section of the Tokyo Stock Exchange.



**Other Business Activities** (Electric Power Business, Services and Other Businesses)

Nippon Steel supplies wholesale electricity to electric power companies from its Hirohata, Yawata, Kamaishi, Muroran and Oita Works.

In fiscal 2002 Nippon Steel Trading Co., Ltd. raised new capital totaling ¥17.5 billion to allow the company to write down unrealized losses and strengthen its financial structure. Nippon Steel underwrote ¥15 billion of the issue and Mitsui & Co. ¥2.5 billion.

Consolidated sales from the other business sector amounted to ¥79 billion, compared with ¥61.2 billion in the previous fiscal year. There was a consolidated operating loss of ¥2.1 billion, down from the previous year's operating profit of ¥1.4 billion.

**IPP Plant**

IPP plants have been in operation since October 2001 at the Muroran Works, and since April 2002 at the Oita Works. Wholesale electricity is supplied from a total of five steel works.



TOPICS

Nippon Steel is supplying whole-sale electricity from its Hirohata, Yawata, Kamaishi, Muroran and Oita Works. (Muran IPP plant shown here)



**Environmental Initiatives**

**Active Commitment to Environmental-Focused Management**

At the time of its establishment in 1972, Nippon Steel formulated an Environmental Charter based on three fundamental commitments: contribution to the construction of an environment-conserving society, the reduction of environmental load from all aspects of its business activities, and contribution to the international community through protection of the global environment. Its continuing and fundamental commitment to environment-focused management is reflected in the establishment of a production system that is the world's best in terms of the reduction of environmental loads. In 1998 Nippon Steel established the Environment Management Committee as a corporate organization. Its mission is to ensure the application of environmental management principles to all aspects of production, sales, technology development and management.

Under the Medium-Term Consolidated Business plan, launched in fiscal 2003, Nippon Steel will promote measures to combat global warming through independent initiatives based on the development

of energy conservation technology, and through an international contribution based on measures to reduce carbon dioxide emissions. It will also participate in efforts toward the creation of a recycling society, by working to reduce its own emissions to zero while recycling by-products from society and other industries. Another aspect of Nippon Steel's contribution under this plan will be the provision of environmental and energy solutions, including the development of eco-products and the development and introduction of new technologies. Nippon Steel will also implement environmental risk management as a new approach to environmental regulation through the introduction of global standards. These efforts will be paralleled by an environmental relations approach consisting of environmental activities in collaboration with group companies, and open environmental communications with local communities and customers.

Nippon Steel is one of Japan's leading companies in terms of its environmental commitment. It has been selected for investment by "Eco-Fund" investment trusts and given the highest environmental rating (AAA) by Innovest Strategic Value



Medium-term environmental/energy vision



**Good Design Gold Award**  
Nippon Steel won the Good Design Gold Award presented by the Minister of Economy, Trade and Industry in recognition of a waste plastic recycling project.

Advisors of the United States. Moreover, the results of environmental management surveys by the Nihon Keizai Shinbun have shown that Nippon Steel's record of achievement in this area is among the best in the Japanese raw material sector.

In 2002 Nippon Steel won the Good Design Gold Award presented by the Minister of Economy, Trade and Industry. This award was in recognition of a waste plastic recycling project. It also won the Wastec Grand Prize awarded by the Environment Minister.

Nippon steel will continue to disseminate environment-related information. It is determined to act as an evolved environment-friendly company through close communications with all stakeholders.

### Promoting Anti-global Warming Measures

Since the first oil crisis, Nippon Steel has been working steadily to improve its operations, minimize processes, and recover waste heat. These efforts have resulted in energy savings in excess of 20%. Its strategic targets for contribution to the prevention of global warming include energy savings of 10% in steelmaking processes between 1990 and 2010. It also aims to reduce energy con-



Coke dry quenching (CDQ) equipment

sumption by 1.5% through the use of waste plastic in coke ovens, provided that municipal governments can establish collection systems. Nippon Steel has applied its energy conservation technology accumulated through past efforts to the development of technologies for the reduction of carbon dioxide emissions and protection of the environment. As part of its international contribution, it will transfer that knowledge to other countries.



Pre-processing plant for recycled waste plastic (Nagoya Works)

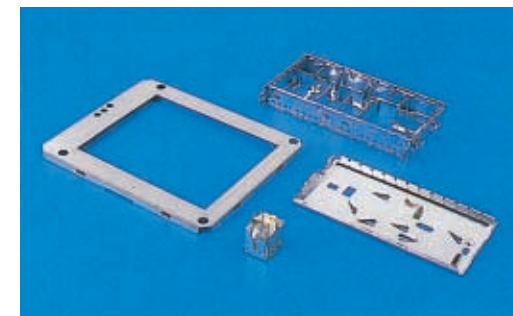
### Participating in the Construction of a Recycling Society

Nippon Steel is actively implementing a zero-emission policy that covers not only steel, but also by-products from steelmaking processes, such as slag, dust and sludge. It has already lifted the recycling ratio for these by-products to more than 98%. For example, blast furnace slag is processed into high-quality cement by group companies and others.

Another focus of Nippon Steel's recycling efforts is the use of general household waste, including plastic containers and wrappings, as resources. It has obtained approval for a recycling method based on the use of plastic containers and wrappings in coke ovens. A total of 120,000 tons of waste plastic are recycled annually at the Yawata, Muroran, Nagoya and Kimitsu Works. This system accounts for around 30% of the total volume of plastic recycled in Japan.

### Environmental and Energy-Related Solutions

Nippon Steel is actively developing environment-friendly products for sale under the generic name of "Eco-Products." Specific examples include resource and energy conservation products, such as high-strength thin steel sheet that contributes to the reduction of vehicle carbon dioxide emission and energy consumption through vehicle weight reduction, electrical steel sheet to improve the efficiency of motors and reduce power consumption, and thin tin-plated steel sheet for use in can manufacturing. There are also Eco-Products designed to reduce waste through improvements in product life spans. These include corrosion-resistant surface-treated steel sheet and steel sheet designed to withstand coastal conditions. Another Eco-Product category consists of products that do not contain toxic substances, such as lead-free galvanized steel sheet.



lead-free galvanized steel sheet

Environmental protection and plant technologies developed by Nippon Steel through its manufacturing activities have been applied in a wide range of fields, including waste and water treatment and urban energy utilization systems, as part of Nippon Steel's contribution to the formation of a recycling society.

Nippon Steel is committed to a strong emphasis on environment-related solutions, as evidenced by its recent establishment of an Environment and Waterworks Solutions Division. It has led the industry in the development of waste processing facilities, and gasification melting facilities based on its

direct melting and recycling system have been operating reliably for 20 years. Numerous orders are still received from customers throughout Japan. In addition, future plans also call for an active focus on soil restoration projects.

### Environmental Accounting

In fiscal 2001 the cost of environmental conservation activities amounted to ¥36 billion in capital investment and ¥50 billion in general expenses. Environment-related activities also account for around 20% of research and development expenditure. In addition to reduced emission volumes and specific R&D achievements, the benefits from this expenditure also include outside sales of related products, such as zinc dust and scale. Income benefits from environmental protection activities are estimated to be worth around ¥1.3 billion.

### Targeting Further Improvements in Environmental Performance

Nippon Steel has voluntarily established extensive control systems to ensure compliance not only with laws, but also with regulations concerning new chemical substances. These systems provide a framework for rigorous operational control and environmental conservation activities at all stages of production processes.

Other environment-related activities include participation in Kitakyushu City's Eco-Town Project, membership of the Nature Conservation Fund established by the Nippon Keidanren, and participation in a tree-planting project in Chongqing, China. It also participates in Japan's LCA research project and the green procurement network. Through activities such as these, Nippon Steel will continue to make a positive contribution to environmental conservation initiatives by local communities and the international community, while further improving its overall environmental performance.



Nippon Steel has built an extensive resource of advanced technology through its involvement in steelmaking and steel fabrication. Today it works closely with users to develop new technology at all levels from basic and leading-edge research to development and engineering. These activities result in the development of new products and technology solutions that are helping to enhance the integrated competitiveness of Nippon Steel and its customers.

The main priorities for research and development in steelmaking and steel fabrication are the improvement of international cost competitiveness, the development of highly differentiated products, and adaptation to a changing business environment, including the development of environmental and energy saving technology.

Achievements that have contributed to reductions in steelmaking costs include new technologies that allow increased use of cheap, low-grade ore and coal. Newly developed products include “L-treated” automotive steel sheet with enhanced press formability and anti-corrosion characteristics, and Ecocoat-T and Silver-Zinc NT, which are environment-friendly lead-free rolled sheet products for use in fuel tanks. Nippon Steel has also contributed to energy saving by developing a new type of high-tensile electrical steel for use in super-high-speed electrical motors for heavy electrical machinery and home appliances. Another important new product is high-torque electrical steel sheet with processing characteristics that make it ideal for hard disk drives and similar applications.

Nippon Steel develops new products to meet the needs of users in a wide range of fields. Examples include new S-TEN 1, a new type of low-alloy steel with dramatically enhanced anti-corrosive properties. It was developed for use in garbage incinerators and other facilities affected by corrosion caused by chemical substances, such as

hydrochloric acid. For the construction sector, Nippon Steel has developed a mechanical joint system for steel pipe piles. The new system, which is being marketed as “Raknikan”, improves the efficiency of on-site assembly operations and reduces construction costs.

New technologies developed by Nippon Steel are also contributing to the establishment of an environment-friendly society. In fiscal 2002 Nippon Steel won the Good Design Gold Award for a system that allows waste plastic to be recycled in coke ovens. It has also developed technology to convert steelmaking slag into a civil engineering material. Nippon Steel is participating in SCOPE 21, a national R&D project to develop energy-saving technologies as part of efforts to prevent global warming. Nippon Steel’s contribution to the project includes the development of next-generation coke oven manufacturing facilities.

Examples of Nippon Steel’s leadership in engineering R&D include technology to enhance the competitiveness of the direct melting waste furnace technology pioneered by Nippon Steel, waste plastic gasification technology, and the gas-to-liquid (GTL) system for the conversion of natural gas into liquid fuel. R&D achievements in the civil engineering field include the “Downing Bridge system”, which was developed to reduce the time needed to build overpasses over busy intersections. Nippon Steel is also working to promote the use of NS Eco-Pile screw-in pipe piles and develop new applications for the system.

Advances resulting from Nippon Steel R&D in the field of new materials include new device materials that enable high density semiconductor packaging while reducing power consumption and heat. Nippon Steel is also developing functional ceramics and high-temperature super-conductor materials.

### Hydroforming Technology

Hydroforming is a method used to form complex shapes by subjecting tubes to a combination of internal pressure and axial extrusion. In recent years manufacturers of automotive parts have become increasingly interested in this technology because of advantages that include the ability to integrate parts and reduce weight. However, its use has been limited by a number of disadvantages, including the complexity of the processes involved, the time required to apply the method to the actual production of parts, and the size and cost of the equipment required.

Nippon Steel has used experiments and FEM to

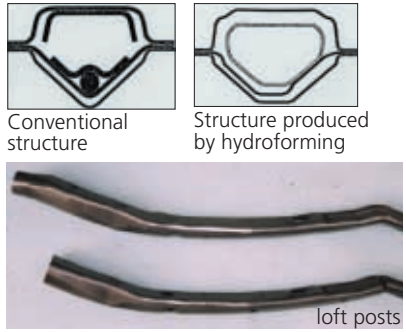


Figure 1: Example of actual hydroformed part (center-pillar reinforcement)

identify the numerous factors that influence shaping with the hydroforming method, including the properties and processing of materials, and the effects of lubricants and pre-processing conditions. It has also worked with users to develop a wide range of parts. This work has resulted in the establishment of new hydroforming technology that has brought dramatic market growth and allowed Nippon Steel to capture a large share of the market. The development of the Super-Hydroformer (SHF), a compact, low-cost hydroforming system, is expected to encourage more manufacturers to use the technology. SHF is a joint development with Toyota Motor Corporation.

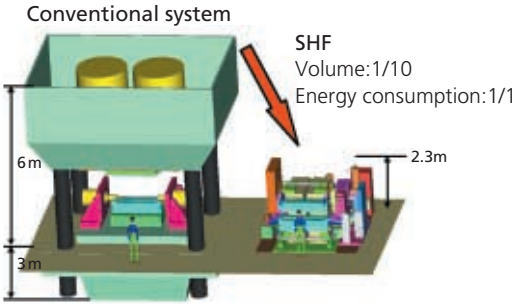


Figure 2: Comparison of a conventional hydroforming system and the SHF system

### “L-Treated” Rust-Resistant Automotive Steel Sheet with Enhanced Formability Characteristics

Galvannealed steel sheet (GA) is widely used in the automobile structures because of its ability to improve anti-rust performance, and because of its global availability. GA is also required good press formability, including lubrication characteristics. These characteristics have a crucial bearing on automobile development costs and lead times.

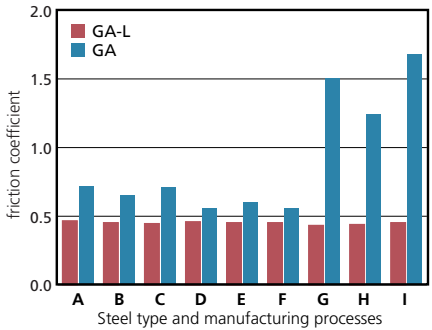


Figure 1: L-treatment improves the vibration and stability characteristics of GA steel.

Nippon Steel has achieved this lubrication technology for automotive use by introducing “L-treatment”, whereby GA is coated with an extremely thin inorganic film based on manganese phosphate with a controlled microstructure. The resulting product is ready for immediate use in automobile manufacturing processes and has significantly improved press formability.

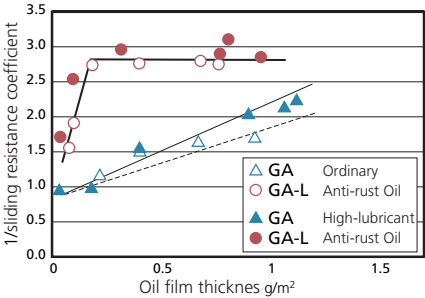


Figure 2: Effect of oil film thickness on sliding resistance coefficient

Manufacturers have recognized the advantages of L-Treated GA, which is now widely used in Japan and overseas.

### Characteristics of L-Treated Automotive Steel Sheet

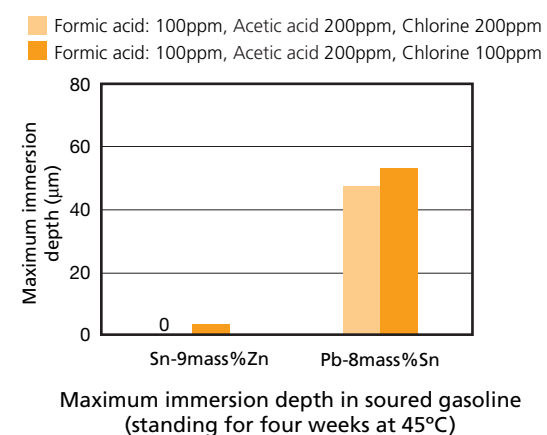
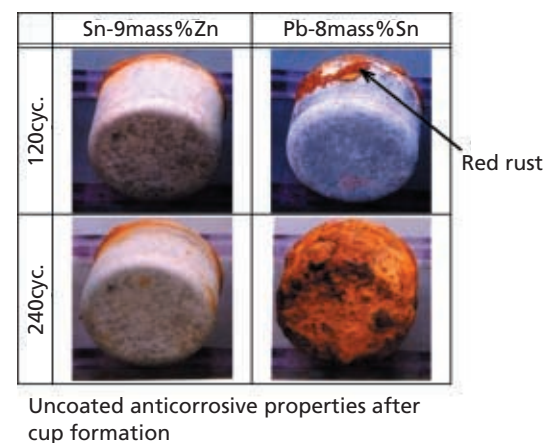
Because the inorganic manganese phosphate film is only a few tens of nanometers thick, the burden on processes and quality at all stages from blanking

to degreasing and chemical treatment is minimal. Lubrication characteristics, which tend to vary because of differences in steel type and manufacturing processes, have been improved and remain uniform (Figure 1) and stable across a wide range of conditions, regardless of fluctuations in the lubricant film due to changes in press pressure and other factors (Figure 2).

