



Nippon Steel Corporation

Annual Report **2004**
Year ended March 31, 2004

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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, 2004 (April 1, 2003–March 31, 2004) and designated as “fiscal 2003” and the previous term same period ended March 31, 2003 (April 1, 2002–March 31, 2003) and designated as “fiscal 2002.”
- Tonnage figures are in metric tons; all dollar (\$) figures are in US currency and translated from Japanese yen at the rate of \$1=¥105.69 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 trademarks in reader's countries.

Financial Highlights

Consolidated

As of or for the years ended March 31	Millions of yen			Millions of dollars
	2004	2003	2002	2004
Net sales	2,925,878	2,749,306	2,581,399	27,683
Net income (loss)	41,515	(51,686)	(28,402)	392
Net income (loss) per share	¥ 6.15	(¥7.69)	(¥4.17)	\$ 0.058
Shareholders' equity	938,581	789,443	907,150	8,880
Total assets	3,705,917	3,757,175	4,030,596	35,064

Non-Consolidated

As of or for the years ended March 31	Millions of yen			Millions of dollars
	2004	2003	2002	2004
Net sales	1,861,829	1,789,706	1,681,406	17,615
Net income (loss)	31,184	(20,447)	(28,129)	295
Net income (loss) per share	¥ 4.62	(¥3.02)	(¥4.13)	\$ 0.043
Cash dividends per share	¥ 1.50	¥ 1.50	¥ 1.50	\$ 0.014
Shareholders' equity	845,099	713,772	793,557	7,996
Total assets	2,652,353	2,588,698	2,738,973	25,095

	Thousands of tons		
	2004	2003	2002
Crude steel production (Non-consolidated basis)	30,146	29,902	26,140

Note: Yen figures have been translated to U.S. dollars at the rate of ¥105.69 to US\$1 as of March 31, 2004, solely as a convenience to readers.

Medium-Term Consolidated Business Plan

Nippon Steel Corporation is now in the process of implementing the Medium-Term Consolidated Business Plan, covering the period from fiscal 2003 to fiscal 2005 and aimed at strengthening the management infrastructure. 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, while Nippon Steel will also strengthen its alliances with Japanese and foreign steel makers.

In other businesses, including engineering and construction, Nippon Steel will utilize management resources accumulated from its steelmaking activities, including its diverse technology, human resources and assets. It will seize every business opportunity by developing synergies between these businesses and its steelmaking business.

Of equal importance to the plan is the Company's comprehensive environmental management, which targets a reduction in carbon dioxide emissions and focuses on the utilization of steelmaking works infrastructure to aid in the recycling of such materials as plastic and tires, with the aim of contributing to the development of a "recycling society."

Operating Overview

In fiscal 2003, there was strong demand for steel from overseas, especially in the Asian countries, and the Japanese economy continued to recover, with a notable rebound in private-sector capital investment. Steel demand by the automotive, shipbuilding and industrial machine industries was positive due to foreign demand for these types of products, and demand from China for steel products increased to record levels. While this robust market resulted in higher prices for steel both in Japan and overseas, fuel and sea transportation costs also rose to levels not seen in recent years. Striving to keep selling prices competitive, and at the same time implementing various strategies to maintain stable supplies of materials and fuels, Nippon Steel nonetheless managed to hold down costs and improve profitability.

In September 2003, a gasholder explosion occurred at the Nagoya works. This mishap had a serious affect on the region and local customers. By April 2004, a new gasholder, built to advanced safety standards, was in full operation, underscoring Nippon Steel's commitment to improving accident training programs and a strengthening of safety and disaster measures.



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

Moreover, in January 2004, Nippon Steel received a recommendation judgment from the Fair Trade Commission on its cold-rolled stainless steel business activities. Nippon Steel takes this judgment very seriously and is doing everything possible to establish a code of corporate ethics and insure compliance with laws in the future.

The Future Outlook for Fiscal 2004

Nippon Steel expects the Japanese economy to continue its recovery, with steady business centered on the manufacturing sector continuing to create demand for steel products. It also appears that robust demand for steel products from overseas, primarily from Southeast Asia, will continue to create a strong export market for steel. As restructuring of the supply and demand situation in the worldwide steel industry continues, Nippon Steel will pursue its aim of improving its pricing, and implement appropriate measures to deal with the pressures of higher fuel and material costs.

Akira Chihaya
Akira Chihaya *Chairman*

Akio Mimura
Akio Mimura *President*

Nippon Steel seeks to ensure efficiency, soundness and transparency in its corporate management. By doing this, the company will steadily increase in value and fulfill its role as a trustworthy corporate partner in society. In order to accomplish these ends, Nippon Steel implements the following systems and measures with regard to corporate governance.

Organs of Management (Management Administration System)

Nippon Steel has adopted an auditor system. In addition to the 36 members of the Board of Directors (none from outside the company), Nippon Steel has 6 corporate auditors (3 from outside the company). Since 1999 and prior to the amendment to the Japanese Commercial Code regarding outside auditors, fully half of Nippon Steel's corporate auditors have been appointed from outside the company.

The members of the Board of Directors have deep knowledge and extensive experience in the businesses conducted by Nippon Steel, which serves well in the quest of increased management efficiency. At the same time, the functions of the corporate auditors, including the outside auditors, have been strengthened in pursuit of maintaining and enhancing managerial soundness.

Status of Reinforcements to Corporate Governance and Risk Management System

As a means to achieve greater effectiveness and efficiency in business operations and higher reliability in financial reporting, as well as to ensure company-wide legal compliance, Nippon Steel has reinforced its corporate governance and risk management system as follows.

Effectiveness and efficiency

In order to secure effectiveness and efficiency in business operations, matters of great importance to the management of Nippon Steel and the Nippon Steel Group are determined by the Board of Directors (who meet once or twice a month) after deliberation at the Corporate Policy Committee attended by the Chairman, President, Executive Vice Presidents and others (normally held once a week). As deliberating bodies subordinate and antecedent to the meetings of the Corporate Policy Committee and the Board of Directors, a total of 16 company-wide committees have been established and operate according to specific purposes. They include the Ordinary Budget Committee, the Investment and Finance Committee, the Fund Management Committee, the Technology Development Committee and the Environmental Management Committee.

Business operations mandated by the Board of Directors and other committees are promptly implemented by the directors responsible for the operations and the general managers of the relevant divisions under the direction of the Representative Director and Chairman and the Representative Director and President. Concurrently, in order to establish a system of internal checks, Nippon Steel stipulates in its corporate regulations the organizational authorities, the persons in charge, and the appropriate business operating procedures.

Handling of information

With regard to the handling of information, which is an important management resource, Nippon Steel is prepared to fully utilize computers and other systems in order not only to make available necessary and sufficient information for management purposes, but also to transmit such information both within and outside the Company. At the same time, to protect confidential information, the Company has taken various security measures, such as specifying the responsible persons according to the level of information, classifying information according to level of confidentiality, and taking steps to restrict unauthorized access from outside.

Governance of financial matters

The key concept underlying the governance of financial matters is that thoroughgoing, autonomous and strict management is to be practiced by the general manager of each division in accordance with the relevant corporate regulations and manuals, such as the Basic Rules on Financial Accounting. At the same time, the financial division at the headquarters regularly monitors all transactions managed by each division in order to confirm the effectiveness of controls, the adequacy of asset valuations, the reliability of financial reporting, and other matters.

From the viewpoint of ensuring transparency of management, Nippon Steel has conventionally emphasized the dissemination of information by means of IR activities, websites and other means. Now, stress is also placed on the accurate and timely disclosure of information, as represented by efforts towards greater agility in announcing financial results, implemented from fiscal 2001 results, and the quarterly disclosure of corporate performance, started from fiscal 2004.

Compliance with laws and regulations

Regarding compliance with laws and regulations, for the sound development of society and the market economy, each individual member's behavior with good common sense following a code of conduct is perceived by Nippon Steel to be very important. Thus, Nippon Steel has endeavored to thoroughly inform all employees, via messages from the top management and regular legal education programs, that legal compliance and fair business practices are a fundamental policy of the Company.

Since Nippon Steel is a "product-making" company with many production floors, the concept of autonomous line control that places prime importance on the production floor has traditionally been a root element in the Company's operations. Accordingly, Nippon Steel requires that the autonomous management of each division by a director responsible for operations should serve as the basis for managing the individual risks involved in capital management, asset utilization, individual transactions, accidents and disasters and other general corporate matters. In line with this policy, the head (or general manager) of each division must strive to prevent any illegal business activity from occurring. At the same time, whenever the head recognizes an illegality or an activity of questionable compliance, the head is obliged to report it immediately to the internal audit division (General Administration Division).

Internal audits

For the execution of internal audits, Nippon Steel has established a "Risk Management Committee" that is chaired by the Executive Vice President in charge of general administration. While sharing information with corporate auditors, the Risk Management Committee periodically checks for adherence to the risk management and internal control system and for necessary improvements thereto. At the same time, it examines new tasks ahead and, when necessary, instructs the responsible division to work out specific solutions and reviews their progress. These are Nippon Steel's endeavors on a daily basis to enhance its internal audit.

Help line system

Further, Nippon Steel has established a help line system (Corporate Life Consulting Room) that offers personal consultation to its employees and their families in the performance of their company responsibilities.

Risk management system of the entire Nippon Steel Group

In addition, in order to strengthen the risk management system of the entire Nippon Steel Group, each company within the Group has designated a person to be responsible for risk management. This facilitates the sharing of related information and the implementation of stepped-up measures between Nippon Steel and each of the group companies.

Crisis Management

Furthermore, Nippon Steel is prepared to immediately call upon its Crisis Management Team—consisting of corporate auditors, outside attorneys and the President who serves as its director—to handle emergencies that threaten to seriously affect corporate management of Nippon Steel or the Nippon Steel Group. In so doing, the company is prepared, even at an early stage, to promptly take any steps necessary to minimize damage or adverse consequences.

Interview with the President

Nippon Steel President Akio Mimura discusses events in the first year of the Medium-Term Consolidated Business Plan.



Q. How is the business environment today for steelmaking business?

A. In addition to a recovery in private sector investment, we are seeing a gradual recovery in consumer spending, and this is supporting a general economic recovery. Strong overseas demand for Japanese automobiles, shipbuilding and industrial machinery industries is creating greater demand for steel at home, and demand for steel products from East Asia, and China in particular, continues to be robust as well.

In 2003, our crude steel production surpassed the previous year's total by 240,000 tons, reaching 30,140,000 tons, the first time we have exceeded the 30 million mark since fiscal 1980. While demand for steel products from China helped to drive up steel product prices both at home and overseas, the rapid increase in demand also squeezed supplies of raw materials, fuels and shipping, pushing these costs up to levels not seen for some years.

Q. How would you evaluate the business results in fiscal 2003 of the Medium-Term Consolidated Business Plan in its first year?

A. We took various measures in the past year to respond to the current business environment, in particular, measures to improve our selling price and stabilize our sources of raw materials and fuels. Another plank of our Medium-Term Consolidated Business Plan calls for reducing our operating costs, and we made efforts in this regard as well. The result was a good start on our goal of improving profitability around our core steelmaking business, with

consolidated ordinary profits of ¥172.8 billion, an increase of ¥103.9 billion over the previous fiscal year.

On the other hand, in September 2003, we had the gasholder explosion at our Nagoya works, which caused major inconvenience and concern to our steel customers and associates in the region. In April 2004, a new gasholder with the most advanced safety and disaster prevention features was started and is now under full operations, and from now on, we will work to further strengthen safety and disaster prevention measures by utilizing the lessons learned.

Q. Please tell us about Nippon Steel's financial strategies and issues for the future.

A. Starting in fiscal 2005, disclosure of impairment on fixed assets will become a standard accounting requirement in financial statements, but in an effort to make our financial position more transparent, we began applying this rule in fiscal 2003, posting a special loss of ¥60 billion. With this, we finished meeting the requirements imposed by a series of changes in the accounting standards. We also made good progress on reducing interest-bearing debt, moving ahead of the Medium-Term Consolidated Business Plan schedule, and worked successfully to achieve other goals as quickly as possible so that the Company can meet its target of establishing a future financial position that is impeccable by international standards. In fact, we are now striving to improve profitability and to strengthen the financial structure so that we can exceed the goals of the Medium-Term Consolidated Business Plan.

Q. Could you explain the dividend policy?

A. We have always had a stable dividend policy, but after fiscal 2004, dividends will be awarded based on consolidated performance during the term.

Q. What are your business expectations for fiscal 2004?

A. In fiscal 2004, we expect the Japanese economy to continue on a course of recovery, with growth in demand for steel products centered primarily in the manufacturing sector. It also appears that East Asia will continue to experience robust demand for steel products. While the supply and demand structure for global steel products continues to undergo change, Nippon Steel has the benefit of a strong domestic market. Against this backdrop, Nippon Steel will

continue to apply its technical capability to the strategic development of high value-added products for overseas markets, while at the same time striving to make its pricing more competitive. Additionally, we will keep working on measures to protect against supply shortfalls and price hikes and make efforts to reduce costs and improve profitability.

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

A. Other than steelmaking, we have areas such as engineering, new materials, urban development, system solutions and chemicals. We are working to improve our operational efficiency in all of these areas, and we aim to achieve the goals of the Medium-Term Consolidated Business Plan, maximizing the development of business opportunities in each category.



Medium-Term Consolidated Business Plan

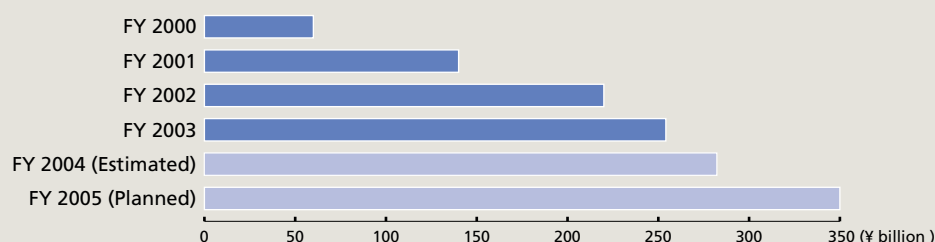
Nippon Steel is now in the process of implementing a Medium-Term Consolidated Business Plan (covering fiscal 2003 through fiscal 2005) designed to secure stable income and strengthen management infrastructure. In fiscal 2003, we made a favorable start, and in fiscal 2004, the second year of the Medium-Term Consolidated Business Plan, we will devote ourselves fully to working to further improve the international competitiveness and the profitability of our business operations, including our core steelmaking business. We will also target the early establishment of a solid financial structure in order to achieve good results over the course of the Medium-Term Consolidated Business Plan.

Consolidated Financial Targets

	2002	2003 (Actual results)	2004 (Estimated)	2005 (Planned)
Ordinary profit	¥68.8 billion	¥172.8 billion	¥200.0 billion	Approx. ¥250 billion
Ratio of ordinary profit to sales	2.5%	5.9%	6.5%	Approx. 9%
Ratio of operating profit to total assets	2.6%	5.3%	Approx. 6%*	Approx. 9%
Balance of interest-bearing debt	¥1,871.9 billion	¥1,561.2 billion	¥1,500.0 billion	Approx. ¥1,600 billion
Shareholders' equity	¥789.4 billion	¥938.5 billion	¥1,028.5 billion*	Approx. ¥1,000 billion
Debt/equity ratio	2.37	1.66	1.46*	1.6
Net sales	¥2,749.3 billion	¥2,925.8 billion	¥3,090.0 billion	Approx. ¥2,900 billion

*The projected base under consideration of dividend deduction of fiscal 2003 and fiscal 2004 (estimated)

Cost Improvement Progress in the Steelmaking Business (Base Year: Fiscal 2000)

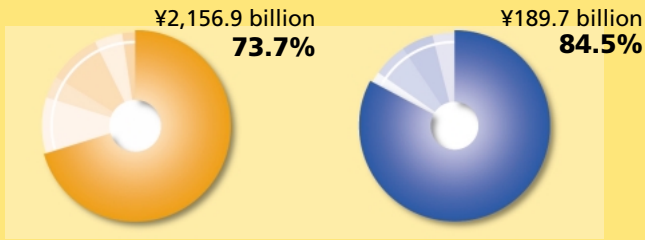


Products and Services at a Glance

Consolidated Sales
(2004*: ¥2,925.8 billion)

Consolidated Operating Profit
(2004*: ¥224.46 billion**)

Steelmaking and Steel Fabrication

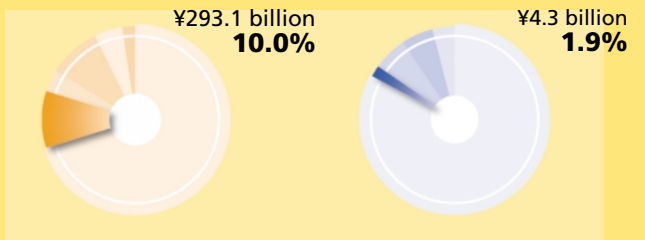


Nippon Steel's steelmaking and steel fabrication operations employ some of the most advanced technology in the world, enabling them to offer a great variety of hi-tech welding and processing solutions and placing its products in high demand in fields where highly processed, corrosion-resistant steel and steel with high-strength welds are required.

Nippon Steel's 10 steelworks are situated across Japan, from Hokkaido to Kyushu, operating as steelmaking plants, customer service bases and R&D centers. Moreover, today these same locations are being repurposed as recycling centers, taking advantage of the excellent potential of the steel-making business to lead in the movement to create a recycling-based society.

- 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, butt-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

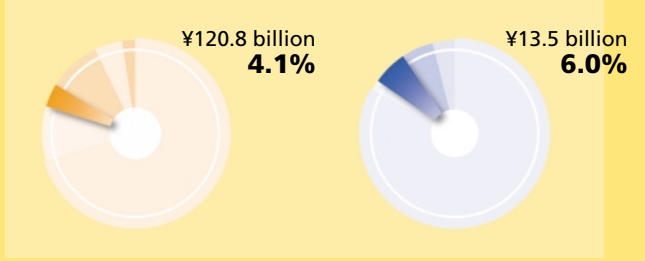
Engineering and Construction



Since it was founded in 1974, Nippon Steel's Engineering Division Groups have applied plant technology process know-how and construction capability accumulated from its steelmaking operations and materials to various related fields of business both within Japan and overseas, including iron and steelmaking, environmental and energy developments, and social capital development, including bridge building, waterworks, pipelines and building construction projects.