### Ecocoat-T—Lead-free Galvanized Rolled Sheet for Use in Fuel Tanks

The use of environment-friendly materials has become a priority for the automobile industry in recent years, and there is a growing demand for materials that do not contain environmentally harmful substances, such as lead. The inside surfaces of automobile fuel tanks are exposed to a gasoline and other fuels, while the outside surfaces are exposed to salt, such as when salt is spread on roads to melt snow. For this reason, tanks have traditionally been made from galvanized sheet steel containing lead, because of its excellent anti-corrosion properties. Nippon Steel has developed a lead-free sheet steel galvanized with tin and zinc for use

in fuel tanks. Tin has excellent anti-corrosion properties, while zinc prevents perforation corrosion. By combining these two metals and optimizing the galvanization mixture and surface structure, Nippon Steel has achieved a significant improvement in anti-corrosion performance compared with conventional lead galvanization. Other aspects of the material's performance when used by manufacturers, such as formability and weldability, are identical to the characteristics of lead-based products, so the new product can easily be substituted for conventional materials. A growing number of manufacturers are switching to the new material.



### YUSPDX—High-formable Stainless Steel Sheet

The most commonly used form of stainless steel is SUS304 (18Cr-8Ni), which is an austenite product. Nickel is expensive, and in recent years there has been growing demand for non-nickel ferrite stainless steels.

However, ferrite products are less formable than SUS304. Nippon Steel has solved this problem with the development of YUSPDX, a ferrite stainless steel sheet product with dramatically improved formability characteristics, including ductility and



YUSPDX processed into combustion equipment parts

deep drawing characteristics. The keys to the success of the development project were the use of high-performance vacuum refining technology to improve formability, and the application of metallic structural control technology to prevent ridging throughout the integrated production process, from refining and casting through hot rolling and

cold rolling. Since YUSPDX is softer than SUS304, the load on pressing machinery is reduced, and age cracking does not occur. YUSPDX is the ideal type of stainless steel for deep drawing processes. It is currently used in the manufacture of a wide range of products, including refrigerator doors, combustion equipment parts and automotive parts.

### Photo-Catalyst Sterilization System for Infectious Protozoa, Biotechnology-Based Infectiousness Assay Technology

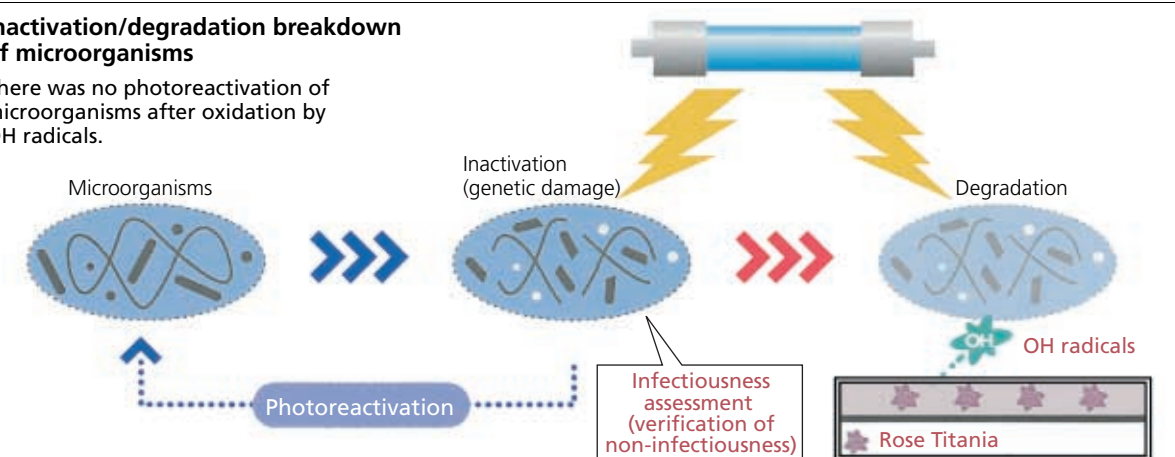
Water-borne infections caused by *Cryptosporidium*, *Giardia* and other protozoa are a recent global problem. The organisms are resistant to chlorine disinfectants, and increased effort has been channeled into the development of alternative countermeasures.

Nippon Steel developed the Rose-Titania UV System, a photo-catalyst/UV sterilization technology, and carried out basic research concerning the inspection technology needed to detect and quantify protozoa. This work has led to technical development which is based on a combination of cell

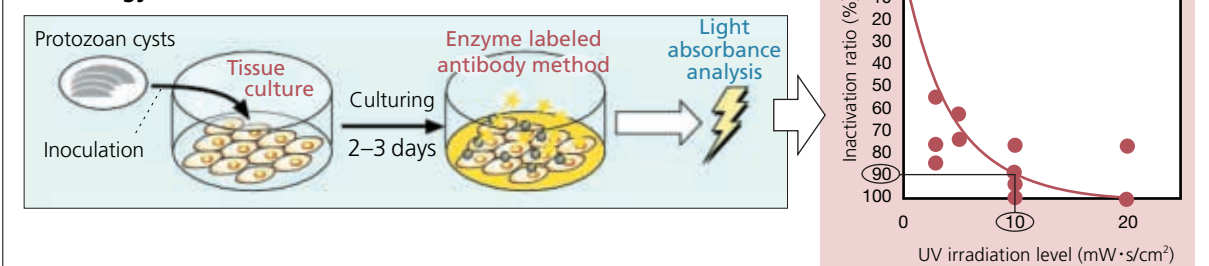
culture inoculation and enzyme-linked immunosorbent assays (ELISA), quantitatively detects the organisms. Moreover, a concentration assay technology based on genetic analysis has also been established. Nippon Steel plans to promote the use of these technologies in water treatment plants as an effective way of expanding sales.

#### Inactivation/degradation breakdown of microorganisms

There was no photoreactivation of microorganisms after oxidation by OH radicals.



#### Establishment of infectiousness assessment technology based on ELISA





At its peak, Nippon Steel's work force consisted of over 70,000 employees at 10 steel works and factories throughout Japan. It has a long history of managing its facilities efficiently in harmonious coexistence with local communities. This ongoing tradition of harmonious coexistence is manifested today in support for sports teams, sponsorship of and participation in local events, and the provision of access to company welfare facilities.

### Support for Musical Culture

Nippon Steel has actively contributed to the advancement of classical music for many years. The Nippon Steel Concerts, which have been broadcast free of charge for over four decades, remain extremely popular with classical music enthusiasts. The Nippon Steel Music Awards, which were estab-

lished to commemorate the Company's 20th anniversary, have now been held 13 times. In the spring of 1995 Nippon Steel opened the Kioi Hall as a venue for activities in support of musical culture. The facility, which consists of halls for classical music and traditional Japanese music, is highly respected by both musicians and fans.



The 13th Nippon Steel Music Awards were presented—the Promising New Artist Prize to the pianist Yu Kosuge and the Special Prize to Masakazu Sugi, the Representative of New Opera Production.



Kioi Hall

### Sports

Nippon Steel works to build closer ties with local communities by maintaining in-house sports teams. For many years, it has also contributed to the development and promotion of competitive sports in Japan. The Kamaishi rugby team, the Sakai volleyball team, and Hirohata-Head Office judo team have all won national championships and produced many of Japan's top athletes. Baseball teams from Nippon Steel plants participate in inter-city tournaments and have even produced members of the Japanese Olympic team.

In December 2000, it was decided that Nippon Steel's sports teams would convert from company teams into regional teams as a way of fostering closer community links. It is hoped that this approach will lead to community support for strong teams formed in collaboration with local

businesses, local governments and the public.

The Sakai Blazers volleyball team and the Kamaishi Seawaves rugby team are already competing under this concept. Some of the baseball teams have also been re-established under the new system.

Nippon Steel will continue to contribute to the regional revitalization and the promotion of sports through its support for community-based sports clubs.

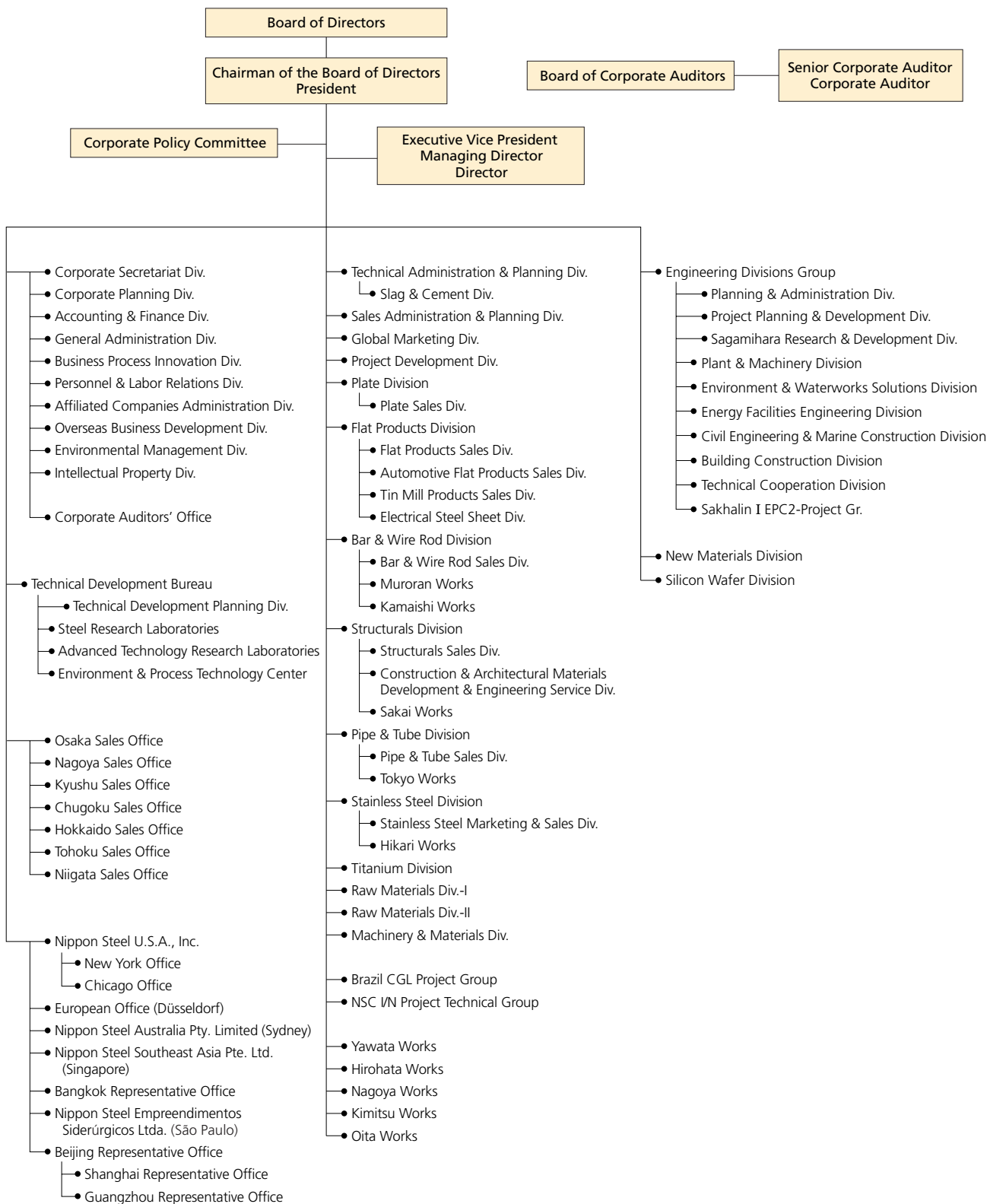


### Sakai Blazers and Kamaishi Seawaves

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

# Organization

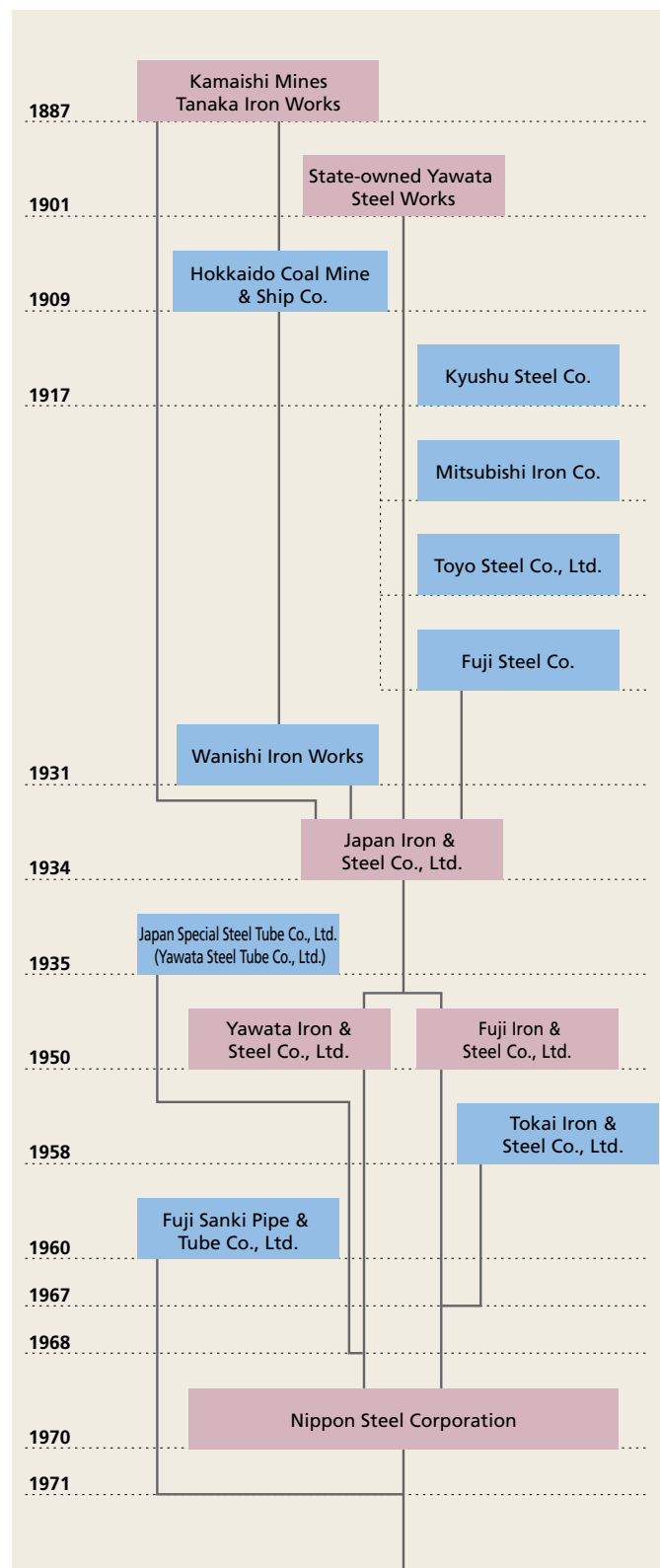
(as of July 2003)





# Chronology

(as of July 2003)



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 Muroran 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 Akira Chihaya (left) and  
President Akio Mimura (right)

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## Executive Vice Presidents



Jujiro Yagi



Toshio Yonezawa



Seiki Miyamoto



Yasushi Sawada



Takashi Hirao

### Representative Director and Chairman of the Board of Directors

Akira Chihaya

### Representative Director and President

Akio Mimura

### Representative Directors and Executive Vice Presidents

Jujiro Yagi

Toshio Yonezawa

Seiki Miyamoto

Yasushi Sawada

Takashi Hirao

### Managing Directors

Nobuyoshi Fujiwara

Makoto Haya

Toshio Ochiai

Hideki Furuno

Naoki Okumura

Kazuo Nagahiro

Hideaki Sekizawa

Hiroshi Shima

Shoji Muneoka

Mitsuo Kitagawa

### Directors

Koichi Nakamura

Tetsuo Imakubo

Bunyuu Futamura

Kiichiroh Masuda

Hidemi Ohta

Katsutoshi Kurikawa

Junji Oota

Atsushi Takeda

Yuki Iriyama

Itsuo Takahashi

Keisuke Kuroki

Tadashi Higashi

Yasuo Takeda

Kizoh Hirayama

Kozoh Uchida

Shinichi Taniguchi

Masakazu Iwaki

Yasuo Hamamoto

Kenzi Minami

### Senior Corporate Auditor

Takeshi Yoshii

### Corporate Auditors

Akira Shoga

Muneyuki Higuchi

Josei Itoh

Hisashi Tanikawa

Yoichi Kaya

# FINANCIAL STATEMENTS

*Nippon Steel Corporation and Subsidiaries*

36	<b>Financial Review</b>
40	<b>Ten-Year Summary</b>
42	<b>Consolidated Balance Sheets</b>
44	<b>Consolidated Statements of Income</b>
45	<b>Consolidated Statements of Shareholders' Equity</b>
46	<b>Consolidated Statements of Cash Flows</b>
47	<b>Notes to Consolidated Financial Statements</b>
67	<b>Report of the Independent Certified Public Accountants</b>

*(Reference-Unaudited)*

68	<b>Non-Consolidated Balance Sheets</b>
70	<b>Non-Consolidated Statements of Income</b>
71	<b>Non-Consolidated Statements of Shareholders' Equity</b>

## Financial Summary

Net sales of Nippon Steel Corporation and its consolidated subsidiaries (collectively “NIPPON STEEL”) for the year ended March 31, 2003 increased by ¥167.9 billion from the year ended March 31, 2002 level to ¥2,749.3 billion (\$22,872 million). Operating profit for the year increased by ¥69.9 billion over the year ended March 31, 2002 to ¥142.9 billion (\$1,189 million), while net loss was ¥51.6 billion (\$430 million), compared to ¥28.4 billion net loss in the year ended March 31, 2002.

## Segment Information

Recovery in the Japanese economy in the year ended March 31 2003, remained slow. The contributing factors were the curtailment of public works expenditures, a retrenchment in private capital investment and continuing weakness in consumer spending in the domestic market. These factors more than offset a boost in exports that reflected improved business conditions overseas.

In the steel industry, despite a firm tone in shipments to the automobile and shipbuilding industries, domestic steel demand as a whole remained sluggish. Exports, however, rose in response to robust demand in China and other East Asian countries. As a result, national crude steel production in the year ended March 31 2003 increased by 7.69 million tons over the previous year’s tonnage to reach 109.76 million tons. Similarly, crude steel production at Nippon Steel grew by 3.76 million tons to a total of 29.90 million tons.

In this operating environment, Nippon Steel joined its group companies in a vigorous effort to create a structurally robust managerial foundation. An overview of consolidated business operating performance, by business sector, in the year ended March 31, 2003 follows.

**Steelmaking and steel fabrication:** Nippon Steel made a top priority of improving steel prices in order to recover profits as early as possible. To this end, the company prudently tuned production and shipping to match movements in demand and inventory levels. As a result, domestic sales prices, mainly for distributors, showed steady improvement while exports showed continued market strength supported by favorable sales environment.

As for costs, although inflationary factors such as increases in the price of crude oil and raw materials were seen, the company strove mightily to promote the full implementation of every available profit enhancing measure.

Consolidated sales in this sector in the year ended March 31 2003 increased by ¥152.6 billion over the previous year (¥1,828.2 billion), bringing the total to ¥1,980.8 billion. This was mainly due to increased shipments of steel products to the domestic automobile and shipbuilding markets and increased exports to East Asian markets. Supported by improved export prices and substantial cost-cutting achievements, consolidated operating profits also rose to ¥112.8 billion, a gain of ¥89.3 billion over the previous year (¥23.4 billion).

Aggressive efforts were directed at the development and practical application of new steel products designed to meet emerging needs of users in a diversity of fields.

In China, Nippon Steel established a joint venture aimed at promoting eco-friendly, energy-saving housing projects that capitalize on the company’s steel-framed house construction technology. The company also launched a joint venture to manufacture and sell motors in order to expand steel product marketing.

Sustained emphasis has been placed on strengthening Nippon Steel’s alliance with other domestic and foreign steel-makers. While the company had already been pursuing alliance

with each of Sumitomo Metal Industries, Ltd. and Kobe Steel, Ltd. respectively, in November 2002, Nippon Steel agreed to cross share holding with each of Sumitomo Metals and Kobe Steel respectively to further strengthen alliance with each of them. Meanwhile, Nippon Steel and Sumitomo Metals have agreed on the integration of their stainless steel businesses through a new company that is to be jointly established, scheduled for October 2003.

As for alliances with foreign steelmakers, rewarding results have accrued from implementation of specific cooperation between Nippon Steel and POSCO of Korea and between Nippon Steel and Arcelor of the EU. Nippon Steel and POSCO have been pursuing promotion of joint R&D activities and technological exchanges, and initiated the joint operation of an computerized system for handling settlements in raw material imports. As part of the alliance with Arcelor, R&D activities in the field of automotive steel sheets and a technological approach in response to the world car projects of major automobile makers are jointly being set forth.

Among companies in the Nippon Steel Group, the following business integrations were implemented.

On October 1, 2002, Daido Steel Sheet Corporation, a consolidated subsidiary of Nippon Steel, acquired the shares of Taiyo Steel Co., Ltd., another consolidated subsidiary of Nippon Steel. This made Taiyo Steel a wholly-owned subsidiary of Daido Steel Sheet and resulted in the integration of both companies’ production and marketing operations in the area of steel products and structural materials. Along with this, Daido Steel Sheet changed its corporate name to Nittetsu Steel Sheet Corporation and undertook a capital increase of about ¥2.9 billion in which Nippon Steel subscribed for the whole amount.

On April 1, 2002, Nippon Steel Logistics Co., Ltd. merged

with Nittetsu Ryutsu Center, both of which were consolidated subsidiaries of Nippon Steel.

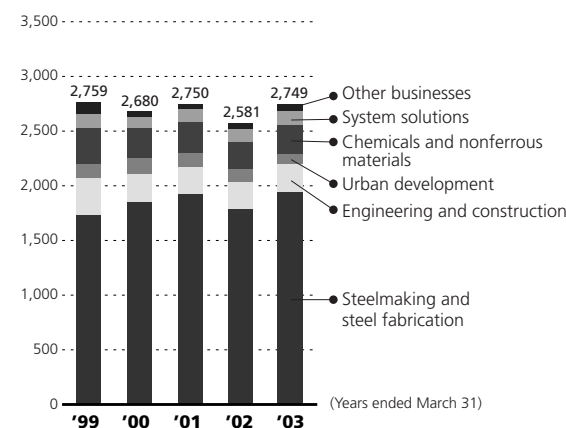
On July 1, 2002, Nippon Steel Welding Products & Engineering Co., Ltd., a consolidated subsidiary of Nippon Steel, and Sumikin Welding Industries, Ltd., a consolidated subsidiary of Sumitomo Metal Industries, Ltd., integrated their welding materials and equipment operations by jointly establishing a new company named Nippon Steel & Sumikin Welding Co., Ltd.

On May 23, 2002, Krosaki Harima Corporation, an affiliate of Nippon Steel accounted for by the equity method, acquired the shares of Kyushu Refractories Co., Ltd., another affiliate of Nippon Steel accounted for by the equity method. This resulted in Kyushu Refractories becoming a consolidated subsidiary of Krosaki Harima.

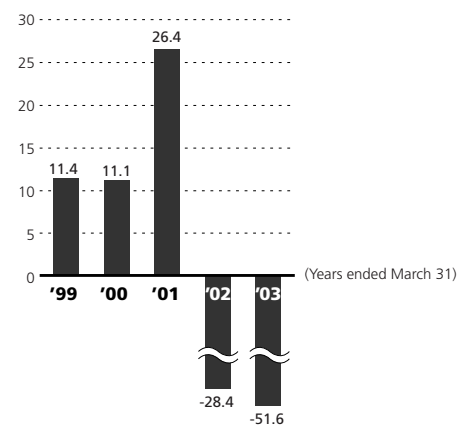
**Engineering and construction:** Aggressive marketing activities were continued in an effort to return to earlier levels in receipts of order in the engineering and construction sector. In the severe operating environment that still prevails, customer-oriented solution projects are being developed and strengthened to accurately meet both social and client needs. Nippon Steel received two contracts in succession: a PCB treatment plant and a gasification melting furnace for the Kitakyushu Eco-Town project. It also received a development project for government employee housing in Akabane, Tokyo—the first private finance initiative (PFI) project ordered by the national government.

Overseas, stepped-up marketing efforts to capitalize on market needs in Sakhalin and other Asian districts where energy and resource developments are booming led to successful receipts of order for the Sakhalin 1 Pipeline Project and other oil/gas development projects. At the same time, efforts were made to strengthen the company’s competitiveness in the field

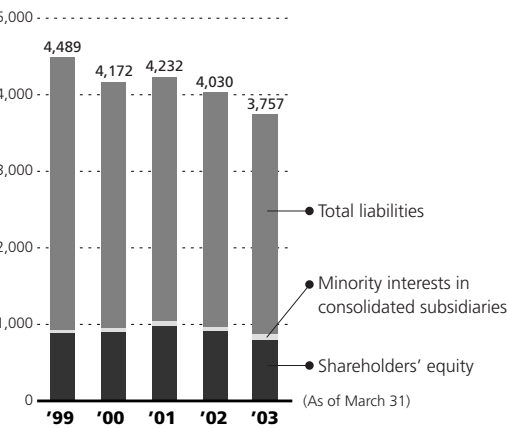
**Net Sales**  
(¥ billion)



**Net Income**  
(¥ billion)



**Total Assets**  
(¥ billion)





of plant and machinery, including the establishment of a wholly-owned subsidiary in steel sheet processing in China.

Furthermore, the company is pursuing the development of new business in the retail sale of electricity and the provision of wind-generated power.

Both the sales and operating profits of this sector during fiscal 2002 fell due to a decrease in orders received during previous years: consolidated sales fell ¥19.4 billion from the previous year (¥294.3 billion) to ¥274.9 billion while consolidated operating profits fell ¥7.4 billion from the previous year (¥9.9 billion) to ¥2.4 billion.

**Urban development:** In April 2002, Nippon Steel transferred all the operations of its Urban Development Division to Nippon Steel City Produce, Inc., a wholly-owned subsidiary, in an effort to enhance the Group's real estate business. By solidly integrating the know-how and networks of these two entities, Nippon Steel Group strives to increase profitability as an unique urban developer. Steady progress has been made for the development of company-owned lands, such as the Yawata-Higashida comprehensive development project in Kyushu and the Hanada development project in Sakai, Osaka. Further, a project to reevaluate assets in the redevelopment of underutilized urban areas has been implemented.

A weakening trend in the entire real estate market, including condominiums, adversely affected operations in this sector. Consolidated sales dropped to ¥105.1 billion in the year ended March 31 2003, a decline of ¥25.6 billion from the previous year (¥130.8 billion), and consolidated operating profits dropped to ¥4.4 billion, a decline of ¥11.1 billion from the previous year (¥15.5 billion).

**Chemicals and nonferrous materials:** Nippon Steel Chemical Co., Ltd., a subsidiary of Nippon Steel, spearheads the chemicals operations of the Nippon Steel Group. This company has developed steadily since its origins in the coal chemicals business and has expanded operations into several growing fields. These include ESPANEX, adhesive-free copper-clad laminated sheets for flexible printed circuit boards in addition to styrene monomers and other petrochemical products. In so doing, it now compares favorably with other major chemical companies in terms of flow profitability. However, in order for Nippon Steel Chemical to develop further as a core company of the Nippon Steel Group's chemical business, it has been judged necessary to make Nippon Steel Chemical a wholly-owned subsidiary of Nippon Steel and to drastically strengthen the company's management base. To this end, Nippon Steel resolved to make Nippon Steel Chemical a wholly-owned subsidiary of Nippon Steel through share exchange in July 2002 and to subscribe for a capital increase of ¥35 billion in Nippon Steel Chemical.

In the new materials business, Nippon Steel faced a substantial weakening in capital investment by users. This was caused by delays in the recovery of IT-related industries that deal in the structural members of semiconductor manufacturing equipment (fine ceramics products) which, in turn, led to unavoidable stagnancy in sales. In the field of materials for semiconductor including bonding wires, promoted by its subsidiaries, where the market was bottoming out, they made greatest efforts to secure profitability by providing users with technical solutions for its vigorous sales promotion measures. On March 27, 2003, Yutaka Electric Mfg. Co., Ltd., a consolidated subsidiary of Nippon Steel, implemented a full reduction of capital through a forced write-off while at the same time undertook a capital increase in which Nippon Steel subscribed for about ¥2.5 billion.

In the titanium business, the national total for shipments of rolled titanium products decreased, particularly those for chemical and other plants. Nippon Steel, however, successfully maintained shipments at the previous year's level by actively developing new applications for titanium products, such as mufflers for four-wheeled vehicles and other automobile parts, and eye glasses in the consumer area.

Consolidated sales in the chemicals and nonferrous materials sector in the year ended March 31 2003 rose to ¥346.2 billion, a gain of ¥20.0 billion over the previous year (¥326.1 billion); consolidated operating profits rose to ¥13.4 billion, a gain of ¥3.0 billion over the previous year (¥10.3 billion).

**System solutions:** The core operations of the system solutions business of the Nippon Steel Group are spearheaded by its subsidiary, NS Solutions Corporation. In October 2002, NS Solutions was listed on the Tokyo Stock Exchange, thereby taking a significant step toward securing the funds necessary to expand operations and to enhance its presence in the system solutions market. Concurrently, shares of NS Solutions held by Nippon Steel were sold to the public (percentage of shares with voting rights held by Nippon Steel after listing of NS Solutions: 72.2%).

The operating environment of the system solutions business is becoming tighter, marked by ongoing reductions and delays in capital investments on the part of enterprises and by fiercer competition with other system solutions companies. In this environment, NS Solutions is recognized by the market as a system solutions provider with well-established and distinctive technological capabilities in business solutions and other fields. As a result, the company has received a steady flow of orders and has implemented system solutions projects that help enhance the competitiveness of its users.

Consolidated sales in this sector during the year ended March 31, 2003 increased by ¥3.7 billion over the previous year

(¥149.3 billion) to a total of ¥153.1 billion, while consolidated operating profits came in at ¥9.7 billion, similar to the previous year's level (¥10.5 billion).

**Other businesses:** In the area of electricity supply, Nippon Steel's five steelworks—Hirohata, Yawata, Kamaishi, Muroran and Oita—are supplying wholesale electricity to electric power companies.

On July 31, 2002, Nippon Steel Trading Co., Ltd., an affiliate of Nippon Steel accounted for by the equity method, implemented a nearly full reduction of capital, not accompanied by a write-off of shares, and at the same time undertook a capital increase of ¥10.0 billion (non-voting preferred shares) that was subscribed for in its entirety by Nippon Steel. In October 2002, Nippon Steel Trading undertook another capital increase of about ¥2.5 billion (ordinary and non-voting preferred shares) in which Mitsui & Co., Ltd. subscribed for the whole amount. Further, on March 29, 2003, Nippon Steel Trading undertook still another capital increase of ¥5.0 billion (non-voting preferred shares) in which Nippon Steel subscribed for the whole amount.

Consolidated sales in the sector during the year ended March 31 2003 amounted to ¥79.0 billion (¥61.2 billion in the previous year); the consolidated operating loss was ¥2.1 billion (compared to profits of ¥1.4 billion in the previous year).

### Financial Position

Consolidated total assets at March 31 2003 decreased ¥273.4 billion from ¥4,030.5 billion posted at March 31 2002 to ¥3,757.1 billion. This was attributable primarily to a ¥116.9 billion decrease in investments in securities mainly due to the enforced reevaluation of listed securities such as shares in financial institutions and the decreased latent profit of these shares, a decrease of ¥59.3 billion in current assets due to the reduction of inventories etc. and also a decrease of ¥43.6 billion in tangible fixed assets. Consolidated total liabilities at March 31 2003 decreased ¥174.7 billion from the figure at the end of the previous year (¥3,057.8 billion). This decrease resulted mainly from a reduction in loans and the redemption of corporate bonds, which combined to come to a total of ¥142.7 billion.

### The Statement of Cash Flows

Cash inflows from operating activities during the year resulted in a total income of ¥334.5 billion (¥215.6 billion a year earlier). This total was obtained by adding ¥196.6 billion in depreciation and amortization to ¥37.3 billion in consolidated net loss before income taxes and minority interest; reducing ¥39.7 billion in notes and accounts receivable-trade and ¥24.2 billion in inventories; adding those that do not cause any outflow of cash, such as loss of ¥44.4 billion on valuation of investments in securities (which is included in ¥37.3 billion in consolidated net loss before income taxes and minority interest) and an increase of ¥38.8 billion in reserves for doubtful accounts; and adding and subtracting payments for enterprise taxes and other items.