- Iron and steelmaking plants, FA/distribution plants, rolls, industrial machinery, industrial furnaces, material recycling and 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 frame construction, trusses, standardized buildings, seismic isolation and anti-vibration devices
- Urban redevelopment-related solutions
- Iron and steelmaking plant construction engineering, operating assistance, steelmaking know-how provision

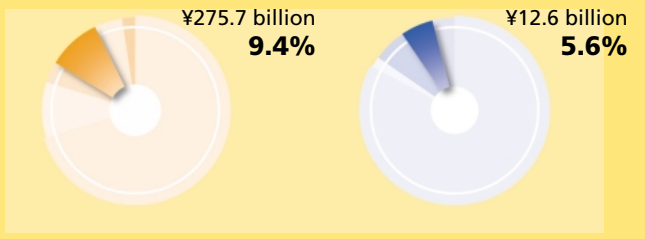
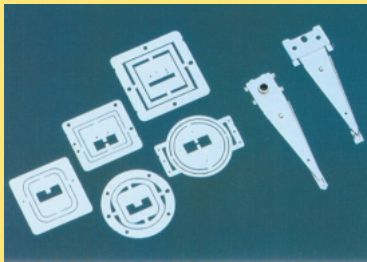
Urban Development



Nippon Steel does not consider its works to be mere production facilities. For more than 100 years it has integrated its plant operations with surrounding towns and cities, viewing each location as a place where culture and creativity develop on a day-to-day basis. Today Nippon Steel City is actively utilizing the long-accumulated know-how, products and network in the development of new urban projects.

- Urban development, condominiums, real estate

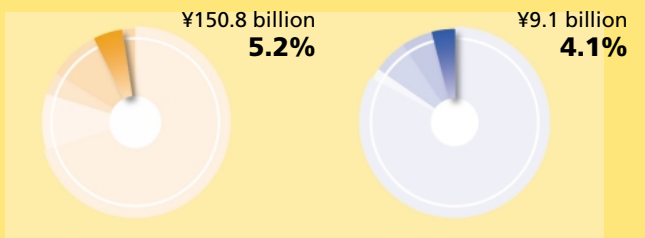
Chemicals and Nonferrous Materials



Nippon Steel's Chemicals and Nonferrous Materials had their beginnings in carbon chemistry, but today they encompass advanced products spanning a large range of materials, including those for electronics, where Nippon Steel Chemicals, Co., Ltd. holds a significant share in the world market. Demand for new materials continues to grow, leading the Company from "Chemical Operations" into "New Materials Operations," where Nippon Steel is developing the market for advanced and highly popular titanium products, which are lightweight, strong and non-corrosive.

- 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 devices

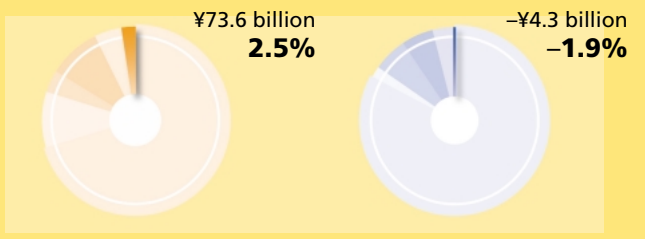
System Solutions



Nippon Steel Solutions, Inc. utilizes the Company's experience and IT capabilities to work as a system integrator providing free-standing, open-system solutions to user needs.

- Engineering and consulting services pertaining to computer systems

Other Businesses



Utilizing know-how accumulated from steelmaking and the Company's steelmaking infrastructure, Nippon Steel supplies wholesale electricity to local power companies from its five works.

- Power Supply**
- Power supply
- Services and Others**
- Theme parks (operation of space-oriented training facilities and exhibition booths, 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)

* Year ended March 31, 2004
Business sector-wise ratio of sales to customers

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

Steelmaking and Steel Fabrication



The No. 2 blast furnace at the Oita Works

With realignments completed in May 2004, the No. 2 blast furnace at the Oita works is the world's largest in volume. Its high production capacity has reduced the need for scrap purchases, further lowering operating costs.



The No. 4 blast furnace at the Kimitsu Works



The signing ceremony for the joint venture agreement with Baoshan

Arcelor participation in a joint venture business with Baoshan was decided. From May 2005, we will ship high-grade automotive steel sheet to facilitate the rapid increase in Chinese automobile production.

Business Review

Nippon Steel is a world leader in steelmaking technology for high-grade steel products such as fabricated, non-corrosive steel and steel requiring high-strength welds. It is widely recognized for its numerous technological innovations in steel welding and fabrication.

Nippon Steel's 10 works are situated across Japan from Hokkaido to Kyushu, operating as steelmaking plants, customer service bases and R&D centers. Moreover, today these same locations are being repurposed as recycling centers, taking advantage of the excellent potential of the steelmaking business to lead in the movement to create a recycling-based society.

Operational Review for Fiscal 2003

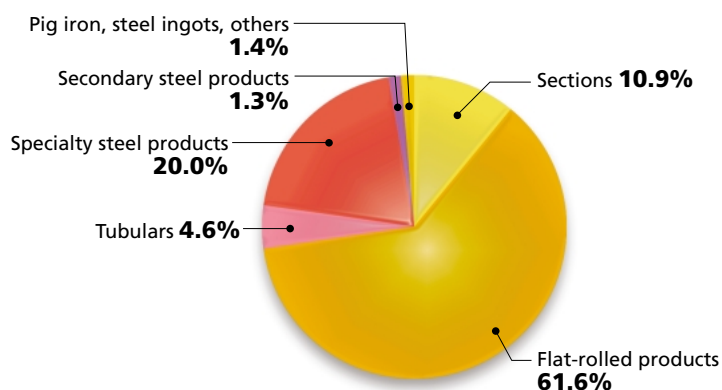
Strong demand for steel products in China's construction sector, coupled with tight steel product supplies in East Asia, contributed to a recovery of the iron and steel market in fiscal 2003. Increased marine transport to China likewise impacted the shipbuilding sector, and the Japanese automobile industry's healthy overseas exports, particularly to the U.S. and Europe, further benefited the domestic steel industry in fiscal 2003.

Sales of steelmaking and steel fabrication segment increased by ¥176.1 billion (or 9%) over the previous year due to price strengthening and increased quantity.

Segment Performance (Consolidated)		(Billions of Yen)		
	2001	2002	2003	
Sales	1,828.2	1,980.8	2,156.9	
Operating Profit	23.4	112.8	189.7	

Sales of Iron and Steel Products by Type of Products in 2004 (Non-consolidated)

Total ¥1,557.3 billion



At the same time, demand in China also drove up the cost of raw materials, fuel and transportation, accounting for a cost increase of ¥65.5 billion for the year ended March 31, 2004 (fiscal 2003). This impact will be even more pronounced in the coming fiscal year and has raised the considerable prospect of price improvement. Cost reductions of ¥35 billion were achieved in fiscal 2003, surpassing the Medium-Term Consolidated Business Plan.

Blast furnace Realignment at Kimitsu Oita Works

Nippon Steel initiated its first medium-term business plan in 1987, which called for taking blast furnaces offline at four works, marking a first effort at rationalization in Japan's steel industry. In 1997, following the collapse of the Asian financial markets, the world market for steel experienced a glut due to production overcapacity. Efforts in Europe and the U.S. to restructure their steel industries in response to these developments were far predated by Nippon Steel's efforts.

Since the worldwide restructuring of the industry, China has emerged as a major buyer of steel, and domestic and foreign steelmakers have been producing steel products at high rates.

For Nippon Steel, these high rates of production have put a strain on the capacity of inefficient blast furnaces and forced the purchase of large amounts of scrap, which has cut into profits.

From 2003 to 2004, the No. 4 blast furnace at the Kimitsu Works and the No. 2 blast furnace at the Oita Works were refitted at a cost of over ¥20 billion each. In May 2003 and April 2004, the realignment was completed. These furnaces, reborn with the most advanced features, are now the largest (Oita) and second largest (Kimitsu) furnaces in volume in the world.

Agreement on Automotive Sheet Steel JV in China

The automobile industry in China has grown rapidly in recent years, and in 2003, vehicle production surpassed four million, making it the fourth largest automobile manufacturing country in the world. Growth in China's automobile industry is certain to continue at a rapid pace, meaning that demand for high-grade steel sheet will also rise. Steel sheet specifications for auto-

West Angeles Project

Nippon Steel forms joint venture iron ore development project with Rio Tinto. Comprehensive tie-ups with Rio Tinto and long-term development contracts with Rio Doce are two ways in which Nippon Steel is working on the issue of tight steel raw material supplies over the medium-term.

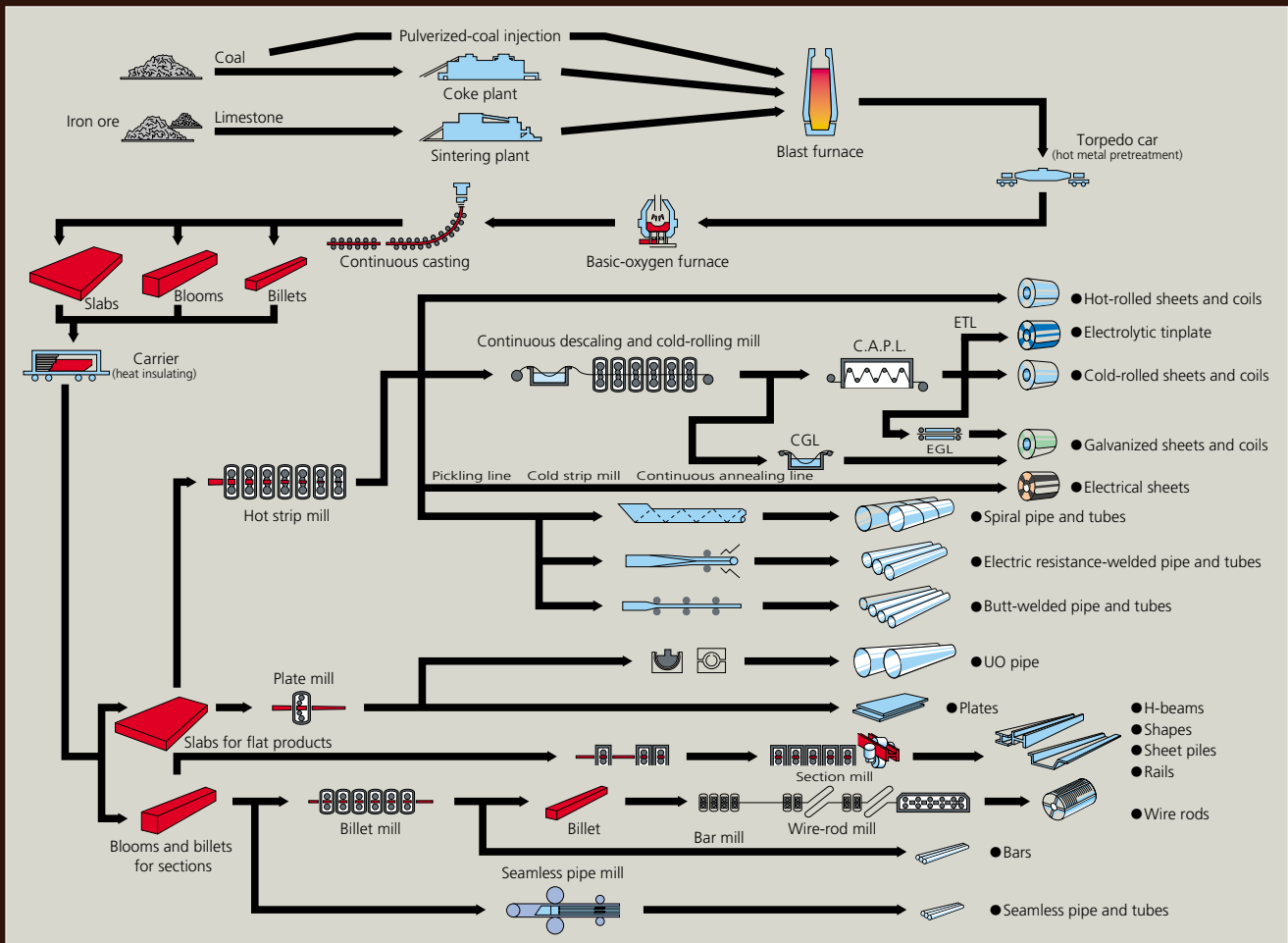


Transport of Raw Materials

Joining up with Mitsui Marine to establish a 300,000-ton shuttle for raw materials from Brazil, and partnering with Rio Tinto to combine shipments for greater efficiency, Nippon Steel is working to stabilize transport options in a tight shipping market.



◆ Iron and Steelmaking Flow



mobiles are particularly strict, and at present, most of the product used in China is imported from Japan.

In December 2003, Nippon Steel agreed to a joint venture with Baoshan, China's largest steel manufacturer, to produce and sell automotive steel sheet. Nippon Steel's global partner Arcelor participates in the same venture. The new JV aims to provide high-grade steel sheet to Japanese and European manufacturers following the launch in 2005.

Procurement of Raw Materials

The rapid growth of China's economy and the concurrent growth in demand for steel has caused a spike in the price of materials worldwide. The run-up in prices is affecting not only iron ore, but coal, scrap, alloys and freight costs, as well. Due to these factors, Nippon Steel incurred higher costs of ¥65.5 billion in fiscal 2003 and expects additional costs of ¥170 billion in the coming fiscal year.

The severe competition for raw materials procurement, and the years required to develop new sources and supply lines, are of great concern to steelmakers the world over.

In order to secure its production materials, Nippon Steel holds long-term purchase contracts and rights to mining production, but in the past year, it has taken further measures to shore up supplies. These are:

- China—participation in JV to produce coke in Tianjin
- Australia—a comprehensive tie-up with Rio Tinto
- Brazil—Long-term ore contract with Rio Doce
- Introduction of 300,000-ton regular carrier with Mitsui Shipping

Solutions for New Steel Products

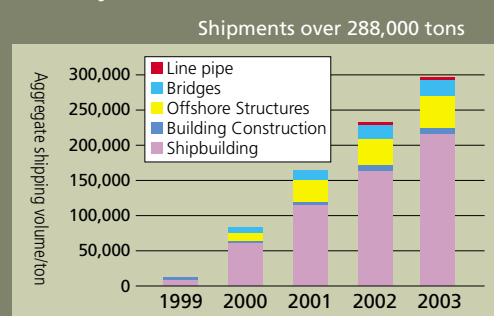
Nippon Steel researches not only steel products and materials, but also utilization technology in fabrication and welding, which it has prepared in the same research laboratories. Nippon Steel provides customers solutions in all areas of steel product usage. Today Nippon Steel is pushing the frontiers of steelmaking technology, overcoming hitherto impossible challenges as it discovers fabrication processes for high-strength flat-rolled products and creates flat-rolled products that are resistant to ever-higher degrees of heat.

HTUFF® High Strength Heavy Plates

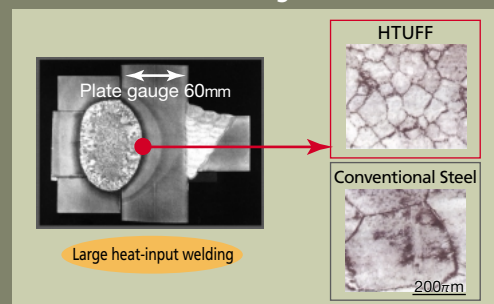
A traditional problem with steel welds is that welding temperatures above 1,400 degrees C cause the crystallization and weakening of the steel nearest the heat source (HAZ). This has placed major limitations on the effectiveness of one-pass, large heat-input welding techniques.

In April 2004, Nippon Steel was awarded the Ichimura Industrial Prize for its breakthrough HTUFF® technology. HTUFF distributes high concentrations of oxide and sulfide nano-molecules into the HAZ; these molecules, which inhibit the growth of crystals, preserve the HAZ from the damaging effects of large heat-input. HTUFF® products are appearing in more applications each year.

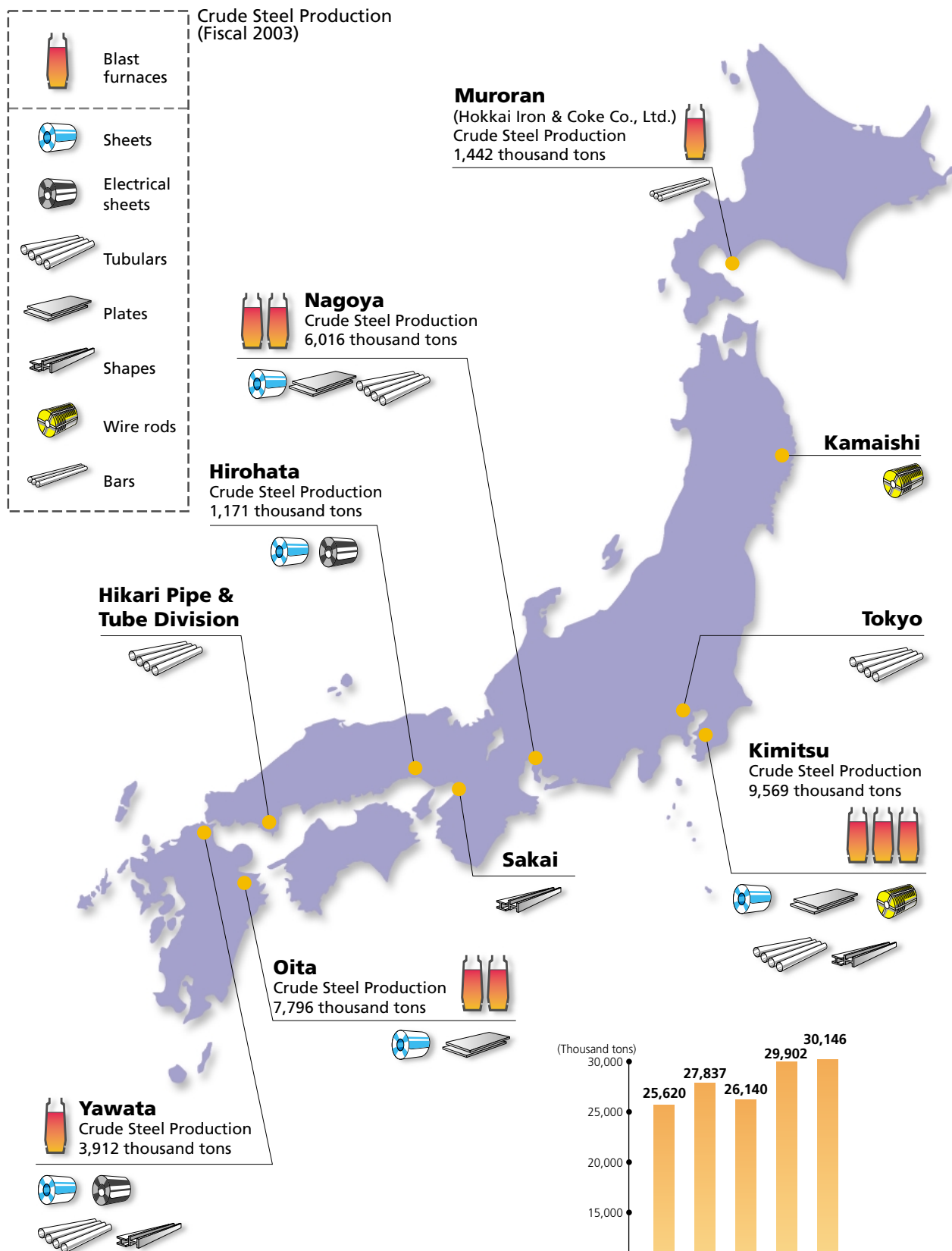
◆ Spread of HTUFF® Heat Tolerant Heavy Plates