Cash outflows from investing activities recorded a total expenditure of ¥147.0 billion (¥165.3 billion in the previous year). This resulted from the outlays of ¥206.6 billion for the acquisition of tangible and intangible fixed assets minus the income of ¥63.4 billion from the sale of investments in securities, including the sale of shares of NS Solutions Corporation following the listing of that corporation on the Stock Exchange.

Free cash flows of ¥187.4 billion arising from the above was appropriated for the repayment of loans and the redemption of bonds and notes, etc. totaling ¥144.0 billion, cash dividends of ¥10.2 billion, purchase of treasury stock and others.

In order to provide the capital required for such cash payments as the redemption of bonds and notes and the repayment of long-term loans, Nippon Steel closely watched developments in the financial market and secured less expensive capital by, among other means, issuing corporate bonds and acquiring long-term loans. In addition, the company committed itself to promoting more efficient use of funds through a consolidated cash management system (CMS) and the liquidation of consolidated asset holdings, thereby strengthening its consolidated financial structure.

As a result, at the end of the year, loans and bonds amounted to ¥1,867.9 billion, and cash and cash equivalents ¥76.6 billion.

Ten-Year Summary

NIPPON STEEL

CONSOLIDATED

As of or for the years ended March 31	2003		2002	2001	2000	1999	1998	1997	1996	1995	1994
Net sales	2,749,306	22,872,764	2,581,399	2,750,418	2,680,611	2,759,409	3,076,531	3,061,288	2,954,869	2,881,097	2,749,434
Operating profit (loss)	142,961	1,189,362	73,044	162,644	120,296	92,396	181,640	142,090	193,429	92,269	(10,932)
Ordinary profit (loss)	68,879	573,042	16,746	111,374	64,687	15,282	86,537	80,753	101,593	(12,193)	(36,725)
(Loss) income before income taxes, etc.	(37,386)	(311,032)	(25,079)	49,403	2,171	14,096	39,234	(25,148)	56,961	(17,863)	(59,747)
Net (loss) income	(51,686)	(430,005)	(28,402)	26,494	11,173	11,478	5,945	3,450	54,538	(3,971)	(54,093)
Net (loss) income per share	(¥7.69)	(\$0.064)	(¥4.17)	¥3.89	¥1.64	¥1.68	¥0.86	¥0.50	¥7.91	(¥0.57)	(¥7.85)
Shareholders' equity	789,443	6,567,749	907,150	979,695	889,220	878,849	878,702	891,134	903,359	868,186	971,882
Total assets	3,757,175	31,257,702	4,030,596	4,232,011	4,172,459	4,489,753	4,670,669	4,509,536	4,527,304	4,547,466	4,346,286
Capital expenditure	163,318	1,358,718	195,801	157,348	226,954	234,833	232,490	241,377	234,921	—	—
Depreciation	196,653	1,636,052	197,336	206,987	214,186	221,359	241,003	232,543	237,994	—	—
Research and development costs	35,866	298,386	35,183	39,364	40,575	—	—	—	—	—	—
Interest-bearing debt	1,871,875	15,573,009	2,016,175	2,101,686	2,277,938	2,549,064	2,640,750	2,484,261	2,439,526	2,385,821	2,401,541

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

Sales

For the years ended March 31	2003		2002	2001	2000	1999	1998	1997	1996	1995	1994
Steelmaking and steel fabrication	1,980,809	16,479,282	1,828,206	1,962,019	1,877,582	1,743,018	2,040,444	2,015,666	1,993,867	1,998,367	1,960,783
Engineering and construction	274,903	2,287,053	294,323	280,929	300,054	419,841	426,852	490,165	430,667	458,475	490,349
Urban development	105,188	875,112	130,808	141,979	164,428	146,406	126,218	—	—	—	—
Chemicals and nonferrous materials	346,232	2,880,471	326,164	359,123	338,631	415,285	451,573	440,289	418,352	363,187	312,234
System solutions	153,143	1,274,070	149,398	143,670	136,198	160,954	151,111	156,261	187,445	—	—
Other businesses	79,059	657,731	61,251	59,440	56,491	222,908	239,616	314,403	292,945	423,396	373,041
Elimination of intersegment transactions	(190,031)	(1,580,958)	(208,754)	(196,745)	(192,776)	(349,005)	(359,284)	(355,498)	(368,408)	(362,329)	(386,975)
Consolidated total	2,749,306	22,872,764	2,581,399	2,750,418	2,680,611	2,759,409	3,076,531	3,061,288	2,954,869	2,881,097	2,749,434

Operating profit (loss)

For the years ended March 31	2003		2002	2001	2000	1999	1998	1997	1996	1995	1994
Steelmaking and steel fabrication	112,816	938,573	23,482	115,536	73,257	65,397	168,659	109,639	115,135	63,013	(53,480)
Engineering and construction	2,460	20,470	9,913	7,287	12,209	11,972	10,610	35,510	28,158	33,992	48,190
Urban development	4,469	37,185	15,576	16,320	20,787	16,975	15,766	—	—	—	—
Chemicals and nonferrous materials	13,458	111,964	10,379	11,574	8,378	5,263	8,140	11,806	10,590	(5,119)	(10,559)
System solutions	9,776	81,338	10,504	9,770	5,311	(19,333)	(26,491)	(26,504)	13,748	—	—
Other businesses	(2,155)	(17,934)	1,457	772	(911)	11,000	9,782	17,796	16,066	2,624	(4,468)
Elimination of intersegment transactions	2,135	17,765	1,731	1,384	1,262	1,120	(4,826)	(6,159)	9,729	(2,240)	9,385
Consolidated total	142,961	1,189,362	73,044	162,644	120,296	92,396	181,640	142,090	193,429	92,269	(10,932)

NON-CONSOLIDATED

As of or for the years ended March 31	2003		2002	2001	2000	1999	1998	1997	1996	1995	1994
Net sales	1,789,706	14,889,407	1,681,406	1,848,710	1,810,842	1,918,538	2,205,019	2,184,805	2,099,750	2,090,580	2,158,779
Ordinary profit (loss)	48,359	402,322	31,729	78,776	42,606	50,238	103,954	84,711	64,698	11,214	(18,349)
Net (loss) income	(20,447)	(170,112)	(28,129)	18,355	266	522	35,393	19,906	24,741	9,438	(30,904)
Net (loss) income per share	(¥3.02)	(\$0.025)	(¥4.13)	¥2.69	¥0.03	¥0.07	¥5.13	¥2.88	¥3.59	¥1.36	(¥4.48)
Cash dividends per share	¥1.50	\$0.012	¥1.50	¥1.50	¥1.50	¥1.50	¥2.50	¥2.50	¥2.50	¥2.50	¥2.50
Shareholders' equity	713,772	5,938,203	793,557	866,757	773,981	783,925	861,828	843,659	840,976	833,459	841,245
Total assets	2,588,698	21,536,589	2,738,973	2,884,547	2,793,067	3,051,391	3,150,110	3,145,249	3,145,269	3,229,979	3,229,945
Capital expenditure	85,000	707,154	175,000	135,000	180,000	135,000	100,000	100,000	120,000	130,000	170,000
Depreciation	148,106	1,232,163	144,363	150,904	153,327	139,441	148,111	149,319	154,281	146,794	141,664
Research and Development costs	29,091	242,029	28,705	35,598	35,727	41,900	47,500	51,100	55,700	67,400	77,900
Interest-bearing debt	1,188,209	9,885,274	1,240,474	1,205,352	1,273,687	1,464,531	1,457,895	1,509,132	1,446,531	1,544,065	1,701,664

Shares

2003						2002	2001	2000	1999	1998	1997	1996	1995	1994
Shares outstanding at year-end (in thousands)	6,806,981					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
Common stock price range (high / low: yen)	217/119					230/145	270/165	314/215	272/177	392/146	388/283	375/271	403/293	420/295

Production and Shipments

For the years ended March 31	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Crude steel output	29,902	26,140	27,837	25,620	23,201	26,619	25,706	26,173	26,565	25,123
Steel products output*2	28,222	25,487	26,226	24,566	22,751	25,378	24,747	25,620	25,314	24,338
Steel products shipments*2	29,171	26,312	26,789	25,633	24,026	26,580	25,871	25,684	25,374	24,440

Employees

As of March 31	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Number of employees*3	16,481	17,370	18,918	19,816	21,414	22,560	24,527	27,583	31,072	34,619

\*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” 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, 2003 and 2002 were 7,830 and 7,993, respectively.

Notes:  
Tonnage figures are in metric tons; all dollars (\$) figures are in US currency and translated from the Japanese yen at the rate of \$1=¥120.20 at the latest balance sheet date.

Consolidated Balance Sheets

		Millions of yen		Thousands of dollars (Note3)		
		2003	2002	2003		
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and bank deposits (Note 5)	¥	78,132	¥	74,343	\$	650,023
Marketable securities (Notes 5 and 15)		996		1,255		8,290
Receivables:						
Notes and accounts receivable (Note 4)		409,031		452,258		3,402,923
Less: Allowance for doubtful accounts		(624)		(1,205)		(5,195)
		408,406		451,052		3,397,728
Inventories		558,626		591,307		4,647,473
Deferred tax assets (Note 7)		21,143		40,331		175,898
Other		177,286		145,659		1,474,933
<b>Total current assets</b>		<b>1,244,592</b>		<b>1,303,950</b>		<b>10,354,347</b>
<b>Fixed assets:</b>						
<b>Tangible fixed assets:</b>						
Buildings and structures (Note 5)		1,514,700		1,500,276		12,601,498
Machinery and equipment (Note 5)		4,611,789		4,540,573		38,367,632
		6,126,489		6,040,850		50,969,131
Less: Accumulated depreciation		(4,780,955)		(4,682,275)		(39,775,006)
		1,345,533		1,358,575		11,194,124
Land (Notes 5 and 6)		357,885		350,515		2,977,412
Construction in progress		54,600		92,557		454,250
		1,758,019		1,801,648		14,625,787
<b>Intangible fixed assets:</b>						
Patents and utility rights		5,264		5,226		43,799
Software		5,200		10,248		43,261
		10,464		15,474		87,060
<b>Investments and others:</b>						
Investments in securities (Notes 5 and 15)		307,679		412,625		2,559,728
Investments in unconsolidated subsidiaries and affiliates		225,726		237,730		1,877,922
Deferred tax assets (Notes 6 and 7)		76,225		41,123		634,152
Other (Note 5)		184,764		229,562		1,537,138
Less: Allowance for doubtful accounts		(50,296)		(11,519)		(418,437)
		744,098		909,522		6,190,505
<b>Total fixed assets</b>		<b>2,512,583</b>		<b>2,726,645</b>		<b>20,903,354</b>
<b>Total assets</b>	¥	<b>3,757,175</b>	¥	<b>4,030,596</b>	\$	<b>31,257,702</b>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of dollars (Note3)
	2003	2002	2003
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term loans and long-term loans due within one year (Note 5)	¥ 701,210	¥ 721,097	\$ 5,833,698
Commercial paper (Note 5)	20,000	116,000	166,389
Bonds due within one year (Note 5)	30,000	110,000	249,584
Convertible bonds due within one year (Note 5)	10,112	2,508	84,130
Notes and accounts payable (Note 4)	400,152	421,677	3,329,058
Accrued expenses	266,616	280,840	2,218,106
Advances received	35,763	41,484	297,533
Accrued income taxes and enterprise taxes	9,345	12,630	77,749
Other	64,592	37,408	537,373
<b>Total current liabilities</b>	<b>1,537,793</b>	<b>1,743,646</b>	<b>12,793,623</b>
<b>Long-term liabilities:</b>			
Bonds and notes (Note 5)	340,000	275,000	2,828,618
Convertible bonds (Note 5)	98,729	109,433	821,372
Long-term loans (Note 5)	667,942	676,747	5,556,927
Deferred tax liabilities (Notes 6 and 7)	31,000	44,374	257,905
Deferred tax liabilities on revaluation of land (Notes 6 and 7)	4,287	5,787	35,670
Accrued pension and severance costs (Note 16 )	110,109	116,930	916,051
Reserve for repairs to blast furnaces	50,274	49,253	418,257
Excess of the underlying net equity over cost of investments in subsidiaries and affiliates	2,940	123	24,459
Other	40,110	36,590	333,694
<b>Total long-term liabilities</b>	<b>1,345,393</b>	<b>1,314,241</b>	<b>11,192,959</b>
<b>Total liabilities</b>	<b>2,883,187</b>	<b>3,057,888</b>	<b>23,986,582</b>
<b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES</b>	<b>84,545</b>	<b>65,557</b>	<b>703,369</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock:</b>			
Authorized - 9,917,077,000 shares			
Issued and outstanding - 6,806,980,977 shares as of March 31, 2003 and 2002	419,524	419,524	3,490,224
<b>Additional paid-in capital</b>	<b>105,518</b>	<b>105,518</b>	<b>877,857</b>
<b>Retained earnings (Note 11)</b>	<b>278,315</b>	<b>338,565</b>	<b>2,315,434</b>
<b>Unrealized gains on revaluation of land(Note 6)</b>	<b>6,621</b>	<b>7,488</b>	<b>55,090</b>
<b>Unrealized gains on available-for-sale securities(Note 15)</b>	<b>21,243</b>	<b>54,898</b>	<b>176,738</b>
<b>Foreign currency translation adjustments</b>	<b>(20,958)</b>	<b>(18,822)</b>	<b>(174,364)</b>
Less: Treasury stock, at cost (159,415,679 shares at March 31, 2003)	(20,822)	(21)	(173,230)
<b>Total shareholders'equity</b>	<b>789,443</b>	<b>907,150</b>	<b>6,567,749</b>
<b>Total liabilities and shareholders'equity</b>	<b>¥ 3,757,175</b>	<b>¥ 4,030,596</b>	<b>\$ 31,257,702</b>



Consolidated Statements of Income

NIPPON STEEL Years ended March 31, 2003, 2002 and 2001				
	Millions of yen			Thousands of dollars (Note3)
	2003	2002	2001	2003
Operating revenues:				
Net sales	¥2,749,306	¥2,581,399	¥2,750,418	\$22,872,764
Operating costs and expenses:				
Cost of sales(Note 9)	2,351,028	2,245,335	2,305,538	19,559,307
Selling, general and administrative expenses (Notes 8 and 9)	255,316	263,020	282,234	2,124,094
	2,606,344	2,508,355	2,587,773	21,683,401
Operating profit	142,961	73,044	162,644	1,189,362
Non-operating profit and loss:				
Non-operating profit:				
Interest and dividend income	5,526	7,047	9,612	45,980
Equity in net income of unconsolidated subsidiaries and affiliates	—	—	1,335	—
Miscellaneous	12,437	14,174	19,165	103,469
	17,963	21,222	30,114	149,450
Non-operating loss:				
Interest expenses	29,186	32,904	39,215	242,818
Equity in net loss of unconsolidated subsidiaries and affiliates	20,418	12,452	—	169,873
Miscellaneous	42,439	32,163	42,169	353,078
	92,045	77,521	81,384	765,770
Ordinary profit	68,879	16,746	111,374	573,042
Special profit and loss:				
Special profit(Note 10):				
Gain on sales of tangible fixed assets	7,666	15,626	15,809	63,779
Gain on sales of investments in securities and investments in subsidiaries and affiliates	26,381	2,234	26,439	219,477
Gain on contribution of securities to employee retirement benefit trust	—	22,367	68,705	—
Release of reserve for repairs to blast furnaces	—	14,690	—	—
Other	—	—	1,023	—
	34,047	54,918	111,977	283,257
Special loss (Note 10):				
Loss on disposal of tangible fixed assets and other assets	12,389	7,732	5,255	103,073
Loss on valuation of investments in securities	45,433	72,952	10,376	377,982
Special retirement allowances for voluntary retirement	9,922	8,134	6,981	82,550
Amortization of transition obligation in respect of the new accounting standard for retirement benefits	4,669	6,166	107,409	38,850
Allowance for doubtful accounts	40,061	498	6,349	333,289
Loss on shut down of steel production facilities	—	—	26,228	—
Loss on relinquishment of entrusted portion of the pension fund	302	—	—	2,513
Loss on business restructuring	19,185	1,259	2,774	159,610
Loss on completion of land development	—	—	3,255	—
Loss on valuation of real estate for sale	8,349	—	2,183	69,461
Other	—	—	3,132	—
	140,313	96,744	173,948	1,167,332
(Loss) income before income taxes and minority interest	(37,386)	(25,079)	49,403	(311,032)
Income taxes - current (Note 7)	17,968	19,062	55,371	149,488
Income taxes - deferred (Note 7)	(8,712)	(15,257)	(35,803)	(72,484)
Minority interest in net income (loss) of consolidated subsidiaries	5,044	(482)	3,340	41,968
Net (loss) income	¥ (51,686)	¥ (28,402)	¥26,494	\$ (430,005)
Per share (stated in yen and in dollars):				
Net (loss) income (Notes 2)	(¥7.69)	(¥4.17)	¥3.89	(\$0.064)
Cash dividends applicable to the year	¥1.50	¥1.50	¥1.50	\$0.012
Weighted average number of shares outstanding (in thousands)	6,735,017	6,806,948	6,806,974	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders’ Equity

NIPPON STEEL Years ended March 31, 2003, 2002 and 2001				
	Thousands	Millions of yen		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
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	—	—	—	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 loss for the year ended March 31, 2002	—	—	—	(28,402)
Increase due to the change in the number of consolidated companies (Note 11)	—	—	—	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
Net loss for the year ended March 31, 2003	—	—	—	(51,686)
Increase due to the change in the number of consolidated companies	—	—	—	658
Cash dividends	—	—	—	(10,210)
Directors’ and corporate auditors’ bonuses	—	—	—	(97)
Increase due to reversal of unrealized gains on revaluation of land	—	—	—	1,086
Balance at March 31, 2003	6,806,981	¥419,524	¥105,518	¥278,315

	Thousands	Thousands of dollars (Note 3)		
Balance at March 31, 2002	6,806,981	\$3,490,224	\$877,857	\$2,816,681
Net loss for the year ended March 31, 2003	—	—	—	(430,005)
Increase due to the change in the number of consolidated companies	—	—	—	5,478
Cash dividends	—	—	—	(84,944)
Directors’ and corporate auditors’ bonuses	—	—	—	(815)
Increase due to reversal of unrealized gains on revaluation of land	—	—	—	9,038
Balance at March 31, 2003	6,806,981	\$3,490,224	\$877,857	\$2,315,434

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

NIPPON STEEL

Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of dollars (Note3)
	2003	2002	2001	2003
<b>Cash flows from operating activities:</b>				
(Loss) income before income taxes and minority interest	¥(37,386)	¥(25,079)	¥49,403	\$(311,032)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	196,653	197,336	206,987	1,636,052
Interest and dividend income (accrual basis)	(5,526)	(7,047)	(9,612)	(45,980)
Interest expense (accrual basis)	29,186	32,904	39,215	242,818
Exchange losses(gains) on foreign currency transactions	7,262	(3,174)	(14,384)	60,417
Amortization of excess of cost over the underlying net equity (the underlying net equity over cost) of investments in subsidiaries and affiliates	(1,423)	2,197	2,309	(11,846)
Equity in net income (loss) of unconsolidated subsidiaries and affiliates	20,418	12,452	(1,335)	169,873
Gain on sales of investments in securities	(27,466)	(1,562)	(26,102)	(228,507)
Loss on valuation of investments in securities	44,460	72,336	7,073	369,884
Amortization of transition obligation in respect of new accounting standard for retirement benefits	4,669	6,166	107,409	38,850
Gain on contribution of securities to employee retirement benefit trust	—	(22,367)	(68,705)	—
Loss on business restructuring	19,185	—	—	159,610
Loss on valuation of real estate for sale	8,349	—	—	69,461
Loss on disposal of tangible and intangible fixed assets	24,216	7,279	12,555	201,467
Gain on sales of tangible and intangible fixed assets	(7,487)	(15,894)	(15,572)	(62,291)
Changes in allowance for doubtful accounts	38,843	(113)	7,035	323,158
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	39,734	53,870	(2,124)	330,567
Changes in inventories	24,274	17,601	(27,842)	201,951
Changes in notes and accounts payable	6,262	738	17,525	52,102
Other	(7,532)	(30,858)	45,948	(62,670)
Interest and dividend income (cash basis)	6,828	8,396	12,143	56,806
Interest expense (cash basis)	(29,038)	(33,674)	(39,740)	(241,588)
Income taxes (cash basis)	(19,980)	(55,864)	(16,280)	(166,225)
<b>Net cash provided by operating activities</b>	<b>334,502</b>	<b>215,642</b>	<b>302,132</b>	<b>2,782,879</b>
<b>Cash flows from investing activities:</b>				
Acquisition of investments in securities	(42,109)	(6,909)	(39,791)	(350,329)
Proceeds from sales of investments in securities	63,511	14,731	22,995	528,378
Acquisition of cash owned by new subsidiaries, net of payment for purchase of subsidiaries' shares	(77)	1,011	139	(644)
Proceeds from sale of subsidiaries' shares, net of cash owned by those subsidiaries	(52)	(81)	9,623	(434)
Acquisition of tangible and intangible fixed assets	(206,671)	(199,285)	(172,014)	(1,719,400)
Proceeds from sales of tangible and intangible fixed assets	23,261	28,917	26,054	193,524
Advances to non-consolidated subsidiaries and affiliates	(19,289)	(19,323)	(35,933)	(160,477)
Proceeds from collections on advances to non-consolidated subsidiaries and affiliates	32,764	10,629	22,335	272,583
Other	1,575	4,943	3,277	13,104
<b>Net cash used in investing activities</b>	<b>(147,088)</b>	<b>(165,365)</b>	<b>(163,313)</b>	<b>(1,223,695)</b>
<b>Cash flows from financing activities:</b>				
Net decrease in short-term loans	(81,844)	(39,647)	(97,985)	(680,903)
Net (decrease) increase in commercial paper	(96,000)	96,000	20,000	(798,668)
Proceeds from long-term loans	138,557	86,785	50,970	1,152,722
Payments of long-term loans	(86,183)	(122,169)	(92,581)	(716,997)
Proceeds from issuance of bonds and notes	94,568	—	—	786,758
Payments for purchase of treasury stock	(19,374)	—	—	(161,182)
Redemption of bonds and notes	(113,100)	(115,823)	(63,207)	(940,931)
Cash dividends	(10,210)	(10,210)	(10,210)	(84,944)
Cash dividends to minority shareholders	(461)	(423)	(231)	(3,843)
Proceeds from issuance of common stock to minority shareholders	12,276	1,446	—	102,130
Other	(15,231)	(12)	(441)	(126,719)
<b>Net cash used in financing activities</b>	<b>(177,003)</b>	<b>(104,054)</b>	<b>(193,686)</b>	<b>(1,472,578)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(7,540)</b>	<b>4,184</b>	<b>5,241</b>	<b>(62,735)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,869</b>	<b>(49,592)</b>	<b>(49,626)</b>	<b>23,869</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>74,194</b>	<b>123,910</b>	<b>172,702</b>	<b>617,261</b>
<b>(Decrease) increase from the change in the number of companies consolidated</b>	<b>(460)</b>	<b>(123)</b>	<b>834</b>	<b>(3,833)</b>
<b>Cash and cash equivalents at end of year (Note 12)</b>	<b>¥76,603</b>	<b>¥74,194</b>	<b>¥123,910</b>	<b>\$ 637,297</b>

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 276 and 274 subsidiaries, respectively, as of March 31, 2003 and 2002. The consolidated financial statements include the accounts of Nippon Steel Corporation and 258 of its subsidiaries (in the previous fiscal year: 254 subsidiaries) based on the criterion of exercise of control.

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 72 in this document.

All subsidiaries, with certain exceptions, use a fiscal year ending 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., having a fiscal year-end date of November 30, its interim accounts as at March 31, prepared on a basis 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.

For consolidated subsidiaries and affiliates where NIPPON STEEL exercise control or influence, assets and liabilities of those companies, including the portion attributable to minority shareholders, are fully marked to their respective fair values at the date of acquisition of control or influence.

The excess of cost over the underlying net equity(the underlying net equity over cost) of investments in subsidiaries and affiliates accounted for on the equity basis is amortized over the period for which the excess cost is expected to contribute to consolidated net income, where it is possible to estimate such a period, using the straight-line method. Otherwise, the excess is amortized over five years.

#### (2) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and material affiliates are accounted for on the equity basis.

Although Nippon Steel Corporation had 18 unconsolidated subsidiaries (in the previous fiscal year: 20 unconsolidated subsidiaries) and 156 affiliates (in the previous fiscal year: 160 affiliates), the equity method has been applied to the investments in 86 significant affiliates (in the previous fiscal year: 87 affiliates) based on the criterion of exercise of influence, 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, 2003.

#### (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.

#### (5) Securities

Securities held by NIPPON STEEL are classified into three categories;

Held-to-maturity debt securities, which NIPPON STEEL intends 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.



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.

**(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, whilst 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 of amotization over the useful life of 5 years is adopted.

**(9) Allowance for Doubtful Accounts**

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

**(10) Reserve for Repairs to 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.

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

Nippon Steel Corporation adopts the percentage-of-completion method for 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 using the percentage-of-completion method aggregated ¥59,470 million (\$494,762 thousand), ¥79,846 million and ¥58,818 million for the years ended March 31, 2003, 2002 and 2001, respectively.

**(12) 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 allowance 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 accounting 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 1–5years), 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 7–15years), starting from the year following the year in which they occur.

**Additional Information (2003)**

Some domestic consolidated subsidiaries obtained governmental approval for exemption from the obligation for benefits related to future employee services under the substitutional portion from Ministry of Health, Labor and Welfare in the year ended March 31, 2003.

As permitted by Article 47-2 of “Practical Guidelines on Accounting for Postretirement Benefits (Interim Report)” issued by the JICPA, the Company adopted the transitional treatment of separation of the substitutional portion.

As a result, a one-off profit resulting from the separation of the substitutional portion of the Employees’ Pension Fund plans amounting to ¥443 million (\$3,693 thousand) was recognized in the year ended March 31, 2003. Fair value of the plan assets assumed to be transferred to the Japanese government was ¥13,208 million (\$109,883 thousand) as at March 31, 2003.

**(13) Hedge Accounting**

Gains or losses arising from changes in the fair values 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. Under 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. For forward exchange contracts

whose amounts, currency and period meet with the conditions of hedged items, the “assigning” method is adopted. Under this method, NIPPON STEEL does not account for gains and losses of those forward exchange contracts on a fair value basis and converts hedged items using the rates of those forward exchange contracts at the end of the year.

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 fluctuations in the price 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.

**(14) 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.

**(15) 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.

**(16) 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 on the basis of 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

**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

**(17) Accounting Standard for Treasury Stock and Reversal of Capital and Legal Reserves**

Effective for the year ended March 31, 2003, the Statement of Financial Accounting Standard No. 1 “Accounting for Treasury Stock and Reversal of Capital and Legal Reserves” issued by the Accounting Standards Board of Japan has been adopted. However, the effect on net income for the period of adopting this new statement was immaterial.

**(18) Net income per share**

Net income per share of common stock is computed based on the weighted average number of outstanding shares of common stock during the respective years. The company issued a convertible bond, however there was no dilutive effect on net income per share during these periods because of the net loss per share of common stock.

The average number of shares used in the computation was 6,806,948 thousand and 6,735,016 thousand for the years ended March 31, 2002 and 2003, respectively.

Effective from the year ended March 31, 2003, the Statement of Financial Accounting Standard No. 2 “Earnings per Share” issued by the Accounting Standards Board of Japan has been adopted. Prior to adopting the new statement, earnings per share was calculated based on the net income shown on the Income Statement. The earnings per share calculation therefore excluded bonuses to directors and statutory auditors, since under the Japanese Commercial Code these are recognized as an appropriation of retained earnings, in the statement of shareholders’ equity, rather than as expenses in the statements of income. However, the new statement requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors, as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the statements of income, and the calculation of earnings per share be made on that adjusted net income basis. Net income (loss) per share for the year ended March 31, 2003 calculated under the new standard and using the previous method is ¥(7.69) and ¥(7.67), respectively.

solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, 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 ¥120.20 = U.S. \$1, the effective exchange rate prevailing at the latest balance sheet date of March 31, 2003, has been used for the purpose of presentation of the U.S. dollar amounts.

March 31, 2002 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: ¥5,057million  
Notes payable with March 31, 2002 due date: ¥8,252 million



5.Bonds and Notes, Convertible Bonds and Loans

Bonds and Notes, convertible bonds, and loans of NIPPON STEEL at March 31, 2003 and 2002 consisted of the following:

			Millions of yen		Thousands of dollars		
			2003	2002	2003		
Bonds and Notes:							
Nippon Steel Corporation	5.05%	SB due February 2003	¥	—	¥ 60,000	\$	—
	2.8%	SB due February 2003		—			—
	3.3%	SB due March 2017		10,000		10,000	83,194
	3.175%	SB due September 2017		10,000		10,000	83,194
	2.35%	SB due December 2007		40,000		40,000	332,778
	2.55%	SB due December 2009		10,000		10,000	83,194
	1.775%	SB due December 2003		30,000		30,000	249,584
	2.75%	SB due February 2008		20,000		20,000	166,389
	2.60%	SB due April 2008		15,000		15,000	124,792
	2.27%	SB due May 2008		10,000		10,000	83,194
	2.23%	SB due June 2008		30,000		30,000	249,584
	2.00%	SB due July 2004		50,000		50,000	415,973
	2.50%	SB due July 2008		30,000		30,000	249,584
	1.74%	SB due December 2005		10,000		10,000	83,194
	0.54%	SB due November 2007		30,000		—	249,584
	0.80%	SB due November 2009		10,000		—	83,194
	1.36%	SB due November 2012		10,000		—	83,194
	0.62%	SB due February 2009		30,000		—	249,584
	1.18%	SB due February 2013		15,000		—	124,792
	Floating rate SB without call option due December 2007			10,000		10,000	83,194
			370,000		385,000	3,078,202	
Less: portion due within one year			(30,000)		(110,000)	(249,584)	
			¥ 340,000		¥ 275,000	\$ 2,828,618	

Convertible bonds:

Nippon Steel Corporation	1.5%	CB due September 2004	¥98,729	¥98,729	\$ 821,372
Nippon Steel Chemical Co., Ltd.	2.20%	secured CB due March 2003	—	2,508	—
	2.50%	secured CB due March 2004	4,988	5,261	41,497
	2.00%	secured CB due March 2005	5,124	5,443	42,633
			108,841	111,941	905,503
Less: portion due within one year			(10,112)	(2,508)	(84,130)
			¥ 98,729	¥ 109,433	\$ 821,372

The floating rate on SB shown above is generally determined by reference to the interest rate in Tokyo applicable to 10-year Yen term swaps with 0% floor rate.

The 1.5% CB due September 2004 was issued in June 1989 for the 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 ¥1,210.0 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).

CB outstanding March 31, 2003, include a portion due within one year of ¥10,112 million. These are registered as Convertible bonds due within one year in current liabilities and the residual amount of ¥98,729 million was registered as Convertible bonds in Long term liabilities in the accompanying consolidated balance sheet.

On April 25, 2003, Nippon Steel Chemical Co., Ltd. decided to redeem the 2.50% secured CB and the 2.00% secured CB before maturity date. The details of the decision are as follows.

(1) Schedule of redemption

Date of withdrawal from listing on Tokyo Stock Exchange Market : July 17, 2003.

Date of redemption : July 25, 2003.

These CBs are convertible up to July 25, 2003.

(2) Redemption amount

the 2.50% secured CB ¥100 for per value of ¥100

the 2.00% secured CB ¥101 for per value of ¥100

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

	Millions of yen		Thousands of dollars
	2003	2002	2003
Loans:			
Short-term loans	¥ 556,227*2	635,533	\$ 4,627,518
Loans principally from banks and insurance companies due 2002-2031 for 2001 (2003-2031 for 2002) *1	812,925*3	762,312	6,763,107
Commercial paper	20,000*4	116,000	166,389
	¥ 1,389,153	1,513,845	\$ 11,557,015

\*1 Including a portion due within one year of ¥144,982million (\$1,206,179thousand) for 2003 and ¥85,564 million for 2002.