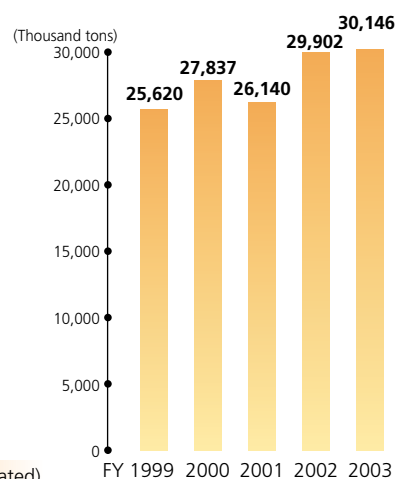
◆ HTUFF®, for Retarding Grain Growth



◆ Locations of Steelworks and Products



Crude Steel Production (Non-consolidated)



Launching of Nippon Steel & Sumikin Stainless Steel Corporation (NSSC)

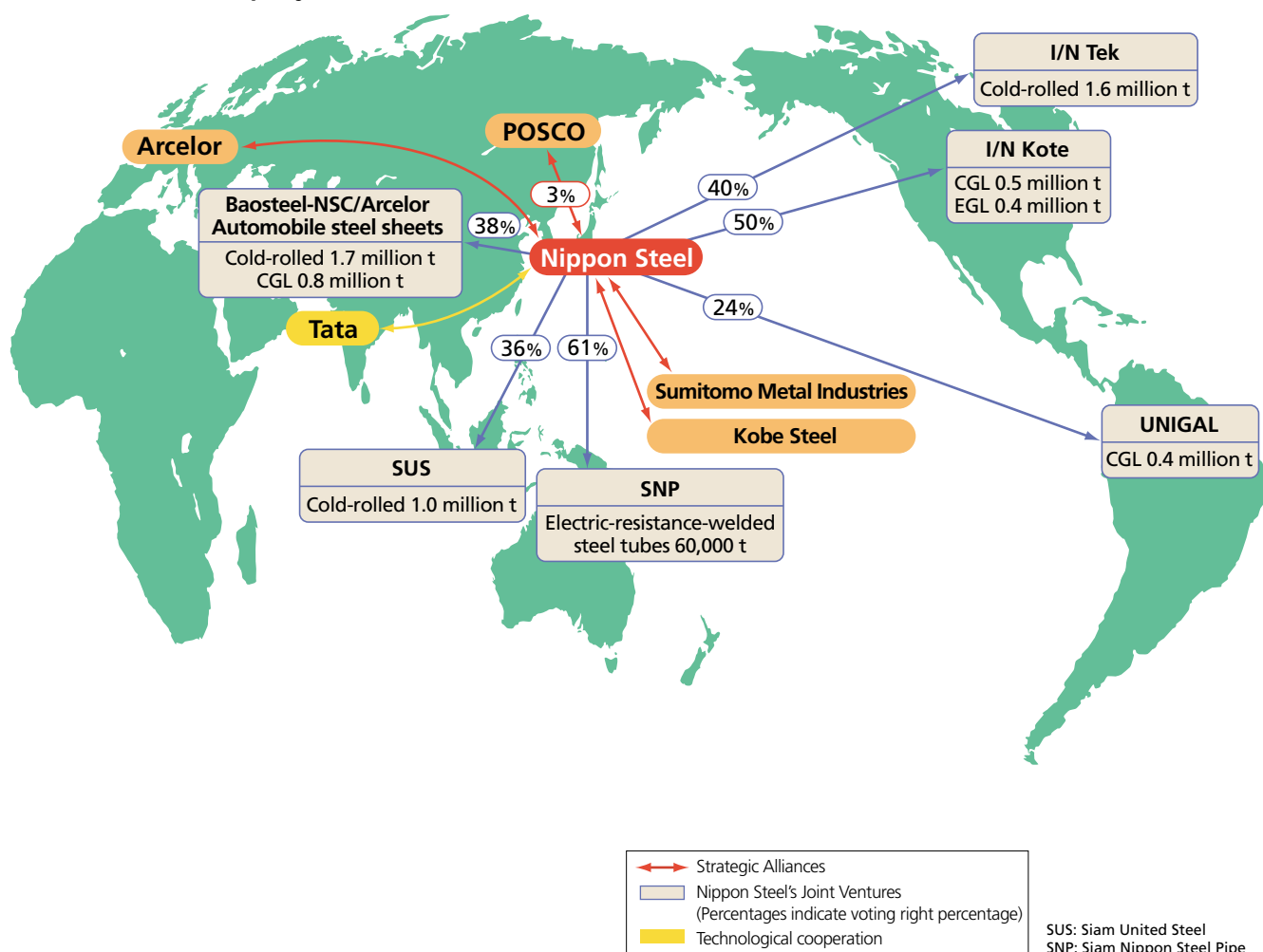


In October 2003, Nippon Steel and Sumitomo Metal Industries integrated their stainless steel businesses and launched Nippon Steel & Sumikin Stainless Steel Corporation (NSSC), creating Japan's largest stainless steel manufacturer. The two operations were merged to strengthen the business infrastructure of the companies, and the process of consolidating production facilities is now under way. In the first half year of operations, the new company achieved a profit.

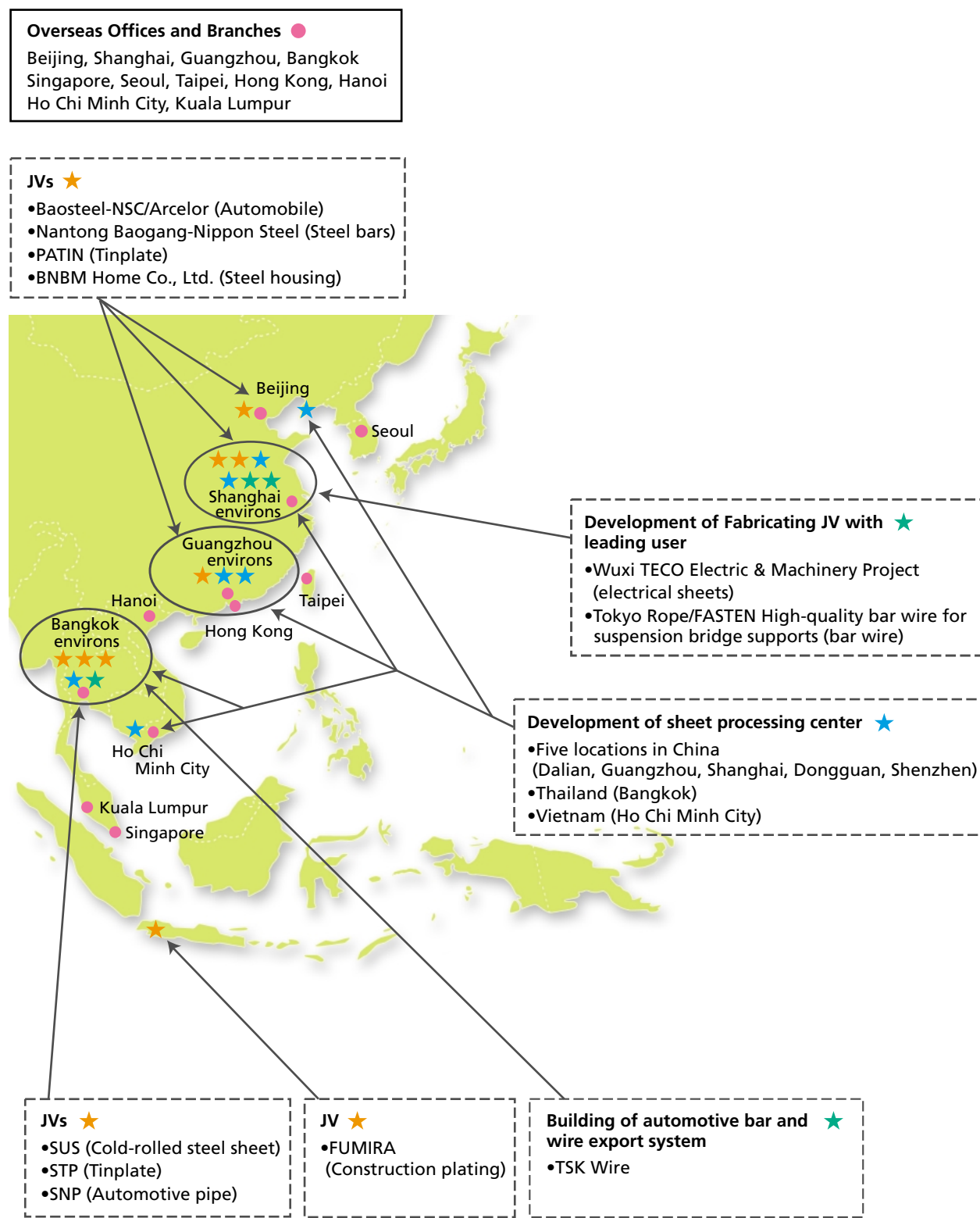
Strengthened Alliance with Ispat Group in North America

Within the global supply network of Nippon Steel, the North American operation has a long history. It started in the early 1990s as a joint venture to supply automotive steel sheet. Nippon Steel's partner, Inland Steel, recently came under the umbrella of the world's number two steel producer, LNM Group, in the form of Ispat Inland Inc., but the alliance relationship with Nippon Steel continues. In October 2003, Nippon Steel agreed to provide strengthened technical cooperation and new product technology to Ispat Inland and the joint venture company, specifically for the production of high-tensile steel sheet.

◆ The Company's Global Network—Overseas Alliances



◆ Developments in the Asian Market



Primary Subsidiaries to Become Full Subsidiaries

Within the Nippon Steel Group, three primary subsidiaries play a key role in business operations. On August 7, 2004, it was announced that these companies—Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe Co., Ltd. and Nippon Steel Metal Products Co., Ltd.—will function as wholly owned subsidiaries. The companies will now submit marketing, production and R&D plans to Nippon Steel and work strategically with Nippon Steel in a business posture that allows for speedy implementation of necessary measures.

Restructuring of Steel Products Fabrication Operations

In an effort to strengthen the Group's position in the fabrication of steel products, the Company launched a JV with a can manufacturer of JFE Group, creating Japan Pail Co., Ltd. in January 2004. It also announced an agreement to create a bolt fabrication JV with Nakayama Steel Group. Called NS Bolten Co., Ltd., the new company was launched in August 2004.

Technical Cooperation

In April 2004, technical cooperation business was transferred from the Engineering Divisions Group to the Steelmaking and Steel Fabrication Division. This move will enable the Steelmaking and Steel Fabrication Division to develop domestic and overseas alliances that closely fit its operational strategy.

By the end of March 2004, Nippon Steel had undertaken a cumulative 1,259 steel technical cooperation projects for 166 companies in 50 countries. In fiscal 2003, Nippon Steel formed an agreement with Brazil's USIMINAS Co., Ltd. to create its sixth and largest technical cooperation project, and the Company will continue to actively pursue business development.

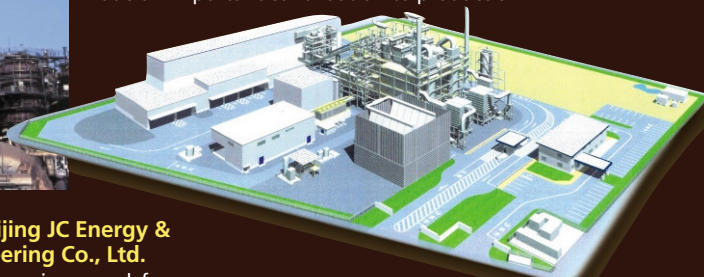


USIMINAS cover page of in-house magazine



Completion of Realignment of No. 2 Blast Furnace for Nisshin Steel Co., Ltd.

Overall costs were minimized by carefully integrating renovated parts with existing parts that were still sound, and by expanding the percentage of existing parts that were retained. State-of-the-art technology was used in the charging system, which is the heart of the blast furnace system. The renovated furnace was quickly brought on line after it was fired up on November 17, 2003, and it has since made an important contribution to production.



Establishment of Beijing JC Energy & Environment Engineering Co., Ltd.

In response to the growing need for energy conservation and environmental protection in China, Nippon Steel teamed up with leading market supplier Beijing ShouGang Design Institute to establish the Beijing JC Energy & Environment Co., Ltd., which will introduce coke dry quenching equipment and related technology to China's industry.

Perspective of PCB Treatment Facilities for Kitakyushu City

Nippon Steel utilized its depth and experience in waste management and the construction and management of similar chemical plants to function as the total engineering firm on this new PCB waste plant project. The new facility places emphasis on safety and environmental considerations.



Kwan-An Grand Bridge, South Korea

Boasting Korea's longest bridge central span, at 500 meters, the 900-meter Kwan-An Grand Bridge (suspension bridge) in Pusan was completed in January 2003.



Okayama Gas Co., Ltd. LNG Receiving Terminals

Japan's first LNG port for coastal shipping carriers required comprehensive use of the Group's broad capabilities. The new plant will have a dramatic impact on the distribution of LNG within the country.



Taipei Financial Center (Steel-structure work)

In October 2003, construction of the 101 story steel frame of the world's tallest building was completed in Taipei under the supervision of Nippon Steel. At 508m, the frame required 107,000 tons of steel sections, of which 70,000 tons was SM570 (60K-rated high-strength steel.)

NTT DoCoMo-Osaka Nanko Building (Steel-structure work)

In March 2004, Nippon Steel built the world's first full-scale cable tower atop the No. 2 DoCoMo Building, in the Nanko area of Osaka. Cable used for the tower was Nippon Steel's largest diameter NEW-PWS (499 strands of 7 mm diameter). SA440C-HF (60K-rated HAZ high-toughness steel) was adopted for the center column.



Business Review

Since the establishment of the Engineering Divisions Group in 1974, Nippon Steel has applied its facility technology, capabilities, operational know-how and materials experience to the construction of diverse building construction, iron and steelmaking, energy-related plants, bridges, waterworks, pipelines and social capital improvement construction projects, both in Japan and overseas.

Currently, Nippon Steel is advancing into new areas of business under the triple theme of "Three Solutions: Environment, Energy & Urban Renewal."

Operational Review for Fiscal 2003

While the reduction of domestic public investment projects continued to make for a difficult work order environment, Nippon Steel still managed to leverage its technical and development capabilities to win large orders, including a direct-melting system in Kitakyushu in the environmental field and the development business of Central Government Office Building No. 7 for the Ministry of Land, Infrastructure and Transport, the largest PFI project for building construction in the country. Nippon Steel is also active in energy solutions, including electricity retailing and wind power generation.

Overseas, the Engineering & Construction Division has continued to receive orders for Asia and Sakhalin for petroleum and natural gas development-related

projects, which it received in the previous fiscal year. For steelmaking plants, the Engineering & Construction Division is actively developing marketing activities using a subsidiary.

Fiscal 2003 marked the 16th consecutive term that the Engineering & Construction Division has achieved positive figures.

Steel Plant and Environmental Engineering

In the field of steelmaking plants, Nippon Steel established the subsidiary, Nippon Steel Plant Engineering (Shanghai) in April, and joined with the Beijing ShouGang Design Institute in Beijing to form JV Beijing JC Energy & Environment Engineering Co., Ltd. Nippon Steel is aggressively developing its overseas operations, particularly in China, where growth has been most pronounced. This active posture will continue both in China, where investment prospects are excellent, and Japan, where signs of recovery in capital investment are also on the rise. Nippon Steel is emphasizing its speed and experience as a steel plant maker in responding to these opportunities.

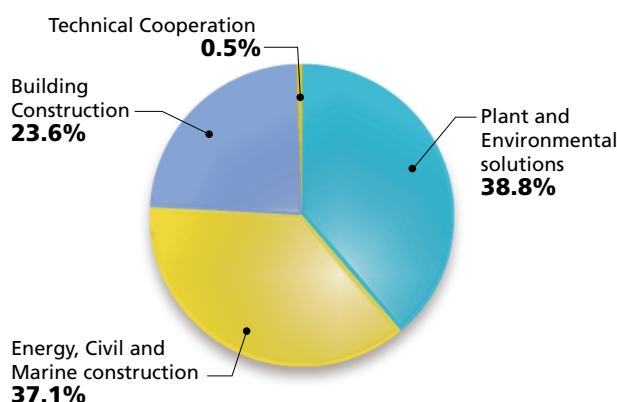
In the field of environment-friendly plants, Nippon Steel is responding to environmental legislation and public works demands with increased PFI applications and larger direct-melting gasification plants. These new needs represent opportunities to combine the resources of Nippon Steel's network with its core technical and engineering know-how to provide environmental and recycling solutions that meet the unique needs of regional and local communities, and thereby contribute to the public good.

Segment Performance (Consolidated) (Billions of Yen)

	2001	2002	2003
Sales	294.3	274.9	293.1
Operating Profit	9.9	2.4	4.3

Sales by Operating Field in 2004 (Consolidated)

Total ¥293.100 billion



Seino Environmental Preservation Center/Waste Direct Melting/Recycling Systems (Shaft Furnace Gasification Type) Completed

Nippon Steel built the Seino Environmental Preservation Center (direct-melting waste gasification plant) for the Nishino Environmental Preservation Cooperative. The thermal gasification plant was completed in March 2004, and is the 18th such direct-melting gasification plant built by Nippon steel. (Capacity: 90t/day/per furnace.)



LNG Coastal Shipment Facilities

This LNG coastal shipment facility was ordered by Kitakyushu LNG Co., Ltd. and completed in August 2003. With a capacity of 1,000 tonnes, it has a turnaround time of approximately 6 hours. Coastal tankers have a promising future as an economical method of domestic supply, and their use is likely to expand.

Energy Facilities, Civil Engineering and Marine Construction

Nippon Steel's energy facilities, civil engineering and marine construction relating to natural gas—the clean, earth-friendly fuel—take on all phases of initiative. At the production level, as the sole Japanese marine contractor in Southeast Asia, it has worked on numerous large-scale gas drilling platforms and undersea pipeline construction projects, and at the receiving, storing and delivery level, it has built LNG receiving terminals and constructed Japan's first natural gas liquefaction base. Along with innovative projects like these, it continues to construct LNG pipelines and satellite bases supporting lorry transport, and for coastal shipping, it is Japan's very first coastal tanker that is used as secondary transport, representing expertise in both the hardware and software systems. This is a logistical solution that accompanies Nippon Steel's technical contributions to the field.

With the Sakhalin-1 pipeline project, Nippon steel continues to advance its LNG work overseas, even as it pursues a new project using LNG in a thermal electric delivery system designed to benefit supply and consumption needs.

Where construction and improvement of social infrastructure is concerned, Nippon Steel's iron and steel structure technology is contributing to projects both in Japan and overseas. Developments include port and coastal facilities and bridges of various types; installation, replacement and repair of water-pipe projects; and sewage treatment systems. Nippon Steel is committed to pursuing business solutions of all kinds, an example being its efforts to develop the electricity retailing business. All of these projects bear the hallmark of Nippon Steel's philosophy of creating a recycling-based society.

For the future, Nippon Steel's focus on cutting-edge energy and marine technologies will take the form of

Engineering and Construction



Central Government Office Building No. 7

In April 2003, Nippon Steel won a place as a leading member of the consortium to build the largest Japanese PFI project. This urban redevelopment project for central government agencies and private offices will involve the planning, construction, and 15-year maintenance and management contract for the twin high-rise towers.



Hakata NS Building

As part of the continuing urban renewal of the old financial district in Hakata Ward, Fukuoka City, Nippon Steel has completed a new intelligent building. Nippon Steel's Kyushu offices and other Group companies are among the NS Building's new tenants.

advanced offshore wind power generation, next-generation bridges and hydrogen energy projects.

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 construction market in response to demand for urban office building resulting from the revitalization of the real estate liquidation market. Winning a bid to participate in the Central Government No. 7 Office Project, the country's largest PFI project yet, was a major success in this regard. Nippon Steel will continue to target differentiation from its competitors by further expanding its range of products and technologies—such as NS ECOPILE screw-in pipe piles, and seismic isolation and anti-vibration devices—that reflect its advanced capabilities as a steelmaker.



Otsu-Katsuhara Large-scale Redevelopment at Hirohata, Hyogo Prefecture

This large-scale redevelopment project is under way at Otsukatsuhara, the location of the former company housing of Nippon Steel's Hirohata Works. The project began in 1998 with the 440-unit "Fair Village Agamino" housing development, covering 11 hectares, and is continuing with a large-scale commercial development of 78,878m² of floor space on 71,011m² of land.

Big Orange/Garden Associe

This large-scale condominium is located in Sakae Ward in Yokohama. Just eight minutes' walk from Ofuna Station (five minutes from the North Exit, to be completed in 2006), the condominium will have 1,502 units. The first and second construction areas were completed in March 2004, marking the birth of a new town.



新日鉄都市開発

Overview

For more than 100 years, Nippon Steel has viewed its steelworks construction not as production sites alone, but as towns where everyday life happens and culture is born. Nippon Steel's 100%-owned company, Nippon Steel City Produce, Inc., promotes urban development and makes full use of the company's urban development know-how and network, accumulated over many years of operations. The business theme of "property value enhancement" is one applied to this field, where Nippon Steel is pursuing solutions to such commonly discussed issues as the development of old industrial sites in major cities, the post-bubble redevelopment of low-use and unused urban areas, and the revitalization of the 21st century legacy of densely populated urban areas.

Specifically, Nippon Steel is promoting condominium development in the Tokyo metropolitan and Osaka-Kobe areas and taking an active role in large-scale district development projects and urban redevelopment schemes throughout the country.

Operational Review for Fiscal 2003

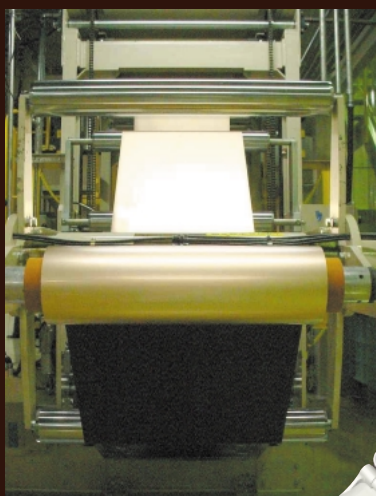
Nippon Steel City Produce, Inc.'s development of condominiums benefited from strong sales in the Tokyo metropolitan area, with total sales increasing 10% over the previous year. Development of large-scale idle land under way in Yawata (Kitakyushu City), Hanada (Sakai City) and Otsu (Himeji City) are all developing as envisioned.

Sakuragaoka Isaac Hiyoshi

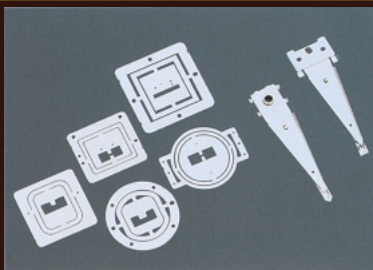
One example of Nippon Steel's "property value enhancement" business is the "Green Town" development rising on the site of the former Nippon Steel Advanced Technology Research Laboratories in Kawasaki City.

Located on the Tokyu Toyoko Line, this large-scale, 346-residence project began in 1995, and the first nine model homes were open for showing in September 2003. The public showed immediate appreciation for the work of the newcomer, Nippon City Produce, Inc., to the urban housing market: the stated effort to build something "completely new and unique," a town that offered "environment, health and security" while preserving the original Zelkova and cherry trees, had immediate public appeal. Water-permeable roads paved with nitrogen-oxide-absorbing materials and wood chips, 1.5m-wide green belts along all drives, an 8,000m² park, a 24-hour ventilation system, a 24-hour security patrol system (the first in the Tokyo metropolitan area)—these amenities added to the attraction of a development unlike any in Kanagawa Prefecture or, in its comprehensive design, the country as a whole. For this reason the project has earned government certification as "environment-symbiotic housing" (in the housing project category).

Segment Performance (Consolidated)	(Billions of Yen)		
	2001	2002	2003
Sales	130.8	105.1	120.8
Operating Profit	15.5	4.4	13.5



Major product of the Electronic Materials Business, "ESPANEX"



Stainless foil in a hard disk drive



ESPANEX in a cellular phone

Nippon Steel's operations in chemicals and nonferrous materials are part of the chemicals business, which began with coal, a requirement of the steel-making process, but now span many products, including electronic materials, where it holds a large share of the world market. With even greater application potential than steel, the chemicals, new materials and titanium business—including lighter, stronger, non-corrosive titanium—offer a growing opportunity for business.

Segment Performance (Consolidated)		(Billions of Yen)	
	2001	2002	2003
Sales	326.1	346.2	275.7
Operating Profit	10.3	13.4	12.6



Chemicals

Business Review The main activities of Nippon Steel Chemical Co., Ltd. are basic chemicals, which integrate the manufacture of coal, chemical and petrochemical products that it produces with coal tar, coke oven gas and other by-products of the steelmaking process. In recent years, functional products have shown solid growth in sales. One, ESPANEX, has taken a dominant share of the world market for materials for flexible print-

ed circuit boards. In 2003, Nippon Steel Chemical Co., Ltd. became a wholly owned subsidiary of Nippon Steel, and thus further strengthened the strategic sharing of information and technology as a Group company.

Operational Review for Fiscal 2003 After becoming a wholly owned subsidiary of Nippon Steel in July 2003, Nippon Steel Chemical Co., Ltd. ended its operations in plastic molding and printed circuit boards and strengthened and enhanced its earnings in the industrial gas and tar markets through mergers with other companies. These moves improved its earnings structure and positioned its operations squarely in high-growth sectors. With its ESPANEX adhesive-free, double-layer, copper-clad laminated (CCL) sheets holding over half of the market share for laminates used in plasma displays and cellular phones, ordinary profit in the electronic materials business grew to approximately one-third (¥900 billion) of total ordinary profit. With steady increases in production capacity, profitability will be seen to increase further.

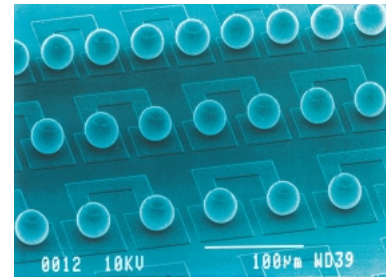
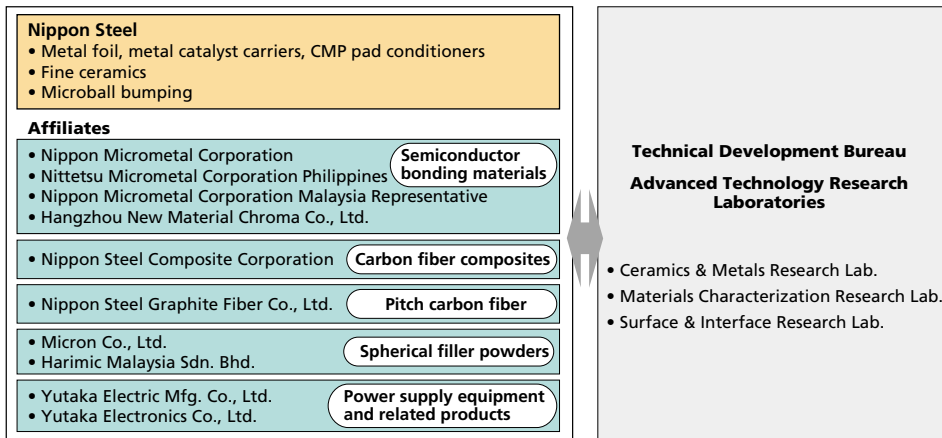
New Materials

Business Review Nippon Steel's search for all kinds of materials with useful applications has taken it well beyond the realm of the steel industry. This year

ESPANEX Growth Capacity

	2002 May	June	2003 May	2004 February	April	2005 July	October	Under Consideration
Capacity (million m ² /year)	1.2	1.8	3.0	4.0	5.5	7.0	8.5	11.5
Lines	2	3	3	4	5	6	7	9

◆ New Materials Business



Microball bumps



Temple with titanium roof (Koetsuji Temple)

The concept and activities of spreading the use of titanium in shrines, temples and Buddhist pavilions has resulted in new area designs, including this one, which earned a "Good Design Award" in 2003.

marked the twentieth anniversary of the founding of the Company's New Materials Division, which has worked hand in hand with affiliated companies to develop this business area.

Nippon Steel's capabilities in analysis, simulation, structural control and welding & joining have been applied to the development of countless advanced materials, parts, devices and processing methods. In the development of technical innovation for the creation of material solutions, Nippon Steel is a leader, with noteworthy contributions in the fields of semiconductor and electronics miniaturization and high-density, high-performance electronics materials.

Operational Review for Fiscal 2003 Nippon Steel's bonding materials for semiconductor circuits and other unique technologies for the semiconductor and electronics industries have given its products a large share of the market for new materials. The New Materials business promoted the provision of solutions and actively responded to the need to reduce environmental loads in order to provide customer satisfaction. As a result, this segment grew steadily in parallel with the recovery of the semiconductor market.

Nippon Steel's unique microball fabrication technology, which evenly embeds bumps of less than 100 microns diameter in a semiconductor surface, has received high praise from the industry for its applicability in the bonding of high-density flipchips. Volume production of microball laminates is set to begin soon.

Titanium

Business Review Nippon Steel inaugurated the titanium business in 1984 with the aim of starting titanium rolling as a new business utilizing production equipment/technologies and know-how gained from steel-making operations. Titanium is lightweight and strong, and highly corrosion resistant and formable, making it

ideal for applications in chemistry, power generation and airplanes. In recent years titanium has increasingly been applied to daily-use items, such as eyeglasses, and even in automobile mufflers. Nippon Steel has also been successful in promoting titanium as a construction material, where its corrosion resistance and anodically oxidizing decoration have made it increasingly popular.

Operational Review for Fiscal 2003 Despite a decline in domestic shipments of rolled, drawn and extruded titanium products, Nippon Steel's shipments remained steady due to aggressive efforts to develop new markets for the material, including use as construction material, in automobile mufflers and in consumer products.

Noteworthy were applications of titanium in the construction materials field, both in Japan and overseas. The Kyushu National Museum (Dazaifu City, Fukuoka Prefecture) will become the largest structure in the world to use anodically oxidized titanium roofing, and China also purchased the material for the Chinese National Grand Theater in Beijing. In October 2003, a "Good Design Award" was earned for the "Titanium-Roofed Temple" project in Japan, which helped spread awareness of the material's diverse uses.

Nippon Steel will continue to respond promptly to needs both in Japanese and overseas markets for its new materials. In chemical and power generation, and where new needs and new markets arise, Nippon Steel will maintain its proactive business posture.



NS Solutions

Business Review

Based on system technologies long accumulated through its steelmaking operations, Nippon Steel launched its system solution operations, NS Solutions Corporation, in 1986. This subsidiary, of which Nippon Steel owns a 72% share, was listed on the first section of the Tokyo Stock Exchange in October, 2002.

Operational Review for Fiscal 2003

Since June 2002, overall sales in the information service market have remained flat, due to the very intense competition between vendors in the sector. In this severe business environment, NS Solutions won praise from its customers and improved its sales on a consolidated basis, but due to limited IT budgets among customers and the price reductions under intensified competition among vendors for IT business, ordinary profit fell below the level of the previous fiscal year. While the market environment is expected to flatten out in the coming fiscal year, Nippon Steel is preparing to approach new business opportunities and increase income.

Segment Performance (Consolidated)		(Billions of Yen)	
	2001	2002	2003
Sales	149.3	153.1	150.8
Operating Profit	10.5	9.7	9.1

NS Solutions' Services

Business Solutions

Manufacturing and Retailing Sectors The steel industry has been a forerunner in the development of systems integrating manufacturing and sales operations in the global market. Nippon Steel has applied its experience in designing, constructing and maintaining complex and large-scale business systems to provide solutions for clients in areas ranging from integrated information and global supply chain management (SCM) to corporate collaboration between companies.

Legacy Reengineering

The need to transfer information from old systems into new architectures is increasing. NS Solutions, which transferred the large and complex system on Nippon Steel's mainframe computer to an open platform, established the Legacy Reengineering Center in April 2004 to take full advantage of its expertise in this field.

For the Financial Sector Integrating well-developed mathematical expertise accumulated in the steelmaking business with its engineering capability as a large-scale IT user, NS solutions is providing a variety of advanced financial solutions, including deliberative dealing support, risk management and spread banking systems, along with structured finance.

For the Social and Government Sector IT systems used in the social and government sectors require applications and systems operation technologies that ensure expected results and support improvement of information infrastructure through services such as consultation and IT constructing systems, as well as operations and maintenance, and in doing so, effectively control operational costs, while maintaining high standards of security.

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

From planning, design and development to operations and maintenance, NS Solutions provides outsourcing services, server hosting and network diagnosis, design construction and monitoring, and other services to meet all the IT needs of its clients.

Other Business Activities

Electric Power Generation, Services, and Other Businesses

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

Segment Performance (Consolidated)		(Billions of Yen)	
	2001	2002	2003
Sales	61.2	79.0	73.6
Operating Profit	1.4	(2.1)	(4.3)

For Nippon Steel, which is committed to providing its customers with the world's premier materials and solutions, technical development capability is of the essence. Steelmaking technology is a crown jewel of metallurgy, but beyond that, it is also an integration of various kinds of technologies. For many years, the Company has stood at the forefront of Japan's steel industry, introducing the most advanced equipment and designing and maintaining its own very large, highly specialized machines and equipment. It is a developer of original technology, and it is likewise a high-tech producer of machinery, electronics, civil engineering, water treatment, and furnace architecture. This technology has helped it not only to advance its iron and steel products and steel fabrication systems technology, but also to launch new businesses in chemicals, nonferrous metals, and new materials.

	Research and Development Costs (Consolidated)	Number of Researchers (Non-consolidated)
2003	¥35.3 billion	447
2002	¥35.8 billion	461
2001	¥35.2 billion	459

Research and Development System

Nippon Steel has a network of independent, long-established technology research laboratories around the country. Along with the Research and Engineering (R&E) Center, and R&D Lab. and research teams at each of the steelworks, these research centers form Nippon Steel's research network.

Research and Engineering (R&E) Center

The Research and Engineering Center applies basic iron and steel research to studies in steel processing and welding, as well as to equipment engineering for steelmaking.

Steel Research Laboratories

Although steelmaking has seen constant improvement through its long history, research and development is never completed. As steel frontiers expand, the demands on steel grow ever greater. Nippon Steel's steel research laboratories continue to make the "impossible steel" possible.

Advanced Technology Research Laboratories

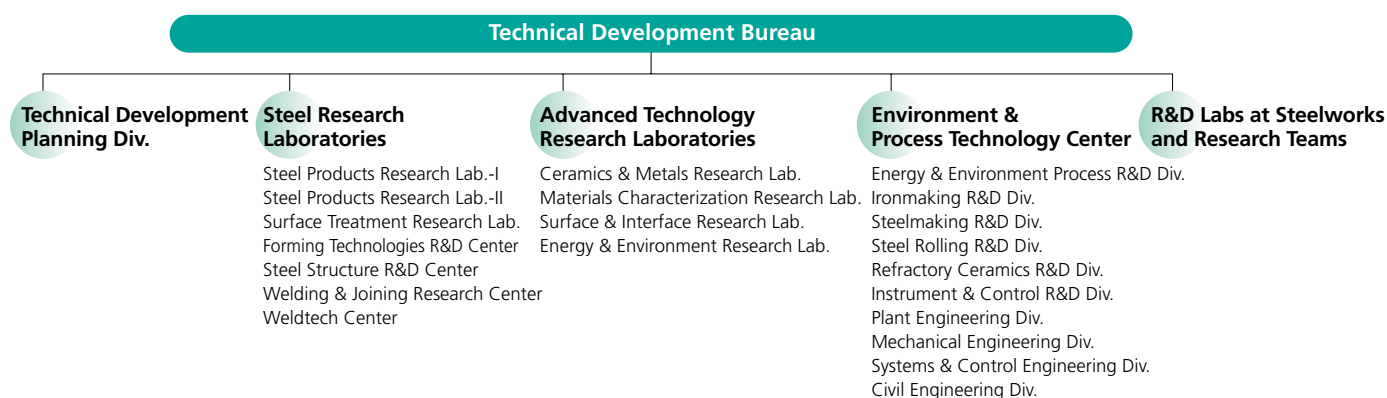
These laboratories develop technologies with multiple applications in steel, advanced materials, energy and the environment. The results include products in advanced materials, such as microball bumps, and technology for hydrogen production systems and water treatment.