\*2 Average interest-rate at March 31, 2003 is 0.6 %.

\*3 Average interest-rate at March 31, 2003 is 2.3 %.

\*4 Average interest-rate at March 31, 2003 is 0.0 %.

NIPPON STEEL’s assets pledged as collateral primarily to secure long-term loans, short-term loans, CBs and others aggregated ¥107,400 million (\$893,517thousand) at March 31, 2003 and ¥121,012 million at March 31, 2002, respectively.These are summarized as follows:

	Millions of yen		Thousands of dollars
	2003	2002	2003
(Industrial foundation)			
Buildings and structures	¥ 22,728	¥ 27,879	\$ 189,085
Machinery and equipment	56,576	72,904	470,685
Land	29,086	23,590	241,983
Other	643	—	5,354
	¥ 109,034	¥ 124,375	\$ 907,108
(Pledged assets)			
Cash and bank deposits	¥ 2	¥ 302	\$ 16
Marketable securities	9	—	83
Buildings and structures	18,654	17,281	155,192
Machinery and equipment	6,923	7,677	57,602
Land	24,648	27,667	205,065
Investments in securities	1,834	3,583	15,265
Other	—	71	—
	¥ 52,073	¥ 56,583	\$ 433,227

6. Revaluation of Land

(Year ended March 31, 2003)

Revaluation of land used for business purpose was carried out in accordance with the “Law concerning Revaluation of Land” and relating amendments for certain of Nippon Steel Corporation’s consolidated subsidiaries and affiliates to which the equity method is applied.

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

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

• Method of revaluation

Calculations were made in accordance with the Law concerning Revaluation of Land

(Revaluation made on March 31, 2000)

• Excess of carrying amounts of the revalued land over fair value at the end of March 31, 2003: ¥14,181 million (\$117,981 thousand)

(Revaluation made on March 31, 2002)

• Excess of carrying amounts of the revalued land over fair value at the end of March 31, 2003: ¥274 million (\$2,283 thousand)

(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 certain of Nippon Steel Corporation’s consolidated subsidiaries and affiliates to which the equity method is applied.

Revaluation differences computed by consolidated subsidiaries, net of tax and minority interest, which were charged to “Deferred tax assets and liabilities on revaluation of land” and “Minority interest in consolidated subsidiaries”, respectively, were recorded as a separate component of share-

holders’ equity as of “Unrealized gains on revaluation of land”.  
Additionally, revaluation differences accounted for by affiliates were recorded as a separate component of shareholders’ equity as of “Unrealized gains on revaluation of land” in proportion to the equity rate.  
• Method of revaluation  
Calculations were made in accordance with the Law concerning Revaluation of Land

- (Revaluation made on March 31, 2000)
- Excess of carrying amounts of the revalued land over fair value at the end of March 31, 2002: ¥10,936 million
- (Revaluation made on March 31, 2002)
- Book-value of the land for business before the revaluation thereof: ¥2,199 million
  - Book-value of the land for business after the revaluation thereof: ¥5,675 million

7. Deferred Tax Accounting

(1) The components of deferred tax assets and liabilities at March 31, 2003 and 2002, are as follows;

	Millions of yen		Thousands of dollars
	2003	2002	2003
Deferred tax assets			
Reserve for accrued bonuses	¥ 14,921	¥ 10,400	\$ 124,137
Allowance for doubtful accounts	19,102	1,368	158,922
Accrued fixed asset tax	—	3,494	—
Accrued pension and severance costs	24,519	28,330	203,986
Reserve for repairs for blast furnaces	5,227	—	43,494
Loss on valuation of investments in securities	14,318	13,415	119,121
Depreciation in excess of limit	23,206	21,734	193,062
Tax losses carried forward	28,973	59,137	241,041
Unrealized gain on tangible fixed assets	41,636	45,599	346,392
Revaluation of available-for-sale securities	407	797	3,393
Other	34,226	14,689	284,743
Subtotal	206,539	198,969	1,718,295
Valuation allowance	(25,994)	(18,170)	(216,264)
Total	180,544	180,798	1,502,031
Deferred tax liabilities			
Special tax purpose reserve	(94,474)	(99,533)	(785,973)
Revaluation of available-for-sale securities	(14,893)	(39,194)	(123,902)
Net unrealized gain on assets and liabilities of consolidated subsidiaries acquired after the adoption of the new consolidation standard	(5,599)	(5,599)	(46,585)
Other	—	(67)	—
Total	(114,966)	(144,395)	(956,462)
Net deferred tax assets	¥ 65,577	¥ 36,402	\$ 545,569

Net deferred tax assets of ¥65,577 million (\$545,569 thousand) and ¥36,402 million at March 31, 2003 and 2002, respectively, mentioned above, are different from the amounts of deferred tax liabilities net of deferred tax assets disclosed in the consolidated balance sheet.  
The differences of ¥791 million (\$6,576 thousand) and ¥678 million at March 31, 2003 and 2002, respectively, are included in “Other” in current liabilities.  
  
(2) Reconciliation of the differences between the effective tax rate and the actual tax rate is as follows;  
(Year ended March 31, 2003 and 2002)  
A loss before income taxes and minority interest was recorded for both years and, therefore, in accordance with the revised Regulation concerning Consolidated Financial Statements, the

difference between the effective tax rate and the actual tax rate is not analyzed.  
  
(3) Adjustment of deferred tax assets and liabilities due to change in the tax rate.  
Due to the change in local tax law during the year ended March 31, 2003, in the calculation of deferred tax assets and liabilities dissolving until March 31, 2004, the effective tax rate before the change is used, and in that of deferred tax assets and liabilities dissolving deferred tax assets, net of deferred tax liabilities after April 1, 2004, the effective tax rate after the change is used. As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥505 million (\$4,202 thousand) and income taxes-deferred increased by ¥1,165 million (\$9,694 thousand) for the year ended March 31, 2003.

8. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of dollars
	2003	2002	2003
Transportation and storage	¥ 59,069	¥ 63,538	\$ 491,423
Salaries	74,517	75,203	619,947
Depreciation and amortization	4,728	5,426	39,342
Research and development expenses	24,493	24,157	203,776
Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates	90	2,348	754
Other	92,415	92,345	768,848
	¥ 255,316	¥ 263,020	\$ 2,124,094

9. Research and Development Costs

Research and development costs charged to income for the fiscal years ended March 31, 2003 and 2002 were ¥35,866 million (\$298,386 thousands) and ¥35,183 million , respectively.

10. Explanatory Notes on Special Profit and Loss

(Year ended March 31, 2003)  
Special profit

(1) Gain on sales of tangible fixed assets  
The “Gain on sales of tangible fixed assets” represents a gain from sales of industrial sites and welfare sites, etc.

Special loss

(1) Loss on disposal of tangible fixed assets and other assets  
The “Loss on disposal of tangible fixed assets and other assets” represents a loss on disposal of tangible fixed assets and other assets of subsidiaries.

(2) 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: ¥43,615 million (\$362,856 thousand )  
Investment in shares of affiliated companies:  
¥163 million (\$1,362 thousand )  
Golf memberships: ¥1,654 million (\$13,763thousand )

(3) Amortization of transition obligation in respect of the new accounting standard for retirement benefits  
The “Amortization of transition obligation in respect of the 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 year ended March 31, 2001.  
The transition obligation was amortized on a straight-line basis over approximately 5 years for consolidated subsidiaries.

(4) Allowance for doubtful accounts  
The “Allowance for doubtful accounts” mainly represents a reserve for unrecoverable loans to affiliates, the amount is estimated by taking the financial condition of those companies into account.

(5) Loss on business restructuring  
The “Loss on business restructuring” represents a loss caused by the restructuring of rigid Printed-circuit board business and reorganization costs in plastics business, both of which occurred in Nippon Steel Chemical Co., Ltd.

(6) Loss on valuation of real estate for sale  
The “Loss on valuation of real estate for sale” represents the write-off of impaired real estate by a consolidated subsidiary.

(Year ended March 31, 2002)  
Special profit

(1) Gain on sales of tangible fixed assets  
The “Gain on sales of tangible fixed assets” represents a gain from sales of industrial sites and welfare sites, etc.

(2) 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.

(3) Release of reserve for repairs for blast furnaces  
The “Release of reserve for repairs for blast furnaces” represents a gain from partial reversal of the reserve based on the assumption that certain blast furnaces no longer required a provision against future repair costs after considering the results and plans of recent repairs.

Special loss

(1) Loss on disposal of tangible fixed assets and other assets  
The “Loss on disposal of tangible fixed assets and other assets” represents a loss on disposal of tangible fixed assets and other assets of subsidiaries.

(2) 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

Investment in shares of affiliated companies: ¥141 million

Golf memberships: ¥971 million

(3) Amortization of transition obligation in respect of the new accounting standard for retirement benefits

The “Amortization of transition obligation in respect of the 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.

(4) Allowance for doubtful accounts

The “Allowance for doubtful accounts” consists of a reserve for receivables due from bankrupt customers.

(5) Loss on business restructuring

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

11. Notes on Consolidated Statements of Shareholders’ Equity

(Year ended March 31, 2003)

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, 2003 were approved at the ordinary general meeting of shareholders held on June 26, 2003. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2003, but will be recorded in those for the year ending March 31, 2004.

	Millions of yen	Thousands of dollars
Appropriations for:		
Cash dividends at ¥1.5 (\$0.01247) per share	¥ 9,991	\$ 83,126
Transfer to special reserve	6,802	56,591

tions 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 were recorded in those for the year ending March 31, 2003.

	Millions of yen
Appropriations for:	
Cash dividends at ¥1.5 per share	¥ 10,210
Transfer to special reserve	5,906

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

12.Consolidated Statements of Cash Flows

Cash and cash equivalents consists of:

	Millions of yen		Thousands of dollars
	2003	2002	2003
Cash and bank deposits	¥ 78,132	¥ 74,343	\$ 650,023
Less-Time deposits with original maturity of 3 months or more	(2,351)	(1,061)	(19,566)
Securities due within 3 months	822	770	6,840
Books with resale agreements included in “Other” under “Current assets”	—	141	—
Cash and cash equivalents	¥ 76,603	¥ 74,194	\$ 637,297

Details 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, are as follows:

	Millions of yen
	2002
Current assets	¥ 4,117
Fixed assets	10,270
	¥ 14,388

	Millions of yen
	2002
Current liabilities	¥ 11,834
Long-term liabilities	1,721
	¥ 13,556

13. 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, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of dollars
	2003	2002	2003
Lease rental expenses	¥ 12,221	¥ 15,138	\$ 101,675

The amount of outstanding future lease payments due at March 31, 2003 and 2002, which included the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of dollars
	2003	2002	2003
Future lease payments			
Within one year	¥ 9,144	¥ 11,610	\$ 76,074
Over one year	15,343	20,251	127,650
	¥ 24,487	¥ 31,861	\$ 203,724

Had they been capitalized on the balance sheets, the following items would have been recognized on the balance sheets and the statements of income as at and for the years ended March 31, 2003 and 2002.

	Millions of yen		Thousands of dollars
	2003	2002	2003
Acquisition cost	¥ 77,625	¥ 94,226	\$ 645,803
Accumulated depreciation	(53,137)	(62,364)	(442,078)
Net book value	¥ 24,487	¥ 31,861	\$ 203,724
Depreciation	¥ 12,221	¥ 15,138	\$ 101,675

(2) Operating Leases

The amount of outstanding future lease payments due at March 31, 2003, is summarized as follows:

	Millions of yen	Thousands of dollars
	2003	2003
Future lease payments		
Within one year	¥ 1,219	\$ 10,141
Over one year	6,598	54,896
	¥ 7,817	\$ 65,038

The amount of outstanding future lease income due at March 31, 2003, is summarized as follows:

	Millions of yen	Thousands of dollars
	2003	2003
Future lease income		
Within one year	¥ 379	\$ 3,153
Over one year	4,259	35,432
	¥ 4,638	\$ 38,586



(3) Contingent Liabilities

	Outstanding amounts for the year ended		Substantial amounts	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
	2003	2003	2003	2003
Contingent liabilities for:				
Guarantee of loans				
The Siam United Steel (1995) Co., Ltd.	¥16,251	\$135,200	¥16,251	\$135,200
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	11,659	97,000	11,659	97,000*3
I/N Tek	8,105	67,431	8,105	67,431
UNIGAL Ltda.	7,925	65,939	6,408	53,311*1
I/N Kote	7,325	60,946	7,325	60,946
Wacker NSCE Malaysia Sdn. Bhd.	5,409	45,000	5,409	45,000
Guanghou Pacific Tinplate Co., Ltd.	2,537	21,111	2,537	21,111
Other	3,122	25,975	1,572	13,084*4
	¥62,336	\$518,604	¥59,268	\$493,085

	Outstanding amounts for the year ended		Substantial amounts	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
	2003	2003	2003	2003

Contingent liabilities for:

Reserved guarantee of loans				
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥17,414	\$144,880	¥ 6,234	\$ 51,865*2,3
Nippon Techno-Carbon Co., Ltd.	2,080	17,304	2,080	17,304
T & T MARITIME S. A.	1,834	15,261	1,834	15,261
Nilax Inc.	1,679	13,972	1,007	8,383*4
NISP MARITIME S. A.	1,776	14,780	1,776	14,780
Hibikinada Development Co., Ltd.	1,539	12,804	1,539	12,804
Muroran Co-Operative Electric Power Co., Ltd.	1,504	12,519	1,504	12,519
PUISSANT SHIPPING ENTERPRISE S. A.	1,491	12,406	1,491	12,406
Makuhari Techno-Garden Co., Ltd.	972	8,094	972	8,094
HIROHATA TERMINAL Co., Ltd.	672	5,590	672	5,590
Other	1,926	16,028	1,926	16,028
	¥32,891	\$273,642	¥21,039	\$175,038

\*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-guaranted by Hitachi, Ltd.

\*3 The total maximum liability relating to Hitachi Nippon Steel Semiconductor Singapore Pte.Ltd. is limited to ¥5,550 million (\$46,173 thousand) under the 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 for the year ended	Substantial amounts
	Millions of yen	Millions of yen
	2002	2002

Contingent liabilities for:

Guarantee of loans		
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥25,850	¥25,850*3
The Siam United Steel (1995) Co., Ltd.	20,224	20,224
UNIGAL Ltda.	10,547	10,547*1
I/N Tek	10,514	10,514
I/N Kote	9,724	9,724
Wacker NSCE Malaysia Sdn. Bhd.	7,995	7,995
Guanghou Pacific Tinplate Co., Ltd.	3,308	3,308
Other	6,672	3,765*4
	¥94,837	¥91,930

	Outstanding amounts for the year ended	Substantial amounts
	Millions of yen	Millions of yen
	2002	2002

Contingent liabilities for:

Reserved guarantee of loans		
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥ 25,939	¥ 9,286*2,3
T & T MARITIME S. A.	2,423	2,423
NISP MARITIME S. A.	2,112	2,112
PUISSANT SHIPPING ENTERPRISE S. A.	1,855	1,855
Muroran Co-Operative Electric Power Co., Ltd.	1,778	1,778
Nilax Inc.	1,679	1,007*4
Hibikinada Development Co., Ltd.	1,454	1,454
Makuhari Techno-Garden Co., Ltd.	1,058	1,058
Other	3,979	3,979
	¥ 42,280	¥ 24,955

\*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 The total maximum liability relating to Hitachi Nippon Steel Semiconductor Singapore Pte.Ltd. is limited to ¥5,550 million (\$46,173 thousand) under the 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.

(4) Notes and Bills Discounted and Endorsed

	Millions of yen		Thousands of dollars
	2003	2002	2003
Notes and bills discounted	¥ 3,880	¥ 5,389	\$ 32,287
Notes and bills endorsed	964	1,528	8,025
	¥ 4,845	¥ 6,917	\$ 40,312

(5) Commitment line Contracts on loans (NS Finance,Inc.)

NS Finance, Inc., a consolidated subsidiary of Nippon Steel Corporation, has entered into commitment line contracts with certain affiliates, which are agreements to lend to them when they apply for credit, up 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, 2003 and 2002 are as follows;

	Millions of yen		Thousands of dollars
	2003	2002	2003
Total amount of commitment lines	¥ 7,789	¥ 5,028	\$ 64,804
Used commitments	7,789	4,550	64,804
Unused commitments	¥ —	¥ 478	\$ —

14. Segment Information

The segment information of NIPPON STEEL for 2003, 2002 and 2001 is 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 from the year ended March 31, 2002.