Environment & Process Technology Center

With capabilities in systems, measurements, FA and mechatronics, this center builds on steelmaking process technology to develop new technology for complete engineering solutions.

R&D Labs and Research Teams

Situated at each steelworks, the R&D Laboratory is made up of teams of researchers who also function as technical advisers to customers.



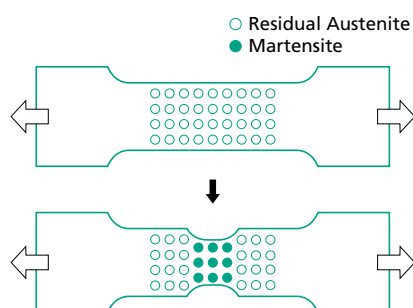
Steelmaking Technology Topics

•High-strength Enhanced-formability Steel	GA-TRIP	(Announced October 2003)
•High-strength Welded Steel	HAZ-resistant Steel	(Ichimura Award, April 2004)
•Hydrochloric Acid-resistant Steel	New S-TEN1	(Nikkei Superior Product Award, January 2004)
•Anti-corrosive Marine-resistant Steel	Weathering Steel for Use in Coastal Regions	(Ichimura Award, April 2000)

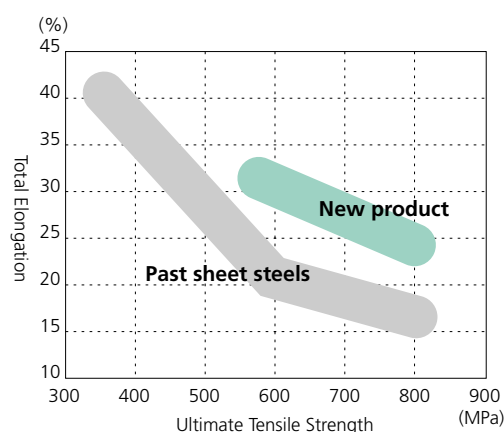
GA-TRIP

While efforts to reduce automobile exhaust emissions (CO₂) are resulting in lighter weight automobiles, safety in the event of a collision continues to be a foremost requirement as well, meaning that the sheet steel used in automobiles must be lightweight, formable and strong—a difficult set of conditions. Add to this the further difficulty of plating the sheet steel—a requirement to prevent corrosion—and the challenge becomes even greater.

In 2000, Nippon Steel won the Okouchi Award for its development of TRIP high-strength steel sheet, which answered the need for highly formable, impact-absorbing steel. In October 2003, Nippon Steel announced the development of GA-TRIP, high-strength coated sheet with TRIP plating characteristics. With GA-TRIP, the complex requirements of automotive steel sheet—enhanced formability, 590-780 MPa strength, and galvanized steel sheet with superior anti-corrosion characteristics—are answered in a single, revolutionary product.



TRIP: Transformation-induced Plasticity
When residual austenite (soft) particles are put under strain, they transform into martensite, which resists necking and shows superior elongation.



Steel-framed (NS-Box) Diaphragm

In cooperation with general contractors, Nippon Steel developed the steel-framed (NS-Box) diaphragm, which earned the Award of ENAA and the Infrastructure Technology Development Award prizes in 2003. The method inserts interlocking NS-BOX steel sections into the ground, creating a continuous prefabricated wall that requires less construction area, less soil removal, and substantially less construction effort overall.

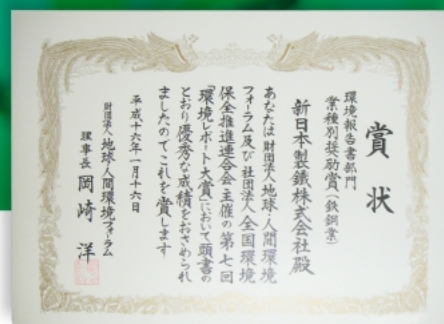
Traffic in Bangkok, where construction operating space for new subway lines is limited. Use of steel-framed (NS-Box) diaphragm walls was highly effective in the project.



Environment and Energy Visions



Environmental Report Grand Prize Encouragement Award



Active Promotion of 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 2004, 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 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. The Company received the Environmental Report Grand Prize Encouragement Award for specific efforts in an industry for its 2003 Environmental Report—the first such prize for a steelmaking company. Moreover, it was named by the Carbon Disclosure

Project (CDL, an international group of institutional investors), as one of the "best 50 companies" in the Climate Change Leadership Index (CLI) for its investment in climate-related research. And last year it took the Nikkei Global Environment Technology Prize at the 2003 National Discovery Awards Ceremony, and in the

same year won the U.S. AIME Robert Earl McConnell Award for its waste plastic recycling projects.

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%. In 1996, in response to the call for global warming prevention, it implemented an industry-imposed voluntary action plan to reduce energy consumption by 10%, and has since realized this goal. Energy usage is influenced by the scale of production, and energy conservation is measured by changes in basic units of energy consumed. In fiscal 2003, improvements to blast furnaces and refurbishment of oxygen plants led to better efficiency, and introduction of regenerative burners, waste plastic plants and other systems accounted for further improvement, with a 0.3% reduction in energy consumption over the previous fiscal year (28.9% since 1973.)

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 consumption by 1.5% through the use 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.



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 raised 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 emissions 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 high corrosion-resistant, low alloy sheet and high-strength, hot-dip galvanized sheet. Another Eco-Product category consists of products that do not contain toxic substances, such as lead-free galvanized steel sheet, lead-free, free-cutting steel and chromate-free precoated 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 contribu-

tion to the formation of a recycling society.

Nippon Steel is committed to placing strong emphasis on environment-related solutions, as evidenced by its recent establishment of a Steel Plant & Environmental Engineering 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 for such technology are still received from customers throughout Japan. Future plans also call for an active focus on soil restoration projects, underground water purification and pollutant treatment systems.



Milled lead-free crankshaft and engine parts

Environmental Accounting

In fiscal 2003, the cost of environmental conservation activities amounted to ¥18.4 billion in capital investment and ¥49 billion in general expenses. Environment-related activities also accounted for around 16% of research and development expenditure. These investments benefited the environment

by helping to reduce resource requirements for operations, lessen emissions from operations and decrease other waste, thereby countering global warming factors and improving the social recycling infrastructure. Specific programs are listed among the articles in Risk Management.

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 and global standards 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 in 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 improving its overall environmental performance.



At its peak, Nippon Steel's workforce consisted of over 70,000 employees at its steelworks and factories throughout Japan. It has a long history of managing its facilities efficiently in harmony with local communities. This ongoing tradition is manifested today in its support for sports teams, sponsorship of and participation in local events, and the opening up of company welfare facilities.



Nippon Steel Music award winners

Winners of the 14th Nippon Steel Music awards included soprano Akie Amo (Promising New Artist Prize), left photo, and Hiroshi Isaka (Special Prize), right photo.

Nippon Steel Music Awards and Kioi Hall

The Nippon Steel Music Awards, which were established to commemorate the Company's 20th anniversary, have now been held 14 times. Kioi Hall, opened in the spring of 1995 as a comprehensive facility consisting of halls for classical music and traditional Japanese music, is highly respected by both musicians and fans.

Sports

Nippon Steel has worked 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 sports in Japan. The Kamaishi rugby team, the Sakai volleyball team, the Hirohata and Head Office judo team and baseball teams at all the works have been successful for many years and have produced many of Japan's top athletes.



Kioi Hall

In December 2000, it was decided to convert Nippon Steel's sports teams from company teams into regional teams as a way of fostering closer community links. The Sakai Blazers volleyball team and the Kamaishi Seawaves rugby team are already at work under this concept. Some of the baseball teams have also been re-established under the new system.

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

Promoting Understanding of the Steel Industry

Every year, Nippon Steel invites tens of thousands of students to visit its steelworks and learn first-hand about steelmaking operations. It also promotes understanding of the industry through classroom lectures by staff at local elementary schools. Additionally, it publishes an illustrated book on the theme of the environment, recycling and product making, that has been well-received.



Nippon Steel staff at an elementary school presentation



Sakai Blazers



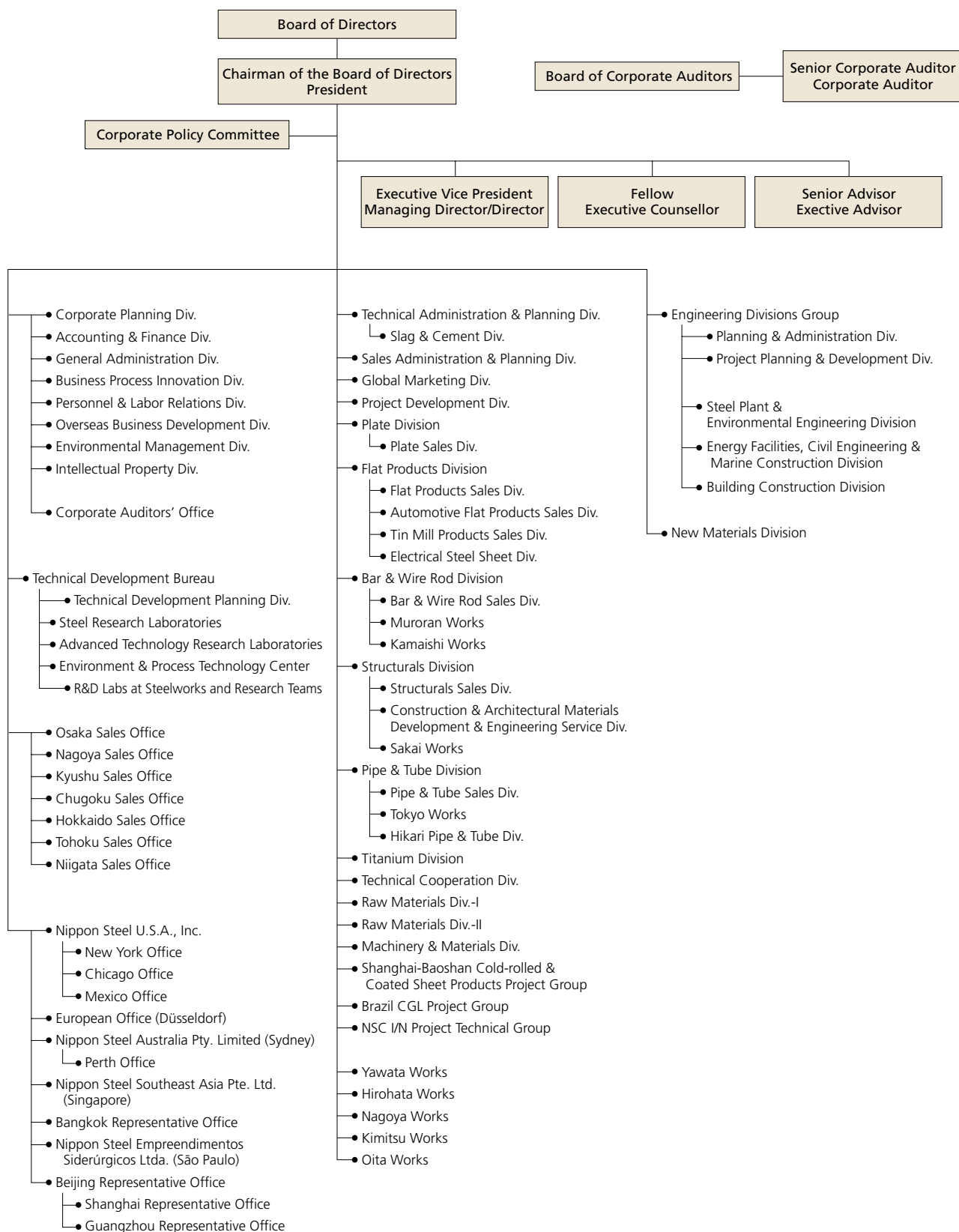
Nippon Steel's illustrated
"New story about iron & steel" books

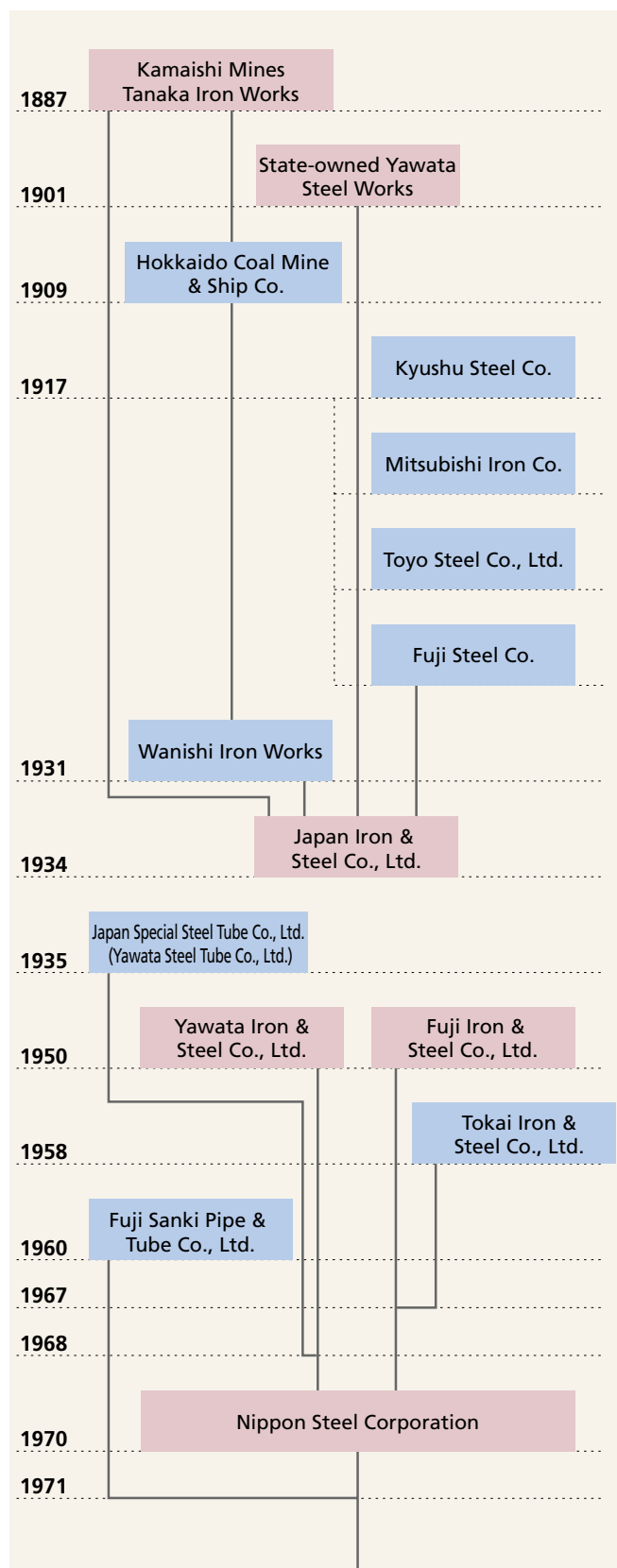


Kamaishi Seawaves



Organization (as of July 2004)





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.
- 2003** Establishment of Nippon Steel & Sumikin Stainless Steel Corporation.



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

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
Koichi Nakamura

Directors
Tetsuo Imakubo
Bunyu 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**
Tetsuo Seki

Corporate Auditors
Muneyuki Higuchi
Shigeru Matsuyama
Josei Itoh
Hisashi Tanikawa
Yoichi Kaya

FINANCIAL STATEMENTS

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Financial Summary

Net sales of Nippon Steel Corporation and its consolidated subsidiaries (collectively "NIPPON STEEL") for the year ended March 31, 2004 increased by ¥176.5 billion from the year ended March 31, 2003 level to ¥2,925.8 billion. Operating profit for the year increased by ¥81.5 billion over the year ended March 31, 2003 to ¥224.4 billion, while net income was ¥41.5 billion, compared to ¥51.6 billion net loss in the year ended March 31, 2003.

Segment Information

The Japanese economy during the year ended March 31, 2004 showed a steady recovery, buttressed by a high level of exports primarily to Asia, a rally in private capital investment and other favorable factors.

In the steel industry, domestic steel demand for the construction industry remained sluggish; however, for automobile, shipbuilding and industrial machinery industries, each of which enjoyed brisk overseas demand, domestic demand for steel maintained a relatively firm pace. Steel exports also remained high, reflecting robust demand in China.

Under these circumstances, national crude steel production during the year ended March 31, 2004 increased by 1.21 million tons over the previous year to reach 111.00 million tons. Similarly, crude steel production at Nippon Steel rose by 0.24 million tons to a total of 30.14 million tons.

Given this operating environment, assiduous managerial effort was made by Nippon Steel in conjunction with its group companies towards structuring a robust management foundation. An overview of the consolidated operating performance by each business sector in the year ended March 31, 2004 is as follows.

Steelmaking and Steel Fabrication: The worldwide availability of raw materials, fuels and freight capacity steeply contracted due to active demand in China. Amid soaring costs for raw materials, fuel and ocean freight, Nippon Steel worked to fine-tune production and shipments to meet demand, while also continuing efforts to improve both domestic and export prices for steel. At the same time, the company joined its group companies in a maximum effort to improve profitability.

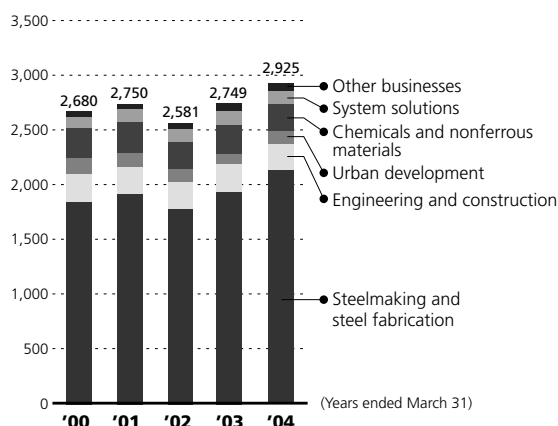
As a result, consolidated sales in steelmaking and steel fabrication in the year ended March 31, 2004 totaled ¥2,156.9 billion, a gain of ¥176.1 billion over the previous year (¥1,980.8 billion), and consolidated operating profits rose by ¥76.9 billion over the previous year (¥112.8 billion) to ¥189.7 billion.

In the area of equipment investments, successive steps are being taken to acquire a better balance in production, including the relining of blast furnaces (No. 4 blast furnace at Kimitsu Works completed in May 2003, and No. 2 blast furnace at Oita Works to be completed in May 2004).

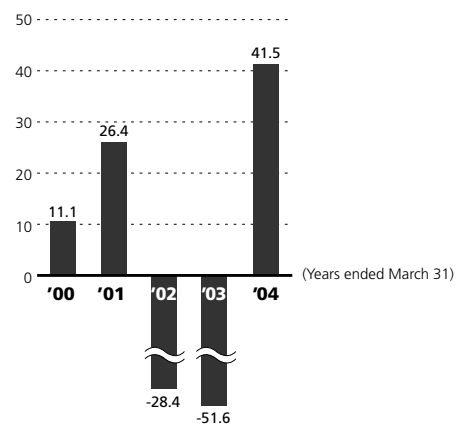
Research and development efforts primarily targeted stronger international competitiveness, the development of highly differentiated products, and a commitment to environmental preservation and energy conservation.

Sustained emphasis was placed on strengthening Nippon Steel's alliance with other domestic and foreign steelmakers. Nippon Steel and Sumitomo Metal Industries, Ltd. integrated their stainless steel businesses through a new company named Nippon Steel & Sumikin Stainless Steel Corporation that was jointly established (joint *Shinsetsu Bunkatsu*) on schedule in October 2003. Overseas, Nippon Steel signed a Joint Venture Agreement with Baoshan Iron & Steel Co., Ltd. of China and Arcelor of the EU to establish a company on Baoshan Iron & Steel's premises (Shanghai) to manufacture and sell automotive

Net Sales
(¥ billion)



Net Income
(¥ billion)



steel sheets. Nippon Steel continues, with Arcelor, to conduct joint R&D in the area of automotive steel sheets and joint technological approach in response to world-car projects of automobile makers. Nippon Steel also reached an agreement with the Ispat Group, a longtime partner in Nippon Steel's joint ventures in the U.S. to manufacture cold-rolled and coated steel sheets, to establish a closer alliance aimed at enhancing the ability of these joint ventures to respond to the needs of North American automakers and other customers. Further, the strategic alliance between Nippon Steel and POSCO of Korea has led to their support for consolidation of operations of a coal mine in Australia in which Nippon Steel has equity interests and another Australian coal mine in which POSCO has equity interests. The consolidation was agreed in February 2004.

In the procurement of raw materials, a worldwide tightening of supply and demand for steel raw materials has been caused by brisk demand in China and other countries. To cope with this, basic agreements were reached with Rio Tinto (Australia and the U.K.) on creating a comprehensive alliance involving Nippon Steel's acquisition of interests in and the development of iron ore and coking coalmines in Australia and conclusion of long-term contracts for such raw materials. Nippon Steel anticipates that the basic agreements will ensure the stable supply of steel raw materials over medium- to long-term basis and also establish a closer relationship with Rio Tinto in a wide range of areas including cooperation on marine transportation. Nippon Steel also came to an agreement with Kanematsu Corporation and Tianjin Tiantie Coking and Chemical Co., Ltd., a company from which Nippon Steel procures coke in China, on the establishment of a joint venture in Tianjin City, China to manufacture and sell coke.

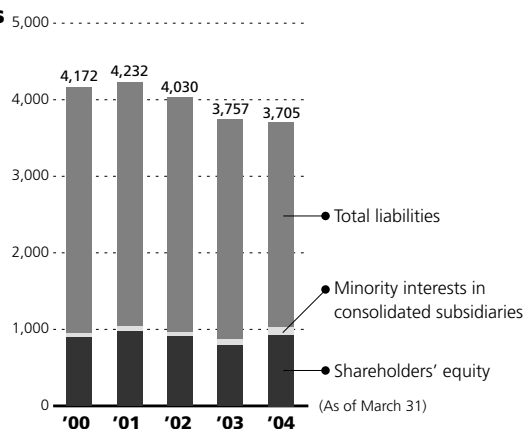
As for Nippon Steel's strategies for the operation of all

Nippon Steel Group companies, efforts on stronger consolidated management and "selection and concentration" of management resources in core businesses were accelerated in the year ended March 31, 2004. An agreement was reached in April 2004 to transform three consolidated subsidiaries into wholly owned subsidiaries of Nippon Steel in July 2004, through share-for-share exchange (*Kabushiki Kokan*) using Nippon Steel's treasury stocks. These companies are Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe Co., Ltd. and Nippon Steel Metal Products Co., Ltd., each of which functions as a core company of the Nippon Steel Group vis-à-vis activities in markets for steel sheets used as building materials, steel pipe and tubes, and fabricated products used in building construction and civil engineering, respectively. However, in order for these companies to continue making strides in the future, it was determined that a still stronger alliance had to be established in which each company was more closely integrated with Nippon Steel than ever before. In addition, business integration is being actively promoted among Nippon Steel Group companies, mainly those engaged in sales and processing of steel products.

Engineering and Construction: In the engineering and construction sector, a severe operating environment in the domestic market still prevails due primarily to prolonged stringency in public works expenditures. Under these circumstances, Nippon Steel is strengthening the development and promotion of customer-oriented solution projects that meet both social and client needs. These efforts were rewarded with new orders, including one in the environmental field that was placed by the city of Kitakyushu for a large waste direct melting and recycling plant and another in the construction field for the No. 7 Central

Total Assets

(¥ billion)



Government building—one of the largest private finance initiative (PFI) projects in the country.

Overseas, Nippon Steel has steadily secured orders for oil and natural gas development projects in Sakhalin, Russia, and other Asian districts. At the same time, stepped-up marketing has been promoted in China by capitalizing on a newly established subsidiary involved in steel plant business.

Further, Nippon Steel is making steady progress in implementing various energy related solution businesses, which include retail electricity sales and wind power generation.

Consolidated sales in engineering and construction in the year ended March 31, 2004 increased by ¥18.2 billion from the previous year (¥274.9 billion) to ¥293.1 billion; consolidated operating profits also increased by ¥1.8 billion from the previous year (¥2.4 billion) to ¥4.3 billion.

Urban Development: Nippon Steel City Produce, Inc. is using its unique capabilities as a developer to promote various urban development projects. These include the Yawata-Higashida comprehensive development project in Kitakyushu and the Hanada development project in Sakai, Osaka, both of which utilize company-owned lands. Nippon Steel City Produce is also committed to projects involving asset reevaluation in the redevelopment of underutilized urban areas and to condominium sales mainly in Tokyo metropolitan areas and the Kansai district.

Both consolidated sales and operating profits in urban development in the year ended March 31, 2004 showed growth: a gain of ¥15.6 billion over the previous year (¥105.1 billion) to ¥120.8 billion in sales and a gain of ¥9.0 billion over the previous year (¥4.4 billion) to ¥13.5 billion in operating profits.

Chemicals and Nonferrous Materials: Nippon Steel Chemical Co., Ltd., which became a wholly owned subsidiary of Nippon Steel in July 2003, spearheads the chemicals operations of the Nippon Steel Group. Following its inception as a coal chemicals business, this company has developed to include fields of petrochemical products and electronics materials into which it has preferentially injected management resources. These include ESPANEX, an adhesive-free copper-clad laminated sheet 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 Japan in terms of profitability. In April 2004, Nippon Steel Chemical established two joint ventures, one for the sale of industrial gases and another in the business of tar operations. Thus, by pursuing a policy of selection and concentration in business, this company aims to improve and solidify its profit base.

In the area of new materials, a recovery in the major market of IT-related industries was a factor in favorable business operations. Metal foils for use mainly in suspension materials for hard disc drives served as a prime mover in this buoyancy. Another brisk sector was the area of semiconductor materials, including bonding wires and fillers for IC chips, which are prominently

served by subsidiaries of Nippon Steel.

In titanium operations, aggressive efforts were directed at the acquisition of large-scale orders for construction materials in domestic and overseas projects and also at the development of new applications for titanium products, such as consumer goods and mufflers for two-wheeled vehicles.

In the area of silicon wafers, Nippon Steel sold all of its equity holdings (45% of the outstanding shares) in Wacker NSCE Corporation, an affiliate of Nippon Steel accounted for by the equity method, to Wacker Group.

Overall, consolidated sales in chemicals and nonferrous materials in the year ended March 31, 2004 amounted to ¥275.7 billion, a decrease of ¥70.4 billion from the previous year (¥346.2 billion) that partly resulted from the fact that Nippon Steel Chemical changed its definition of sales during the term. Consolidated operating profits amounted to ¥12.6 billion, a decrease of ¥0.7 billion from the previous year (¥13.4 billion) but having regard to losses of ¥2.7 billion incurred as a result of Nippon Steel Chemical becoming the wholly owned subsidiary of Nippon Steel, effectively, the consolidated operating profits increased from the previous year.

System Solutions: The operating environment of the system solutions business continues to be tight, marked by customers strict selection of system solutions projects, fiercer competition with other system solutions companies and declining prices. In this environment, NS Solutions Corporation, a subsidiary of Nippon Steel, has made full use of advanced business-operations knowledge and information systems technology to help clients solve problems, thereby winning high market acceptance.

In addition, NS Solutions has reinforced its commitment to solidifying its business foundations and to improving competitiveness. While strengthening the functions of a special team dedicated solely to assist the formulation of an IT strategy, the company has built an integrated lifecycle support structure for its systems that extends from consulting to development, management and maintenance. At the same time, the company has enhanced the activities to ensure precise management of project risks while also promoting solution activities focused on the pursuit of higher development productivity.

Consolidated sales in system solutions in the year ended March 31, 2004 amounted to ¥150.8 billion (¥153.1 billion in the previous year), while consolidated operating profits amounted to ¥9.1 billion, nearly equaling the previous year (¥9.7 billion).

Other Businesses/Electric Power Supply, Services and Others: Nippon Steel supplies wholesale electricity to electric power companies from its Hirohata, Yawata, Kamaishi, Muroran, and Oita Works.

Consolidated sales in other businesses in the year ended March 31, 2004 amounted to ¥73.6 billion (¥79.0 billion in the previous year), and consolidated operating losses amounted to

¥4.3 billion (losses of ¥2.1 billion in the previous year).

The gas holder explosion that occurred at Nagoya Works in September 2003 caused great anxiety among nearby residents, customers and many other relevant persons. In April 2004, a new gas holder equipped with advanced safety and anti-disaster devices went into full-scale operation. Henceforth, Nippon Steel firmly resolves to enhance its commitment to safety and disaster prevention based on its experience of this accident.

In January 2004, the Fair Trade Commission of Japan ordered Nippon Steel to take elimination measures in respect of the sales activities of cold-rolled stainless steel sheets. Nippon Steel firmly resolves to demand compliance with laws and to procure ethical business conduct.

Among the foregoing factors, domestic and overseas improvements in the sale prices in the steelmaking and steel fabrication sector and cost curtailments that exceeded expectations in the Medium-Term Consolidated Business Plan were particularly influential. Together, they more than offset adverse factors such as the upward spiral in market prices for raw materials and the gas holder explosion at Nagoya Works. As a result, consolidated sales for the year ended March 31, 2004 came to ¥2,925.8 billion, or a gain of ¥176.5 billion over the previous year (¥2,749.3 billion). Consolidated operating profits were ¥224.4 billion, or an increase of ¥81.5 billion over the previous year (¥142.9 billion); consolidated ordinary profits were ¥172.8 billion, or a gain of ¥103.9 billion over the previous year (¥68.8 billion); and consolidated net income was ¥41.5 billion, an improvement of ¥93.2 billion over the previous year (losses of ¥51.6 billion).

Nippon Steel has been striving to advance the implementation of a series of accounting reforms. Starting with the 2003 fiscal year accounts, the group applied the accounting principles to the impairment of fixed assets earlier than mandated, thereby enhancing both the soundness of the group's financial structure and the transparency of its financial information.

After carefully considering the year ended March 31, 2004 operating results, future prospects, the company's improved financial structure and other factors, Nippon Steel proposes to pay a year-end dividend of ¥1.5 per share, unchanged from the previous year.

Financial Position

Nippon Steel's consolidated assets at the end of the year ended March 31, 2004 decreased by ¥51.2 billion from 3,757.1 billion posted a year earlier to ¥3,705.9 billion. This resulted primarily from a reduction of ¥92.3 billion in tangible fixed assets due to the application of accounting for impairment of fixed assets and other reasons and also a decrease of ¥113.7 billion in long-term loans due mainly to the assignment of mortgage loans for employees. This decrease more than offset a ¥127.4 billion increase in investments in securities due to an unrealized gain attributable to a recovery in the stock market and other factors.

Consolidated liabilities at the end of the year ended March

31, 2004 decreased by ¥212.9 billion from the figure at the end of fiscal 2002 (¥2,883.1 billion), resulting mainly from a reduction of loans.

Shareholders equity at the end of the year ended March 31, 2004 increased by ¥149.1 billion from the level at the end of fiscal 2002 (¥789.4 billion), despite cash dividends of ¥9.9 billion paid through the appropriation of fiscal 2002's distributable profits. The increase derived mainly from consolidated net profit of ¥41.5 for the year ended March 31, 2004 and an increase of ¥108.5 billion in unrealized gains on available-for-sale securities.

The Statement of Cash Flows

Cash flows from operating activities during the year ended March 31, 2004 resulted in a total income of ¥288.0 billion (¥334.5 billion a year earlier). This total was obtained by adding ¥183.5 billion in depreciation and amortization and ¥26.7 billion in inventories decrease to ¥73.6 billion in consolidated net profit before income taxes and minority interest; reducing ¥40.0 billion in notes and accounts receivable-trade; adding items that do not cause an outflow of cash, such as the ¥60.0 billion loss on impairment of fixed assets (which is included in consolidated net profit before income taxes and minority interest for the year ended March 31, 2004); and factoring in payments for enterprise taxes and other items.

Cash flows from investing activities came to a total income of ¥51.8 billion (a total expenditure of ¥147.0 billion a year earlier). This resulted from outlays of ¥155.7 billion for the acquisition of tangible and intangible fixed assets minus income from asset reduction, the assignment of mortgage loans for employees, etc.

Free cash flows of ¥339.9 billion arising from the above were appropriated for the repayment of loans and the redemption of bonds and notes, totaling ¥327.8 billion, cash dividends of ¥9.9 billion and others.

Nippon Steel made every effort to reduce interest-bearing debts using cash flows arising from operating activities. At the same time, in order to procure the capital required for cash payments such as the redemption of loans and the repayment of long-term loans, Nippon Steel closely monitored developments in the financial market and secured less expensive capital by, among other means, issuing corporate bonds and acquiring long-term loans.

Nippon Steel also remained committed to improving its consolidated financial structure by proceeding with the liquidation of consolidated asset holdings, such as the assignment of mortgage loans for employees. As a result, the balance of interest-bearing debts outstanding at the end of the year ended March 31, 2004 was reduced to ¥1,561.2 billion, or an improvement of ¥310.6 billion from a year earlier—an achievement reached two years earlier than anticipated in the Medium-Term Consolidated Business Plan.

11-Year Summary

NIPPON STEEL

CONSOLIDATED

CONSOLIDATED As of or for the years ended March 31	Millions of yen	Thousands of dollars	Millions of yen		Millions of yen							
	2004		2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Net sales	2,925,878	27,683,592	2,749,306	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)	224,475	2,123,901	142,961	73,044	162,644	120,296	92,396	181,640	142,090	193,429	92,269	(10,932)
Ordinary profit (loss)	172,851	1,635,456	68,879	16,746	111,374	64,687	15,282	86,537	80,753	101,593	(12,193)	(36,725)
Income (loss) before income taxes, etc.	73,642	696,780	(37,386)	(25,079)	49,403	2,171	14,096	39,234	(25,148)	56,961	(17,863)	(59,747)
Net income (loss)	41,515	392,800	(51,686)	(28,402)	26,494	11,173	11,478	5,945	3,450	54,538	(3,971)	(54,093)
Net income (loss) per share	¥6.15	\$0.058	(¥7.69)	(¥4.17)	¥3.89	¥1.64	¥1.68	¥0.86	¥0.50	¥7.91	(¥0.57)	(¥7.85)
Shareholders' equity	938,581	8,880,512	789,443	907,150	979,695	889,220	878,849	878,702	891,134	903,359	868,186	971,882
Total assets	3,705,917	35,064,032	3,757,175	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	149,593	1,415,396	163,318	195,801	157,348	226,954	234,833	232,490	241,377	234,921	—	—
Depreciation	183,510	1,736,308	196,653	197,336	206,987	214,186	221,359	241,003	232,543	237,994	—	—
Research and development costs	35,349	334,460	35,866	35,183	39,364	40,575	—	—	—	—	—	—
Interest-bearing debt	1,561,228	14,771,774	1,871,875	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

Sales and operating profit (loss) by industry segment ⁽¹⁾												
Sales	Millions of yen	Thousands of dollars	Millions of yen		Millions of yen							
For the years ended March 31	2004		2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Steelmaking and steel fabrication	2,156,946	20,408,236	1,980,809	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	293,137	2,773,564	274,903	294,323	280,929	300,054	419,841	426,852	490,165	430,667	458,475	490,349
Urban development	120,811	1,143,077	105,188	130,808	141,979	164,428	146,406	126,218	—	—	—	—
Chemicals and nonferrous materials	275,797	2,609,490	346,232	326,164	359,123	338,631	415,285	451,573	440,289	418,352	363,187	312,234
System solutions	150,850	1,427,290	153,143	149,398	143,670	136,198	160,954	151,111	156,261	187,445	—	—
Other businesses	73,615	696,520	79,059	61,251	59,440	56,491	222,908	239,616	314,403	292,945	423,396	373,041
Elimination of intersegment transactions	(145,280)	(1,374,587)	(190,031)	(208,754)	(196,745)	(192,776)	(349,005)	(359,284)	(355,498)	(368,408)	(362,329)	(386,975)
Consolidated total	2,925,878	27,683,592	2,749,306	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)