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

	Millions of yen			Thousands of dollars
	2003	2002	2001	2003
Sales				
Steelmaking and  steel fabrication				
Customers	¥ 1,941,907	¥ 1,791,743	¥ 1,925,366	\$ 16,155,636
Intersegment	38,902	36,463	36,653	323,646
Total Sales	1,980,809	1,828,206	1,962,019	16,479,282
Engineering and construction				
Customers	247,456	245,018	238,094	2,058,707
Intersegment	27,447	49,304	42,835	228,345
Total Sales	274,903	294,323	280,929	2,287,053
Urban development				
Customers	97,119	120,865	131,513	807,982
Intersegment	8,069	9,942	10,466	67,130
Total Sales	105,188	130,808	141,979	875,112
Chemicals and nonferrous materials				
Customers	265,266	248,176	288,880	2,206,877
Intersegment	80,966	77,988	70,243	673,594
Total Sales	346,232	326,164	359,123	2,880,471
System solutions				
Customers	125,526	122,087	113,758	1,044,313
Intersegment	27,616	27,311	29,912	229,757
Total Sales	153,143	149,398	143,670	1,274,070
Other businesses				
Customers	72,029	53,507	52,806	599,247
Intersegment	7,029	7,744	6,633	58,483
Total Sales	79,059	61,251	59,440	657,731
Elimination of intersegment transactions	(190,031)	(208,754)	(196,745)	(1,580,958)
Consolidated total	¥ 2,749,306	¥ 2,581,399	¥ 2,750,418	\$ 22,872,764

Operating profit (loss)				
Steelmaking and steel fabrication	¥ 112,816	¥ 23,482	¥ 115,536	\$ 938,573
Engineering and construction	2,460	9,913	7,287	20,470
Urban development	4,469	15,576	16,320	37,185
Chemicals and nonferrous materials	13,458	10,379	11,574	111,964
System solutions	9,776	10,504	9,770	81,338
Other businesses	(2,155)	1,457	772	(17,934)
Elimination of intersegment transactions	2,135	1,731	1,384	17,765
Consolidated total	¥ 142,961	¥73,044	¥ 162,644	\$ 1,189,362

Identifiable assets				
Steelmaking and steel fabrication	¥ 2,813,843	¥ 2,963,927	¥ 3,091,404	\$ 23,409,676
Engineering and construction	216,367	246,122	228,064	1,800,064
Urban development	186,962	193,400	219,360	1,555,431
Chemicals and nonferrous materials	292,937	316,898	351,117	2,437,087
System solutions	97,482	72,944	64,225	811,000
Other businesses	353,667	400,858	460,762	2,942,328
Elimination of intersegment transactions	(204,086)	(163,556)	(182,923)	(1,697,887)
Consolidated total	¥ 3,757,175	¥ 4,030,596	¥ 4,232,011	\$ 31,257,702

Depreciation of identifiable assets				
Steelmaking and steel fabrication	¥ 163,644	¥ 164,693	¥ 172,955	\$ 1,361,436
Engineering and construction	1,914	2,008	2,042	15,924
Urban development	2,509	4,754	5,108	20,875
Chemicals and nonferrous materials	13,416	17,264	18,947	111,616
System solutions	1,282	1,160	1,192	10,673
Other businesses	14,255	7,819	7,098	118,601
Elimination of intersegment transactions	(369)	(365)	(358)	(3,076)
Consolidated total	¥ 196,653	¥ 197,336	¥ 206,987	\$ 1,636,052

Capital expenditure for identifiable assets				
Steelmaking and steel fabrication	¥ 125,765	¥ 165,202	¥ 123,610	\$ 1,046,301
Engineering and construction	2,180	1,949	2,288	18,144
Urban development	2,533	904	4,773	21,080
Chemicals and nonferrous materials	12,066	10,442	10,939	100,390
System solutions	1,097	1,720	1,658	9,133
Other businesses	22,804	19,543	16,824	189,722
Elimination of intersegment transactions	(3,131)	(3,961)	(2,745)	(26,052)
Consolidated total	¥ 163,318	¥ 195,801	¥ 157,348	\$ 1,358,719

(Year ended March 31, 2003)  
According to the change in the basis of dividing industry segments performed in the year ended March 31, 2002, mentioned below, sales of the “Urban development” segment decreased by ¥7,453 million (\$62,006 thousand) ,operating costs and expenses decreased by ¥8,218 million (\$68,374 thousand), operating profit increased by ¥765 million (\$6,367 thousand) ,depreciation of identifiable assets decreased by ¥1,929 million (\$16,056thousand), capital expenditure of identifiable assets decreased by ¥382 million (\$3,185 thousand).  
Sales of the “Other businesses” segment increased by ¥7,453 million (\$62,006thousand) ,operating costs and expenses increased by ¥8,218 million (\$68,374 thousand) operating profit decreased by ¥765 million (\$6,367 thousand), depreciation of identifiable assets increased by ¥1,929 million (\$16,056 thousand), capital expenditure of identifiable assets increased by ¥382 million (\$3,185 thousand).

(Year ended March 31, 2002)  
Some affiliates and real estates which had previously been included in the “Urban development” segment were transferred to the “Other businesses” segment and the “Steelmaking and steel fabrication” segment,respectively,at January 2002. This change was made because the managing departments of these assets were changed and in order to enhance the usefulness of segment information.  
Accordingly, identifiable assets of the “Urban development” segment decreased by ¥31,119 million and those of the “Other businesses” segment increased by ¥25,731 million and those of the “Steelmaking and steel fabrication” segment increased by ¥5,388 million.  
In addition, taking the timing of the above change into account, sales, operating profit, depreciation of identifiable assets and capital expenditure for identifiable assets are disclosed on the basis of the former segmentation.

(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 foreign subsidiaries, are as follows;

	Millions of yen		Thousands of dollars
	2003	2002	2003
Overseas sales	¥ 611,129	¥ 514,672	\$ 5,084,273
Consolidated net sales	2,749,306	2,581,399	22,872,764
Overseas sales as proportion of consolidated net sales	22.2%	19.9%	22.2%

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

15.Securities

(Year ended March 31, 2003)

Information regarding marketable securities and investments in securities at March 31, 2003 is as follows;

(1) Held -to-maturity debt securities with available market quotations are summarized as follows;

	Millions of yen		
	2003		
	Carrying amount	Current price	Unrealized gain (loss)
Other	¥313	¥314	¥1
Total	¥313	¥314	¥1

	Thousands of dollars		
	2003		
	Carrying amount	Current price	Unrealized gain (loss)
Other	\$2,608	\$2,619	\$11
Total	\$2,608	\$2,619	\$11

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

	Millions of yen		
	2003		
	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	¥81,215	¥136,581	¥55,365
Bonds and debentures			
Government bonds and municipal bonds	60	62	1
Debentures	10,675	10,711	35
Other	25,402	27,453	2,051
Sub total	¥117,354	¥174,809	¥57,454

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

Corporate shares	¥114,336	¥93,867	¥(20,469)
Bonds and debentures			
Debentures	17	17	(0)
Other	453	196	(257)
Sub total	¥114,808	¥94,081	¥(20,726)
Total	¥232,162	¥268,890	¥36,727

	Thousands of dollars		
	2003		
	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	\$675,671	\$1,136,286	\$460,614
Bonds and debentures			
Government bonds and municipal bonds	504	521	16
Debentures	88,815	89,113	297
Other	211,334	228,399	17,064
Sub total	976,325	1,454,319	477,993

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

Corporate shares	\$951,222	\$780,930	\$(170,292)
Bonds and debentures	145	145	(0)
Debentures			
Other	3,775	1,631	(2,143)
Sub total	955,143	782,707	(172,436)
Total	\$1,931,469	\$2,237,026	\$305,557

(3) Available-for-sale securities sold in the year ended March 31, 2003

	Millions of yen		
	2003		
	Amount of sales	Gain on sales	Loss on sales
	¥18,267	¥4,718	¥(3,534)

	Thousands of dollars		
	2003		
	Amount of sales	Gain on sales	Loss on sales
	\$151,974	\$39,252	\$(29,404)

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

	Millions of yen	
	2003	
Held-to-maturity debt securities	¥	13
Available-for-sale securities		
Shares of private companies, etc.	38,636	
Money management funds, etc.	822	

	Thousands of dollars	
	2003	
Held-to-maturity debt securities	\$	108
Available-for-sale securities		
Shares of private companies, etc.	321,434	
Money management funds, etc.	6,840	

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

	Millions of yen			
	2003			
	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	¥ 44	¥ 102	¥ 101	¥ —
Debentures	10	750	—	—
Other	148	190	—	—
Other	—	—	—	—
	¥202	¥1,044	¥ 101	¥ —



	Thousands of dollars			
	2003			
	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	\$ 368	\$ 851	\$ 846	—
Debentures	83	6,247	—	—
Other	1,232	1,588	—	—
Other	—	—	—	—
	\$ 1,684	\$ 8,687	\$ 846	—

(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 with available market quotations are summarized as follows;**

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

**(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

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

	Millions of yen	
	2002	
	Amount of sales	Gain on sales
	¥15,352	¥2,319
		¥(2,152)

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

	Millions of yen
	2002
	¥ 18
Held-to-maturity debt securities	
Available-for-sale securities	
Shares of private companies, etc.	38,808
Money management funds, etc.	770

**(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

**16.Retirement Benefits**

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

NIPPON STEEL may pay special retirement allowances on

voluntary retirement which are not included from the projected benefit obligations.

Projected benefit obligations as of March 31, 2003 and 2002 are analyzed as follows:

	Millions of yen		Thousands of dollars
	2003	2002	2003
	2003	2002	2003
Projected benefit obligations	¥ (646,506)	¥ (690,217)	\$ (5,378,593)
Plan assets	391,223	475,812	3,254,771
Accrued pension and severance costs	110,109	116,930	916,051
Prepaid pension cost	(74,449)	(68,504)	(619,383)
Balance	(219,623)	(165,979)	(1,827,154)
Consisting of :			
Unrecognized balance of the transition obligation	(11,630)	(19,163)	(96,757)
Unrecognized actuarial differences	(222,156)	(162,721)	(1,848,222)
Unrecognized balance of prior service costs*2	14,162	15,905	117,825
	(219,623)	(165,979)	(1,827,154)

\*1 The above table, for 2002 only, includes the amounts relating to the portion subject to the Japanese Welfare Pension Insurance Law. For 2003, all companies which used a welfare pension plan obtained governmental approval for exemption from the obligation for benefits related to future employee services. The detailed information of this exemption is described in Note 2 (12).

\*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 simplified method permitted by the new standard.

The net pension expense relating to retirement benefits for the year ended March 31, 2003 and 2002 is as follows :

	Millions of yen		Thousands of dollars
	2003	2002	2003
Service costs*2,4	¥ 17,856	¥ 18,974	\$ 148,556
Interest costs	14,267	20,015	118,696
Expected return on plan assets	(8,164)	(12,465)	(67,922)
Amortization of transition obligation	5,042	6,220	41,947
Amortization of actuarial differences	12,433	5,261	103,442
Amortization of prior service costs*3	(1,362)	(799)	(11,336)
Net pension expense	40,072	37,207	333,384
Gain on relinquishment of entrusted portion of the pension fund	(443)	—	(3,693)
	39,628	37,207	329,691

\*1 In addition to the net pension expense above, special benefits for early retirement of ¥10,336million (\$85,992thousand) were paid for the year ended March 31, 2003,¥10,136 million (\$84,332 thousand) of which was recorded as a special loss, and ¥8,251 million were paid for the year ended March 31, 2002, ¥8,134 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 simplified method permitted by the new standard is applied, are included in “Service costs”.

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

	As of March 31,2003		As of March 31,2002	
Method of attributing the projected benefits to periods of service	Mainly straight-line basis		Mainly straight-line basis	
Discount rate	1.5%–3.1%	(mainly 2.1%)	1.5%-3.5%	(mainly 2.1%)
Expected rate of return on plan assets	0.0%–4.0%	(mainly 2.1%)	0.0%-5.5%	(mainly 3.1%)
Amortization of unrecognized prior service cost*1	1–14years	(mainly 14years)	1–14years	(mainly 14years)
Amortization of unrecognized actuarial differences*2	1–15years	(mainly 14years)	1–15years	(mainly 14years)
Amortization of transition obligation*3	1–15years		1–15years	

\*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 one amount at the year ended March 31, 2001 for Nippon Steel Corporation and certain consolidated subsidiaries, and over 5 years for the remaining entities.

17. 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 the 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 counter parties or fluctuations of interest, currency and the price of nickel, it does not anticipate

significant losses because all of the counter parties are trading companies or financial institutions with high credit ratings and the use of derivatives is limited to hedging purposes as described above.

All derivative financial instruments held by Nippon Steel, are for hedging purposes and recognized at fair value on the consolidated balance sheet, except for interest swaps applying the “exceptional” method and forward exchange contracts applying the “assigning” method, and therefore disclosure of detailed information for derivatives is not required.

18.Related Party Transactions

Transactions of Nippon Steel Corporation with its directors are as follows: (Year ended March 31, 2003)

	Millions of yen				Thousands of dollars		Notes
	Transactions made during the year ended March 31, 2003		Resulting account balances		Transactions made during the year ended March 31, 2003	Resulting account balances	
	Description of transactions	Amounts	Account	Amounts	Amounts	Amounts	
(a) Name of Director (b) Title of related parties (c) Equity ownership percentage of Nippon Steel Corp.							
(a) Akira Chihaya [Representative Director and President of Nippon Steel Corp.]	Contribution	¥277	—	—	\$2,304	—	(1)
(b) Chairman of The Nippon Steel Arts Foundation	Acceptance of maintenance of Kioi Hall	2	—	—	22	—	(2)
(c) 0.0%							

Notes:

(1) The amount of the contribution was determined generally considering the planned activities of the Foundation and the need for social contributions and the results of operation of Nippon Steel Corporation.

(2) The terms and conditions applicable to the above transactions have been determined on an arm’s length basis and by reference to normal market price levels.

(Year ended March 31, 2002)

Millions of yen					
	Transactions made during the year ended March 31, 2003		Resulting account balances		Notes
	Description of transactions	Amounts	Account	Amounts	
(a) Name of Director					
(b) Title of related parties					
(c) Equity ownership percentage of Nippon Steel Corp.					
(a) Akira Chihaya [Representative Director and President of Nippon Steel Corp.]	Contribution	¥370	—	—	(1)
(b) Chairman of The Nippon Steel Arts Foundation					
(c) 0.0%					
(a) Kazuo Nagahiro [Director of Nippon Steel Corp.]	Sale site for parking lot	167	Accounts receivable	167	(2)
(b) Chairman of The Tokai Industrial Medical Foundation					
(c) 0.0%					
(a) Josei Ito [Corporate Auditor of Nippon Steel Corp.]	Reserved guarantee of loans	9	—	—	(3)
(b) Representative Director and Chairman of the Board of Directors of Nippon Life Insurance Company					
(c) 0.0%					

Notes:

(1) The amount of the contribution was determined generally considering the planned activities of the Foundation and the need for social contributions and the results of operation of Nippon Steel Corporation.

(2) The terms and conditions applicable to the above transactions have been determined on an arm’s length basis and by reference to normal market price levels.

(3)Reserved gurantee for borrowing of an affiliate of Nippon Steel Corporation.

19. Subsequent Events

( Year ended March 31, 2003 )

1. At the meeting of the Board of Directors held on April 25, 2003, Nippon Steel Corporation approved to making Nippon Steel Chemical Co., Ltd. (“Nippon Steel Chemical”, a consolidated subsidiary) a wholly-owned subsidiary of Nippon Steel Corporation through a share exchange on July 29, 2003.

(1) Share exchange schedule

June 24, 2003	Shareholders meeting to approve the share exchange agreement (Nippon Steel Chemical)
July 28, 2003	Last day of share certificate submission period (Nippon Steel Chemical)
July 29, 2003	Effective date of the share exchange

Notes: Nippon Steel Corporation will perform the share exchange with Nippon Steel Chemical without approval of its shareholders, pursuant to the provisions of Clause 1 of Article 358 of the Commercial Code of Japan.