Operating profit (loss) For the years ended March 31	Millions of yen	Thousands of dollars	Millions of yen		Millions of yen							
	2004		2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Steelmaking and steel fabrication	189,717	1,795,033	112,816	23,482	115,536	73,257	65,397	168,659	109,639	115,135	63,013	(53,480)
Engineering and construction	4,359	41,251	2,460	9,913	7,287	12,209	11,972	10,610	35,510	28,158	33,992	48,190
Urban development	13,526	127,987	4,469	15,576	16,320	20,787	16,975	15,766	—	—	—	—
Chemicals and nonferrous materials	12,667	119,854	13,458	10,379	11,574	8,378	5,263	8,140	11,806	10,590	(5,119)	(10,559)
System solutions	9,182	86,880	9,776	10,504	9,770	5,311	(19,333)	(26,491)	(26,504)	13,748	—	—
Other businesses	(4,310)	(40,785)	(2,155)	1,457	772	(911)	11,000	9,782	17,796	16,066	2,624	(4,468)
Elimination of intersegment transactions	(668)	(6,321)	2,135	1,731	1,384	1,262	1,120	(4,826)	(6,159)	9,729	(2,240)	9,385
Consolidated total	224,475	2,123,901	142,961	73,044	162,644	120,296	92,396	181,640	142,090	193,429	92,269	(10,932)

NON-CONSOLIDATED

NON-CONSOLIDATED	Millions of yen	Thousands of dollars	Millions of yen		Millions of yen							
	As of or for the years ended March 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Net sales	1,861,829	17,615,945	1,789,706	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)	117,678	1,113,433	48,359	31,729	78,776	42,606	50,238	103,954	84,711	64,698	11,214	(18,349)
Net income (loss)	31,184	295,053	(20,447)	(28,129)	18,355	266	522	35,393	19,906	24,741	9,438	(30,904)
Net income (loss) per share	¥4.62	\$0.044	(¥3.02)	(¥4.13)	¥2.69	¥0.03	¥0.07	¥5.13	¥2.88	¥3.59	¥1.36	(¥4.48)
Cash dividends per share	¥1.50	\$0.014	¥1.50	¥1.50	¥1.50	¥1.50	¥1.50	¥2.50	¥2.50	¥2.50	¥2.50	¥2.50
Shareholders' equity	845,099	7,996,019	713,772	793,557	866,757	773,981	783,925	861,828	843,659	840,976	833,459	841,245
Total assets	2,652,353	25,095,595	2,588,698	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	120,000	1,135,395	85,000	175,000	135,000	180,000	135,000	100,000	100,000	120,000	130,000	170,000
Depreciation	134,314	1,270,837	148,106	144,363	150,904	153,327	139,441	148,111	149,319	154,281	141,664	146,794
Research and Development costs	27,290	258,211	29,091	28,705	35,598	35,727	41,900	47,500	51,100	55,700	67,400	77,900
Interest-bearing debt	1,075,872	10,179,508	1,188,209	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

Shares	2004	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	6,806,981	6,889,904	6,889,904	6,889,903	6,889,903	6,889,903
Common stock price range (high / low: yen)	253 / 127	217 / 119	230 / 145	270 / 165	314 / 215	272 / 177	392 / 146	388 / 283	375 / 271	403 / 293	420 / 295

Production and Shipments

Production and Shipments	Thousands of tons	Thousands of tons		Thousands of tons							
For the years ended March 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Crude steel output	30,146	29,902	26,140	27,837	25,620	23,201	26,619	25,706	26,173	26,565	25,123
Steel products output *2	28,396	28,222	25,487	26,226	24,566	22,751	25,378	24,747	25,620	25,314	24,338
Steel products shipments *2	29,388	29,171	26,312	26,789	25,633	24,026	26,580	25,871	25,684	25,374	24,440

Employees

Employees	Persons	Persons					Persons				
As of March 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Number of employees *3	15,138	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 “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, 2004 and 2003 were 6,311 and 7,830, respectively.
Notes: Tonnage figures are in metric tons; all dollar (\$) figures are in US currency and translated from the Japanese yen at the rate of \$1=¥105.69 at the latest balance sheet date.

Consolidated Balance Sheets

NIPPON STEEL

As of March 31, 2004 and 2003

	Millions of yen		Thousands of dollars (Note3)
	2004	2003	2004
ASSETS			
Current assets:			
Cash and bank deposits (Notes 4 and 11)	¥ 81,219	¥ 78,132	\$ 768,472
Marketable securities (Notes 4 and 14)	1,019	996	9,643
Receivables:			
Notes and accounts receivable	455,917	409,031	4,313,725
Less: Allowance for doubtful accounts	(2,920)	(624)	(27,629)
	452,997	408,406	4,286,096
Inventories	540,562	558,626	5,114,603
Deferred tax assets (Note 6)	40,322	21,143	381,515
Other	128,379	177,286	1,214,677
Total current assets	1,244,500	1,244,592	11,775,008
Fixed assets:			
Tangible fixed assets:			
Buildings and structures (Note 4)	1,492,101	1,514,700	14,117,717
Machinery and equipment (Note 4)	4,646,628	4,611,789	43,964,689
	6,138,729	6,126,489	58,082,407
Less: Accumulated depreciation	(4,872,570)	(4,780,955)	(46,102,470)
	1,266,159	1,345,533	11,979,937
Land (Notes 4 and 5)	327,557	357,885	3,099,226
Construction in progress	71,981	54,600	681,065
	1,665,698	1,758,019	15,760,229
Intangible fixed assets:			
Patents and utility rights	5,574	5,264	52,744
Software	3,522	5,200	33,328
Excess of cost over the underlying net equity of investments in subsidiaries	8,740	—	82,702
	17,837	10,464	168,775
Investments and others:			
Investments in securities (Notes 4 and 14)	461,349	307,679	4,365,118
Investments in unconsolidated subsidiaries and affiliates	199,522	225,726	1,887,812
Deferred tax assets (Note 6)	68,992	76,225	652,778
Other (Note 4)	62,672	184,764	592,984
Less: Allowance for doubtful accounts	(14,656)	(50,296)	(138,674)
	777,880	744,098	7,360,018
Total fixed assets	2,461,416	2,512,583	23,289,024
Total assets	¥ 3,705,917	¥ 3,757,175	\$ 35,064,032

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of dollars (Note3)
	2004	2003	2004
LIABILITIES			
Current liabilities:			
Short-term loans and portion of long-term loans due within one year (Note 4)	¥ 396,094	¥ 701,210	\$ 3,747,697
Commercial paper (Note 4)	31,000	20,000	293,310
Bonds due within one year (Note 4)	50,000	30,000	473,081
Convertible bonds due within one year (Note 4)	98,729	10,112	934,137
Notes and accounts payable	418,111	400,152	3,956,019
Accrued expenses	253,762	266,616	2,401,006
Advances received	28,617	35,763	270,764
Accrued income taxes and enterprise taxes	47,282	9,345	447,367
Other	68,338	64,592	646,597
Total current liabilities	1,391,935	1,537,793	13,169,982
Long-term liabilities:			
Bonds and notes (Note 4)	346,450	340,000	3,277,982
Convertible bonds (Note 4)	—	98,729	—
Long-term loans (Note 4)	637,882	667,942	6,035,414
Deferred tax liabilities (Note 6)	85,001	31,000	804,250
Deferred tax liabilities on revaluation of land (Notes 5 and 6)	7,926	4,287	74,993
Accrued pension and severance costs (Note 15)	112,797	110,109	1,067,250
Reserve for repairs to blast furnaces	50,188	50,274	474,868
Excess of the underlying net equity over cost of investments in subsidiaries	—	2,940	—
Other	38,005	40,110	359,592
Total long-term liabilities	1,278,252	1,345,393	12,094,353
Total liabilities	2,670,187	2,883,187	25,264,335
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	97,148	84,545	919,184
SHAREHOLDERS' EQUITY			
Common stock:			
Authorized—9,917,077,000 shares			
Issued and outstanding—6,806,980,977 shares as of March 31, 2004 and 2003	419,524	419,524	3,969,391
Additional paid-in capital	105,850	105,518	1,001,514
Retained earnings (Note 10)	298,734	278,315	2,826,513
Unrealized gains on revaluation of land(Note 5)	12,191	6,621	115,350
Unrealized gains on available-for-sale securities(Note 14)	129,833	21,243	1,228,436
Foreign currency translation adjustments	(20,500)	(20,958)	(193,971)
Less: Treasury stock, at cost *	(7,051)	(20,822)	(66,722)
Total shareholders' equity	938,581	789,443	8,880,512
Total liabilities and shareholders' equity	¥ 3,705,917	¥ 3,757,175	\$ 35,064,032

* 51,533,714 shares at March 31, 2004 and 159,415,679 shares at March 31, 2003

Consolidated Statements of Income

NIPPON STEEL

Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of dollars (Note 3)
	2004	2003	2002	2004
Operating revenues:				
Net sales	¥2,925,878	¥2,749,306	¥2,581,399	\$27,683,592
Operating costs and expenses:				
Cost of sales (Note 8)	2,443,188	2,351,028	2,245,335	23,116,551
Selling, general and administrative expenses (Notes 7 and 8)	258,215	255,316	263,020	2,443,139
	2,701,403	2,606,344	2,508,355	25,559,691
Operating profit	224,475	142,961	73,044	2,123,901
Non-operating profit and loss:				
Non-operating profit:				
Interest and dividend income	6,099	5,526	7,047	57,711
Equity in net income of unconsolidated subsidiaries and affiliates	11,854	—	—	112,167
Miscellaneous	8,605	12,437	14,174	81,420
	26,559	17,963	21,222	251,300
Non-operating loss:				
Interest expenses	23,798	29,186	32,904	225,168
Exchange loss on foreign currency transactions	10,375	—	—	98,170
Loss on disposal of fixed assets	14,547	16,200	13,065	137,638
Equity in net loss of unconsolidated subsidiaries and affiliates	—	20,418	12,452	—
Miscellaneous	29,462	26,239	19,097	278,766
	78,183	92,045	77,521	739,744
Ordinary profit	172,851	68,879	16,746	1,635,456
Special profit and loss:				
Special profit:				
Gain on sales of tangible fixed assets (Note 9)	514	7,666	15,626	4,868
Gain on sales of investments in securities and investments in subsidiaries and affiliates	—	26,381	2,234	—
Gain on contribution of securities to employee retirement benefit trust	—	—	22,367	—
Release of reserve for repairs to blast furnaces	—	—	14,690	—
	514	34,047	54,918	4,868
Special loss:				
Loss on disposal of tangible fixed assets and other assets (Note 9)	2,869	12,389	7,732	27,148
Loss on impairment of fixed assets (Note 9)	60,055	—	—	568,219
Loss on sales of investments in securities	3,698	—	—	34,989
Loss on valuation of investments in securities (Note 9)	2,823	45,433	72,952	26,714
Special retirement allowances for voluntary retirement (Note 15)	10,777	9,922	8,134	101,969
Amortization of transition obligation in respect of the new accounting standard for retirement benefits (Note 9)	4,384	4,669	6,166	41,485
Industrial water obligation fee (Note 9)	3,649	—	—	34,533
Allowance for doubtful accounts	—	40,061	498	—
Loss on accidents at works (Note 9)	4,377	—	—	41,422
Loss on the integration of stainless-steel business (Note 9)	6,492	—	—	61,429
Loss on relinquishment of entrusted portion of the pension fund (Note 15)	595	302	—	5,631
Loss on business restructuring	—	19,185	1,259	—
Loss on valuation of real estate for sale	—	8,349	—	—
	99,723	140,313	96,744	943,544
Income (loss) before income taxes and minority interest	73,642	(37,386)	(25,079)	696,780
Income taxes - current (Note 6)	56,096	17,968	19,062	530,763
Income taxes - deferred (Note 6)	(29,500)	(8,712)	(15,257)	(279,122)
Minority interest in net income (loss) of consolidated subsidiaries	5,531	5,044	(482)	52,338
Net income (loss)	¥ 41,515	¥ (51,686)	¥ (28,402)	\$ 392,800
Per share (stated in yen and in dollars):				
Net income (loss) (Note 2)	¥6.15	(¥7.69)	(¥4.17)	\$0.058
Cash dividends applicable to the year	¥1.50	¥1.50	¥1.50	\$0.014
Weighted average number of shares outstanding (in thousands)	6,725,459	6,735,017	6,806,948	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

NIPPON STEEL

Years ended March 31, 2004, 2003 and 2002

	Thousands	Millions of yen		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
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	—	—	—	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
Net income for the year ended				
March 31, 2004	—	—	—	41,515
Increase due to the change in the number of consolidated companies	—	—	—	(5,442)
Cash dividends	—	—	—	(9,991)
Directors' and corporate auditors' bonuses	—	—	—	(92)
Increase due to reversal of unrealized gains on revaluation of land	—	—	—	(5,569)
Increase due to disposal of treasury stock	—	—	331	—
Balance at March 31, 2004	6,806,981	¥419,524	¥105,850	¥298,734

	Thousands	Thousands of dollars (Note 3)		
Balance at March 31, 2003	6,806,981	\$3,969,391	\$1,001,514	\$2,633,316
Net income for the year ended				
March 31, 2004	—	—	—	392,800
Increase due to the change in the number of consolidated companies	—	—	—	(51,496)
Cash dividends	—	—	—	(94,538)
Directors' and corporate auditors' bonuses	—	—	—	(871)
Increase due to reversal of unrealized gains on revaluation of land	—	—	—	(52,697)
Increase due to disposal of treasury stock	—	—	3,137	—
Balance at March 31, 2004	6,806,981	\$3,969,391	\$1,001,514	\$2,826,513

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

NIPPON STEEL

Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of dollars (Note3)
	2004	2003	2002	2004
Cash flows from operating activities:				
Income (loss) before income taxes and minority interest	¥ 73,642	¥ (37,386)	¥ (25,079)	\$ 696,780
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	183,510	196,653	197,336	1,736,308
Interest and dividend income (accrual basis)	(6,099)	(5,526)	(7,047)	(57,711)
Interest expense (accrual basis)	23,798	29,186	32,904	225,168
Exchange losses (gains) on foreign currency transactions	3,166	7,262	(3,174)	29,964
Amortization of excess of cost over the underlying net equity (the underlying net equity over cost) of investments in subsidiaries and affiliates	1,744	(1,423)	2,197	16,510
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	(11,854)	20,418	12,452	(112,167)
Loss (gain) on sales of investments in securities	5,828	(27,466)	(1,562)	55,144
Loss on valuation of investments in securities	2,526	44,460	72,336	23,904
Amortization of transition obligation in respect of new accounting standard for retirement benefits	4,384	4,669	6,166	41,485
Loss on impairment of fixed assets	60,055	—	—	568,219
Gain on contribution of securities to employee retirement benefit trust	—	—	(22,367)	—
Loss on the integration of stainless-steel business	6,492	—	—	61,429
Loss on business restructuring	—	19,185	—	—
Loss on valuation of real estate for sale	—	8,349	—	—
Loss on disposal of tangible and intangible fixed assets	10,713	24,216	7,279	101,364
Gain on sales of tangible and intangible fixed assets	—	(7,487)	(15,894)	—
Changes in allowance for doubtful accounts	4,237	38,843	(113)	40,089
Changes in operating assets and liabilities:				
Changes in notes and accounts receivable	(40,095)	39,734	53,870	(379,369)
Changes in inventories	26,740	24,274	17,601	253,006
Changes in notes and accounts payable	7,661	6,262	738	72,493
Other	(35,191)	(7,532)	(30,858)	(332,973)
Interest and dividend income (cash basis)	7,699	6,828	8,396	72,854
Interest expense (cash basis)	(23,928)	(29,038)	(33,674)	(226,405)
Income taxes (cash basis)	(17,010)	(19,980)	(55,864)	(160,942)
Net cash provided by operating activities	288,021	334,502	215,642	2,725,152
Cash flows from investing activities:				
Acquisition of investments in securities	(3,608)	(42,109)	(6,909)	(34,142)
Proceeds from sales of investments in securities	50,426	63,511	14,731	477,115
Acquisition of cash owned by new subsidiaries, net of payment for purchase of subsidiaries' shares	(46)	(77)	1,011	(441)
Proceeds from sale of subsidiaries' shares, net of cash owned by those subsidiaries	1,479	(52)	(81)	13,998
Acquisition of tangible and intangible fixed assets	(155,729)	(206,671)	(199,285)	(1,473,455)
Proceeds from sales of tangible and intangible fixed assets	24,545	23,261	28,917	232,239
Payment for loans	(7,692)	(19,289)	(19,323)	(72,785)
Proceeds from collections of loans	140,596	32,764	10,629	1,330,270
Other	1,927	1,575	4,943	18,233
Net cash used in investing activities	51,897	(147,088)	(165,365)	491,031
Cash flows from financing activities:				
Net decrease in short-term loans	(253,846)	(81,844)	(39,647)	(2,401,802)
Net increase (decrease) in commercial paper	11,000	(96,000)	96,000	104,077
Proceeds from long-term loans	88,730	138,557	86,785	839,533
Payments of long-term loans	(189,834)	(86,183)	(122,169)	(1,796,140)
Proceeds from issuance of bonds and notes	56,246	94,568	—	532,182
Redemption of bonds and notes	(40,112)	(113,100)	(115,823)	(379,529)
Payments for purchase of treasury stock	—	(19,374)	—	—
Cash dividends	(9,991)	(10,210)	(10,210)	(94,538)
Cash dividends to minority shareholders	(723)	(461)	(423)	(6,847)
Proceeds from issuance of common stock to minority shareholders	—	12,276	1,446	—
Other	6,178	(15,231)	(12)	58,461
Net cash used in financing activities	(332,353)	(177,003)	(104,054)	(3,144,603)
Effect of exchange rate changes on cash and cash equivalents	(1,949)	(7,540)	4,184	(18,445)
Net increase (decrease) in cash and cash equivalents	5,615	2,869	(49,592)	53,135
Cash and cash equivalents at beginning of year	76,603	74,194	123,910	724,791
Decrease from the change in the number of companies consolidated	(1,825)	(460)	(123)	(17,275)
Cash and cash equivalents at end of year (Note 11)	¥ 80,393	¥ 76,603	¥ 74,194	\$ 760,651

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Nippon Steel Corporation and its subsidiaries (collectively "NIPPON STEEL") are prepared on the basis of accounting principles generally accepted in Japan, and are compiled from the consolidated financial statements prepared by Nippon Steel Corporation as required by the Securities and Exchange Law of Japan.

The accounts of overseas consolidated subsidiaries are based

on their financial statements, which are prepared in conformity with accounting principles 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 followed by Nippon Steel Corporation.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

Nippon Steel Corporation had 285 and 276 subsidiaries as of March 31, 2004 and 2003, respectively. The consolidated financial statements include the accounts of Nippon Steel Corporation and 259 of its subsidiaries (in the previous fiscal year: 258 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 70 in this document.