(2) Share exchange ratio

	Nippon Steel Corporation	Nippon Steel Chemical
Share exchange ratio	1	1.059

Note that if there are any material changes in any of the various conditions upon which the share exchange ratio shown above

was determined, Nippon Steel Corporation and Nippon Steel Chemical may decide to amend the ratio.

Notes:

- (1) Allotment of shares:  
For each share of Nippon Steel Chemical, except for the shares which Nippon Steel Corporation possesses, 1.059 shares of Nippon Steel Corporation shall be allotted.
- (2) Number of shares to be issued upon the share exchange:  
No additional shares will be issued by Nippon Steel Corporation. 100,058,612 shares of treasury stock of Nippon Steel Corporation will be used.

(3) There is no additional money to be transferred for the share exchange.

2. At the meeting of the Board of Directors held on May 23, 2003, Nippon Steel Corporation resolved that all stocks of Wacker NSCE Corporation owned by Nippon Steel Corporation (45% of the outstanding shares of Wacker NSCE Corporation) be sold to Wacker-Chemie GmbH. As a result, the special loss will amount to approximately ¥500 million (\$4,159 thousand), while contingent liabilities will decrease by approximately ¥5,400 million (\$45,000 thousand) in the year ended March 31, 2004.

( Year ended March 31, 2002 )

There are no significant subsequent events at March 31, 2002.

Report of Independent Auditors

To the Board of Directors and Shareholders of  
Nippon Steel Corporation

We have audited the accompanying consolidated balance sheets of Nippon Steel Corporation and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders’ equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Steel Corporation and its subsidiaries as of March 31, 2003 and 2002, and the consolidated 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).

As discussed in Note 14 to the consolidated financial statements, effective from the year ended March 31, 2002, Nippon Steel Corporation changed the basis of reporting performance by industry segments.

As discussed in Note 19 to the consolidated financial statements, at the meeting of the Board of Directors held on April 25, 2003, Nippon Steel Corporation approved making Nippon Steel Chemical Co., Ltd. a wholly owned subsidiary of Nippon Steel Corporation through a share exchange and, at the meeting of the Board of Directors held on May 23, 2003, Nippon Steel Corporation resolved that all stocks of Wacker NSCE Corporation owned by Nippon Steel Corporation (45% of the outstanding shares of Wacker NSCE Corporation) be sold to Wacker-Chemie GmbH.

The amounts expressed 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

ChuoAoyama Audit Corporation

Tokyo, Japan  
June 26, 2003



(Reference-Unaudited)

Non-Consolidated Balance Sheets

NIPPON STEEL Corporation

As of March 31, 2003 and 2002

	Millions of yen		Thousands of dollars
	2003	2002	2003
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits	¥7,278	¥16,411	\$ 60,552
Receivables:			
Notes receivable	4,461	6,082	37,114
Accounts receivable - trade	164,456	197,107	1,368,192
Accounts receivable	47,210	52,342	392,765
Less: Allowance for doubtful accounts	(1,248)	(1,475)	(10,382)
	214,880	254,056	1,787,688
Inventories	376,752	427,251	3,134,380
Deferred tax assets	2,400	26,700	19,966
Other	138,876	95,374	1,155,375
<b>Total current assets</b>	<b>740,187</b>	<b>819,794</b>	<b>6,157,963</b>
<b>Fixed assets:</b>			
<b>Tangible fixed assets:</b>			
Buildings and structures	1,114,502	1,107,156	9,272,069
Machinery and equipment	3,829,738	3,738,186	31,861,382
	4,944,240	4,845,343	41,133,452
Less:Accumulated depreciation	(3,995,059)	(3,900,427)	(33,236,764)
	949,181	944,915	7,896,687
Land	231,316	225,900	1,924,431
Construction in progress	47,956	81,461	398,974
	1,228,455	1,252,277	10,220,093
<b>Intangible fixed assets:</b>			
Goodwill	60	140	499
Patents and utility rights	1,214	1,453	10,103
Software	2,233	6,693	18,580
	3,507	8,287	29,183
<b>Investments and others:</b>			
Investments in securities	270,434	365,991	2,249,871
Investments in subsidiaries and affiliates	312,289	264,179	2,598,079
Other	42,062	36,424	349,937
Less: Allowance for doubtful accounts	(8,238)	(7,982)	(68,539)
	616,547	658,613	5,129,349
<b>Total fixed assets</b>	<b>1,848,510</b>	<b>1,919,178</b>	<b>15,378,626</b>
<b>Total assets</b>	<b>¥2,588,698</b>	<b>¥2,738,973</b>	<b>\$ 21,536,589</b>

	Millions of yen		Thousands of dollars
	2003	2002	2003
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term loans and long-term loans due within one year	¥225,646	¥188,606	\$ 1,877,259
Bonds and notes due within one year	30,000	110,000	249,584
Commercial paper	20,000	116,000	166,389
Payables:			
Notes payable	3,975	5,140	33,072
Accounts payable - trade	157,483	143,282	1,310,180
Accounts payable	60,114	82,950	500,123
	221,573	231,372	1,843,376
Accrued income taxes and enterprise taxes	245	128	2,041
Accrued expenses	253,141	256,845	2,106,001
Advances received	26,373	35,044	219,415
Other	4,485	6,955	37,317
<b>Total current liabilities</b>	<b>781,466</b>	<b>944,953</b>	<b>6,501,385</b>
<b>Long-term liabilities:</b>			
Bonds and notes	340,000	275,000	2,828,618
Convertible bonds	98,729	98,729	821,372
Long-term loans	473,834	452,139	3,942,049
Deferred tax liabilities	—	48,800	—
Accrued pension and severance costs	67,952	78,013	565,328
Reserve for repairs for blast furnaces	48,385	46,949	402,540
Allowance for loss on guarantees	61,300	—	509,983
Other	3,258	831	27,107
<b>Total long-term liabilities</b>	<b>1,093,459</b>	<b>1,000,463</b>	<b>9,097,000</b>
<b>Total liabilities</b>	<b>1,874,926</b>	<b>1,945,416</b>	<b>15,598,386</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock:</b>			
Authorized—9,917,077,000 shares			
Issued and outstanding—			
6,806,980,977 shares as of March 31, 2003 and 2002	419,524	419,524	3,490,224
<b>Statutory reserve:</b>			
Additional paid-in capital	105,518	105,518	877,857
Legal reserve	—	99,302	—
	105,518	204,820	877,857
<b>Special tax-purpose reserve</b>	<b>101,432</b>	<b>107,016</b>	<b>843,867</b>
<b>Voluntary reserves</b>	<b>—</b>	<b>20,000</b>	<b>—</b>
<b>Retained earnings</b>	<b>86,652</b>	<b>(7,575)</b>	<b>720,901</b>
<b>Unrealized gains on available-for-sale securities</b>	<b>20,039</b>	<b>49,792</b>	<b>166,716</b>
<b>Less:Treasury stock, at cost</b>	<b>(19,395)</b>	<b>(21)</b>	<b>(161,364)</b>
<b>Total shareholders'equity</b>	<b>713,772</b>	<b>793,557</b>	<b>5,938,203</b>
<b>Total liabilities and shareholders'equity</b>	<b>¥2,588,698</b>	<b>¥ 2,738,973</b>	<b>\$ 21,536,589</b>

(Reference-Unaudited)			
Non-Consolidated Statements of Income			
NIPPON STEEL Corporation		Thousands of dollars	
Years ended March 31, 2003 and 2002			
	Millions of yen		
	2003	2002	2003
Operating revenues:			
Net sales	¥1,789,706	¥1,681,406	\$ 14,889,407
Operating costs and expenses:			
Cost of sales	1,537,331	1,483,813	12,789,780
Selling, general and administrative expenses	160,095	165,863	1,331,906
	1,697,426	1,649,676	14,121,687
Operating profit	92,279	31,729	767,719
Non-operating profit and loss:			
Non-operating profit:			
Interest and dividend income	10,085	14,416	83,909
Miscellaneous	6,608	9,821	54,975
	16,694	24,238	138,885
Non-operating loss:			
Interest expenses	21,996	24,139	182,995
Miscellaneous	38,618	31,125	321,286
	60,614	55,265	504,282
Operating profit	48,359	702	402,322
Special profit and loss:			
Special profit:			
Gain on sales of tangible fixed assets	6,588	4,794	54,816
Gain on sales of investments in securities and investments in subsidiaries and affiliates	24,357	1,016	202,641
Release of reserve for repairs to blast furnances	—	14,690	—
Gain on contribution of securities to employee retirement benefit trust	—	22,265	—
	30,946	42,767	257,457
Special loss:			
Loss on valuation of investments in securities	41,295	84,780	343,560
Special retirement allowances for voluntary retirement	7,957	6,319	66,200
Provision for allowance for loss on guarantees	61,300	—	509,983
	110,553	84,780	919,743
(Loss) income before income taxes and minority interest	(31,247)	(47,629)	(259,963)
Income taxes—current	900	700	7,487
Income taxes—deferred	(11,700)	(20,200)	(97,337)
Net (loss) income	¥(20,447)	¥(28,129)	\$ (170,112)
Per share (stated in yen and in dollars):			
Net (loss) income	(¥3.02)	(¥4.13)	(\$0.025)
Cash dividends applicable to the year	¥1.50	¥1.50	\$0.012

Weighted average number of shares outstanding (in thousands)	6,748,835	6,806,948
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(Reference-Unaudited)							
Non-Consolidated Statements of Shareholders' Equity							
NIPPON STEEL Corporation		Thousands					
Years ended March 31, 2003, 2002 and 2001		Millions of yen					
	Thousands	Common stock	Additional paid-in capital	Legal reserve	Special tax-purpose reserve	Voluntary reserve	Retained earnings
	Number of shares of common stock						
Balance at March 31, 2001	6,806,981	¥419,524	¥105,518	¥98,280	¥112,397	¥20,000	¥26,405
Net 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)
Net loss for the year ended March 31, 2003	—	—	—	—	—	—	(20,447)
Year-end cash dividends	—	—	—	—	—	—	(10,210)
Transfer to legal reserve	—	—	—	(99,302)	—	—	99,302
Transfer to special tax-purpose reserve	—	—	—	—	(5,583)	—	5,583
Transfer to voluntary reserve	—	—	—	—	—	(20,000)	20,000
Balance at March 31, 2003	6,806,981	¥419,524	¥105,518	¥ —	¥101,432	¥ —	¥86,652

	Thousands	Thousands of dollars					
Balance at March 31, 2002	6,806,981	\$3,490,224	\$877,857	\$826,143	\$890,318	\$166,389	\$(63,025)
Net loss for the year ended March 31, 2003	—	—	—	—	—	—	(170,112)
Year-end cash dividends	—	—	—	—	—	—	(84,944)
Transfer to legal reserve	—	—	—	(826,143)	—	—	826,143
Transfer to special tax-purpose reserve	—	—	—	—	(46,451)	—	46,451
Transfer to voluntary reserve	—	—	—	—	—	(166,389)	166,389
Balance at March 31, 2003	6,806,981	\$3,490,224	\$877,857	\$ —	\$843,867	\$ —	\$720,901

Principal Subsidiaries and Affiliates

(as of March 31, 2003)

Consolidated Subsidiaries (258 companies)

Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacture/sale and other operations)
Steelmaking and Steel Fabrication (163 companies)			
Nittetsu Steel Sheet Corporation	58.8	11,019	Galvanized steel sheet, Color galvanized steel sheet, Surface-treated steel sheet, Construction material
Hokkai Iron & Coke Co., Ltd.	80.0	9,255	Pig iron, blast-furnace slag, cokes
Osaka Steel Co., Ltd.	61.7	8,769	Shapes, deformed bars, fabricated products, billets
Nippon Steel Metal Products Co., Ltd.	83.6	5,912	Structural materials for buildings and civil engineering work, prepainted galvanized sheets, steelmaking fluxes and CC powders
Nittetsu Steel Pipe Co., Ltd.	57.0	3,497	Small-diameter pipe and tubes, lining/coating
Nippon Steel Logistics Co., Ltd.	59.7	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
Nippon Steel Drum Co., Ltd.	55.3	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 Transpotation Co., Ltd.	87.8	500	Marine and land transportation, loading lanloading
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.	60.8	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
146 other companies			
Engineering and Construction (16 companies)			
Urban Development (13 companies)			
Nippon Steel City Produce, Inc.	100.0	5,750	Real estate
12 other companies			
Chemicals and Nonferrous Materials (31 companies)			
Nippon Steel Chemical Co., Ltd.	67.8	40,966	Coke, chemical products
Yutaka Electric Mfg. Co., Ltd.	100.0	1,250	Power supply equipment for electronics equipment, transformers
29 other companies			
System Solutions (12 companies)			
NS Solutions Corporation	72.2	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)
Services and Others (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 (86 companies)			
Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacture/sale and other operations)
Nichia Steel Works, Ltd.	24.3	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	26.1	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.	30.5	2,000	Marine and land transportation, loading/unloading
Sanko Metal Industrial Co., Ltd.	17.3	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.	17.3	1,028	Cold-finished bars, cold-heading wire
The Siam United Steel (1995) Co., Ltd.	36.3	THB9,000 million	Refractories
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.	39.6	8,750	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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(The office will move to the following address, effective  
in November 2002.)  
780 Third Avenue, 34th Floor  
New York, N.Y. 10017, U.S.A.

## **NIPPON STEEL U.S.A., INC.**

*Chicago Office*  
900 North Michigan Avenue  
Suite 1820, Chicago, Illinois 60611  
U.S.A.  
Phone: 1-312-751-0800  
Telefax: 1-312-751-0345

## **NIPPON STEEL CORPORATION**

*European Office*  
Am Seestern 8, 40547 Düsseldorf  
Federal Republic of Germany  
Phone: 49-211-5306680  
Telefax: 49-211-5961163  
E-mail: nsceurope@nsceurope.de

## **NIPPON STEEL AUSTRALIA PTY. LIMITED**

Level 24, No.1 York Street, Sydney  
N.S.W. 2000, Australia  
Phone: 61-2-9252-2077  
Telefax: 61-2-9252-2082  
E-mail: sydnsc3@nipponsteel.com.au

## **NIPPON STEEL SOUTHEAST ASIA PTE. LTD.**

16 Raffles Quay #35-01, Hong Leong Building  
Singapore 048581  
Phone: 65-6223-6777  
Telefax: 65-6224-4207

## **NIPPON STEEL CORPORATION**

*Bangkok Representative Office*  
Thosapol Land 3 Building, 4th Floor  
947 Moo 12 Bangna-Trad Rd., km3 Bangna  
Bangkok 10260, Thailand  
Phone: 66-2-744-1480  
Telefax: 66-2-744-1485

## **NIPPON STEEL EMPREENDIMENTOS SIDERÚRGICOS LTDA.**

Av. Paulista, 1048-10 andar Conj.101  
Bela Vista, São Paulo-SP, CEP 01310-100  
Brasil  
Phone: 55-11-3371-4040  
Telefax: 55-11-3371-4041  
E-mail: nses@nsc.com.br

## **NIPPON STEEL CORPORATION**

*Beijing Representative Office*  
8th Floor, Chang Fu Gong Center  
Jian Guo Men Wai Da Jie, 100022 Beijing  
China  
Phone: 86-10-6513-8593  
Telefax: 86-10-6513-7197  
E-mail: nscbj@public.bta.net.cn

## **NIPPON STEEL CORPORATION**

*Shanghai Representative Office*  
28th Floor, HSBC Tower  
101 Yincheng Dong Lu  
Pudong New Area, 200120 Shanghai  
China  
Phone: 86-21-6841-1812  
Telefax: 86-21-6841-5529  
E-mail: nscs@public.sta.net.cn

## **NIPPON STEEL CORPORATION**

*Guangzhou Representative Office*  
Room No.1207, The Garden Tower  
368 Huanshi Dong Lu, 510064 Guangzhou  
China  
Phone: 86-20-8386 8178  
Telefax: 86-20-8386 7066  
E-mail: nscgzo@public.guangzhou.gd.cn

# Investor Information

(as of March 31, 2003)

## 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

16,481

### 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.  
Mitsui Asset Trust and Banking Company, Limited  
State Street Bank and Trust Company  
Nippon Life Insurance Co.  
Mizuho Corporate 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.  
The Mitsubishi Trust & Banking Corporation

**Nippon Steel Corporation**