All subsidiaries, with certain exceptions, use a fiscal year ending on March 31, 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 that might have taken place between their fiscal year-end and March 31. 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 exercises 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 26 unconsolidated subsidiaries (in the previous fiscal year: 18 unconsolidated subsidiaries) and 146 affiliates (in the previous fiscal year: 156 affiliates), the equity method has been applied to the investments in 73 significant affiliates (in the previous fiscal year: 86 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 Shareholders' 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, 2004.

(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 amortization over the useful life of 5 years is adopted.

(9) Allowance for Doubtful Accounts

The allowance for doubtful accounts is computed based on the historical experienced default ratio 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 ¥39,733 million (\$375,945 thousand), ¥59,470 million and ¥79,846 million for the years ended March 31, 2004, 2003 and 2002, 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 1-5 years), starting from the year in which they occur. Unrecognized actuarial differences are mainly amortized on a straight-line basis over a period of time within the average remaining service period for the employees in service (Nippon Steel Corporation; 14 years, consolidated subsidiaries; approximately 7-15 years), starting from the year following the year in which they occur.

Additional Information (2004)

Some domestic consolidated subsidiaries obtained governmental approval for return of the pension fund under the substitutional portion from the Ministry of Health, Labor and Welfare, paid minimum actuarial liability to the government in the year ended March 31, 2004.

These consolidated subsidiaries adopted a one-time amortization of the actuarial difference of the plan assets for the year ended March 31, 2004.

As a result, an amount of ¥495 million (\$4,691 thousand) was charged as a special loss.

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 the 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 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 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 an 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.

(17) Accounting Standard for Impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005, or thereafter, with possible early adoption for fiscal years ended March 31, 2004 or thereafter.

NIPPON STEEL adopted this standard with effect from the year ended March 31, 2004. As a result of this adoption, income before income taxes decreased by ¥60,055 million (\$568,219 thousand). The accumulated impairment loss was deducted from each asset's acquisition cost directly.

(18) 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.

(19) 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.

The average number of shares used in the computation was 6,735,016 thousand and 6,725,458 thousand for the years ended March 31, 2003 and 2004, 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.

Changes of presentation (2004)

(Consolidated Statements of Income)

As the "Exchange loss on foreign currency transactions" occurred more than 10% of the non-operating loss, it has been presented separately with effect from the year ended March 31, 2004. The exchange loss on foreign currency transactions, ¥7,615 million, was included in "Other" in non-operating loss for the year ended March 31, 2003.

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. 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, which are

included solely for the convenience of the reader, have been calculated at ¥105.69 = U.S.\$1, the effective exchange rate prevailing at the latest balance sheet date of March 31, 2004. 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.

4. Bonds and Notes, Convertible Bonds and Loans

Bonds and Notes, convertible bonds, and loans of NIPPON STEEL at March 31, 2004 and 2003 consisted of the following:

			Millions of yen		Thousands of dollars
			2004	2003	2004
Bonds and Notes:					
Nippon Steel Corporation	3.3%	SB due March 2017	¥ 10,000	¥ 10,000	\$ 94,616
	3.175%	SB due September 2017	10,000	10,000	94,616
	2.35%	SB due December 2007	40,000	40,000	378,465
	2.55%	SB due December 2009	10,000	10,000	94,616
	1.775%	SB due December 2003	—	30,000	—
	2.75%	SB due February 2008	20,000	20,000	189,232
	2.60%	SB due April 2008	15,000	15,000	141,924
	2.27%	SB due May 2008	10,000	10,000	94,616
	2.23%	SB due June 2008	30,000	30,000	283,848
	2.00%	SB due July 2004	50,000	50,000	473,081
	2.50%	SB due July 2008	30,000	30,000	283,848
	1.74%	SB due December 2005	10,000	10,000	94,616
	0.54%	SB due November 2007	30,000	30,000	283,848
	0.80%	SB due November 2009	10,000	10,000	94,616
	1.36%	SB due November 2012	10,000	10,000	94,616
	0.62%	SB due February 2009	30,000	30,000	283,848
	1.18%	SB due February 2013	15,000	15,000	141,924
	0.80%	SB due June 2013	20,000	—	189,232
	Floating rate SB without call option due December 2007 *1		10,000	10,000	94,616
	Floating rate PN with call option due April 2023 *2, 5		5,000	—	47,308
	Floating rate SB with call option due June 2015 *3, 6		15,000	—	141,924
Nippon Steel City Produce, Inc.	Floating rate SB without call option due March 2008 *4		3,000	—	28,384
	Floating rate SB without call option due March 2009 *4		3,000	—	28,384
	Floating rate SB without call option due March 2010 *4		3,250	—	30,750
	Floating rate SB without call option due March 2009 *4		2,300	—	21,761
	Floating rate SB without call option due March 2009 *4		1,900	—	17,977
	Floating rate SB without call option due March 2009 *4		1,700	—	16,084
	Floating rate SB without call option due March 2009 *4		1,300	—	12,300
			396,450	370,000	3,751,064
Less: portion due within one year		(50,000)	(30,000)	(473,081)	
		¥346,450	¥340,000	\$3,277,982	
Convertible bonds:					
Nippon Steel Corporation	1.5%	CB due September 2004	¥ 98,729	¥ 98,729	\$ 934,137
Nippon Steel Chemical Co., Ltd.	2.50%	secured CB due March 2004	—	4,988	—
	2.00%	secured CB due March 2005	—	5,124	—
		98,729	108,841	934,137	
Less: portion due within one year		(98,729)	(10,112)	(934,137)	
		¥ —	¥ 98,729	\$ —	

(Interest rate)

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

*2 The floating rate is as follows:

April 15, 2003–April 14, 2008	1.40%
April 15, 2008–April 14, 2013	1.80%
April 15, 2013–April 14, 2018	2.00%
April 15, 2018–April 14, 2023	2.30%

*3 The floating rate is as follows:

June 5, 2003–June 4, 2010	0.70%
June 5, 2010–June 4, 2015	1.25%

*4 The floating rate is generally determined by reference to the interest rate in Tokyo applicable to 6-month Yen term TIBOR.

(Call option)

*5 Call option is available on the day of interest payment after April 14, 2008.

*6 Call option is available after June 4, 2010.

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.

Nippon Steel Chemicals Co., Ltd. redeemed the 2.50% secured CB and the 2.00% secured CB on July 25, 2003.

CB outstanding March 31, 2004 due within one year of ¥98,729 million. This is classified as convertible bonds due within one year in current liabilities.

* "SB" = straight bond "PN" = private note "CB" = convertible bond

	Millions of yen		Thousands of dollars
	2004	2003	2004
Loans:			
Short-term loans	¥ 314,390 *2	¥ 556,227	\$ 2,974,649
Loans principally from banks and insurance companies due 2005-2031 for 2004 (2004-2031 for 2003) *1	719,586 *3	812,925	6,808,462
Commercial paper	31,000 *4	20,000	293,310
	<u>¥1,064,977</u>	<u>¥1,389,153</u>	<u>\$10,076,422</u>

*1 Including a portion due within one year of ¥81,703 million (\$773,048 thousand) for 2004 and ¥144,982 million for 2003.

*2 Average interest rate at March 31, 2004 is 0.5 %.

*3 Average interest rate at March 31, 2004 is 2.1 %.

*4 Average interest rate at March 31, 2004 is 0.0 %.

NIPPON STEEL's assets pledged as collateral primarily to secure long-term loans, short-term loans, CBs and others aggregated ¥82,966 million (\$784,994 thousand) at March 31, 2004 and ¥107,400 million at March 31, 2003, respectively. These are summarized as follows:

	Millions of yen		Thousands of dollars
	2004	2003	2004
(Industrial foundation)			
Buildings and structures	¥ 21,909	¥ 22,728	\$ 207,302
Machinery and equipment	55,172	56,576	522,021
Land	29,692	29,086	280,940
Other	—	643	—
	<u>¥106,774</u>	<u>¥109,034</u>	<u>\$1,010,264</u>
(Pledged assets)			
Cash and bank deposits	¥ 360	¥ 2	\$ 3,408
Accounts receivable	32	—	310
Marketable securities	—	9	—
Buildings and structures	17,622	18,654	166,738
Machinery and equipment	6,869	6,923	64,997
Land	23,802	24,648	225,211
Investments in securities	41	1,834	391
	<u>¥ 48,729</u>	<u>¥ 52,073</u>	<u>\$ 461,056</u>

5. Revaluation of Land

(Year ended March 31, 2004)

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 "Unrealized gains on revaluation of land".

Additionally, revaluation differences accounted for by affiliates were recorded as a separate component of shareholders' equity as "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, 2002)

- Excess of carrying amounts of the revalued land over fair value at the end of March 31, 2004: ¥12,577 million (\$119,000 thousand)

(Revaluation made on March 31, 2000)

- Excess of carrying amounts of the revalued land over fair value at the end of March 31, 2004: ¥568 million (\$5,376 thousand)

(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, 2002)

- Excess of carrying amounts of the revalued land over fair value at the end of March 31, 2003: ¥14,181 million

(Revaluation made on March 31, 2000)

- Excess of carrying amounts of the revalued land over fair value at the end of March 31, 2003: ¥274 million

6. Deferred Tax Accounting

(1) The components of deferred tax assets and liabilities at March 31, 2004 and 2003, are as follows;

	Millions of yen		Thousands of dollars
	2004	2003	2004
Deferred tax assets			
Reserve for accrued bonuses	¥ 18,771	¥ 14,921	\$ 177,605
Allowance for doubtful accounts	12,198	19,102	115,417
Accrued pension and severance costs	27,001	24,519	255,476
Reserve for repairs for blast furnaces	10,054	5,227	95,134
Loss on impairment of fixed assets	19,169	—	181,370
Loss on valuation of investments in securities	—	14,318	—
Depreciation in excess of limit	25,160	23,206	238,058
Tax losses carried forward	20,467	28,973	193,654
Unrealized gain on tangible fixed assets	49,571	41,636	469,025
Revaluation of available-for-sale securities	103	407	977
Other	34,728	34,226	328,588
Subtotal	217,225	206,539	2,055,307
Valuation allowance	(9,410)	(25,994)	(89,035)
Total	207,815	180,544	1,966,272
Deferred tax liabilities			
Special tax purpose reserve	(89,850)	(94,474)	(850,135)
Revaluation of available-for-sale securities	(88,017)	(14,893)	(832,787)
Net unrealized gain on assets and liabilities of consolidated subsidiaries acquired after the adoption of the new consolidation standard	(6,015)	(5,599)	(56,914)
Total	(183,883)	(114,966)	(1,739,837)
Net deferred tax assets	¥ 23,931	¥ 65,577	\$ 226,434

Net deferred tax assets of ¥23,931 million (\$226,434 thousand) and ¥65,577 million at March 31, 2004 and 2003, respectively, mentioned above, are different from the amounts of deferred tax assets net of deferred tax liabilities disclosed in the consolidated balance sheet.

The differences of ¥381 million (\$3,608 thousand) and ¥791 million at March 31, 2004 and 2003, 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, 2004)

	2004
Effective tax rate	41.7%
Equity in net income of unconsolidated subsidiaries and affiliates	(6.7)
Permanent non-deductible expenses	4.0
Permanent non-taxable income	(1.3)
Adjustment of deferred tax assets and liabilities due to change in the tax rate	3.9
Other	(5.5)
Actual tax rate	36.1%

(Year ended March 31, 2003)

A loss before income taxes and minority interest was recorded, 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 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 and income taxes-deferred increased by ¥1,165 million for the year ended March 31, 2003.

7. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2004 and 2003 are as follows;

	Millions of yen		Thousands of dollars
	2004	2003	2004
Transportation and storage	¥ 53,875	¥ 59,069	\$ 509,745
Salaries	76,617	74,517	724,928
Depreciation and amortization	4,233	4,728	40,060
Research and development expenses	25,133	24,493	237,806
Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates	2,781	90	26,317
Other	95,573	92,415	904,281
	¥258,215	¥255,316	\$2,443,139

8. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2004 and 2003 are ¥35,349 million

(\$334,460 thousands) and ¥35,866 million, respectively.

9. Explanatory Notes on Special Profit and Loss

(Year ended March 31, 2004)

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 impairment of fixed assets

NIPPON STEEL acknowledged "Loss on impairment of fixed assets" as follows:

a. Grouping

Grouping unit is each of business establishments in principle.

b. Assessment of recoverable value

Recoverable value is assessed comparing net sale value and utility value. Net sale value was mainly adopted for idle immovable estates and utility value was mainly adopted for other assets. Net sale values were assessed according to fair values based on public announcement prices. To calculate utility values, Nippon Steel Corporation's discount rate (capital cost before taxes; 7%) was used.

c. Assets subject to impairment

- Idle immovable assets held by each business establishment or leasehold property held by urban development business, whose fair values have diminished significantly compared to book values due to the recent decline in land prices.
- Assets which provided a low level operating profit (theme park businesses at Space World, Inc. and others) due to excessive depreciation costs arising from investments during the years of the asset-inflated economy.

d. Detail of impairment loss

Buildings	¥16,020 million (\$151,583 thousand)
Structures	¥4,837 million (\$45,773 thousand)
Land	¥35,792 million (\$338,650 thousand)
Others	¥3,404 million (\$32,212 thousand)

(3) Loss on valuation of investments in securities

The "Loss on valuation of investments in securities" consists of a loss on valuation of the following:

Investments in securities: ¥930 million (\$8,807 thousand)

Investment in shares of affiliated companies:

¥1,410 million (\$13,350 thousand)

Golf memberships: ¥481 million (\$4,557 thousand)

(4) 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 is amortized on a straight-line basis over approximately 5 years for consolidated subsidiaries.

(5) Industrial water obligation fee

The "Industrial water obligation fee" represents a compensation for reduction in the consumed volume of industrial water from that original contracted in the year ended March 31, 2004, which was caused by a substantial decrease in industrial water demand at Sakai Works.

(6) Loss on accidents at works

The "Loss on accidents at works" represents costs relating to recovery from accidents; especially an explosion of a coke oven gasholder which occurred at Nagoya Works in the year ended March 31, 2004.

(7) Loss on the integration of stainless-steel business

The "Loss on the integration of stainless-steel business" represents losses on disposal of assets arising from the integration of the stainless-steel business with Sumitomo Metals Industries Co., Ltd.

(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 of the following:

Investments in securities: ¥43,615 million

Investment in shares of affiliated companies: ¥163 million

Golf memberships: ¥1,654 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 year ended March 31, 2001.

The transition obligation is 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 the rigid Printed-circuit board business and reorganization costs in the 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.

10. Notes on Consolidated Statements of Shareholders' Equity

(Year ended March 31, 2004)

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, 2004 were approved at the ordinary general meeting of shareholders held on June 25, 2004. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2004, but will be recorded in those for the year ending March 31, 2005.

	Millions of yen	Thousands of dollars
Appropriations for:		
Cash dividends at ¥1.5 (\$0.01419) per share	¥ 10,141	\$ 95,953
Transfer to special reserve	81,221	768,486

(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
Appropriations for:	
Cash dividends at ¥1.5 per share	¥ 9,991
Transfer to special reserve	6,802

11. Notes on Consolidated Statements of Cash Flows

Cash and cash equivalents consists of:

	Millions of yen		Thousands of dollars
	2004	2003	2004
Cash and bank deposits	¥ 81,219	¥ 78,132	\$ 768,472
Less - Time deposits with original maturity over 3 months	(1,106)	(2,351)	(10,469)
Securities due within 3 months	279	822	2,649
Cash and cash equivalents	¥ 80,393	¥ 76,603	\$ 760,651

12. Lease Commitments, Contingent Liabilities and Commitment Line Contracts

(1) Finance Leases

Finance lease contracts, other than those under 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, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of dollars
	2004	2003	2004
Lease rental expenses	¥ 9,964	¥ 12,221	\$ 94,283
Impairment loss on leased assets	12	—	120

The amount of outstanding future lease payments due at March 31, 2004 and 2003, which included the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of dollars
	2004	2003	2004
Future lease payments			
Within one year	¥ 7,099	¥ 9,144	\$ 67,173
Over one year	12,120	15,343	114,675
	¥ 19,219	¥ 24,487	\$ 181,848

	Millions of yen		Thousands of dollars
	2004	2003	2004
* Accumulated impairment loss on leased assets	¥ 12	¥ —	\$ 120

Had they been capitalized, the following items would have been recognized on the consolidated balance sheets and the consolidated statements of income as at and for the years ended March 31, 2004 and 2003.

	Millions of yen		Thousands of dollars
	2004	2003	2004
Acquisition cost	¥ 59,537	¥ 77,625	\$ 563,325
Accumulated depreciation	(40,318)	(53,137)	(381,477)
Accumulated impairment loss	(12)	—	(120)
Net book value	¥ 19,206	¥ 24,487	181,727
Depreciation	¥ 9,964	¥ 12,221	\$ 94,283

(2) Operating Leases

The amount of outstanding future lease payments due at March 31, 2004 and 2003, is summarized as follows:

	Millions of yen		Thousands of dollars
	2004	2003	2004
Future lease payments			
Within one year	¥ 2,262	¥ 1,219	\$ 21,409
Over one year	6,095	6,598	57,674
	¥ 8,358	¥ 7,817	\$ 79,084

The amount of outstanding future lease income due at March 31, 2004 and 2003, is summarized as follows:

	Millions of yen		Thousands of dollars
	2004	2003	2004
Future lease income			
Within one year	¥ 495	¥ 379	\$ 4,689
Over one year	4,893	4,259	46,301
	¥ 5,389	¥ 4,638	\$ 50,990

(3) Contingent Liabilities

	Outstanding amounts for the year ended		Substantial amounts	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
	2004	2004	2004	2004
Contingent liabilities for				
Guarantee of loans				
The Siam United Steel (1995) Co., Ltd.	¥11,638	\$110,116	¥11,638	\$110,116
UNIGAL Ltda.	5,858	55,433	4,003	37,876 ^{*1}
I/N Tek	5,793	54,819	5,793	54,819
I/N Kote	5,045	47,742	5,045	47,742
Guanghou Pacific Tinplate Co., Ltd.	2,255	21,338	2,255	21,338
Other	2,777	26,276	1,449	13,710 ^{*1}
	¥33,369	\$315,726	¥30,185	\$285,603

	Outstanding amounts for the year ended		Substantial amounts	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
	2004	2004	2004	2004
Contingent liabilities for:				
Reserved guarantee of loans				
Nippon Techno-Carbon Co.,Ltd.	¥1,680	\$15,895	¥1,680	\$15,895
NISP MARITIME S. A.	1,563	14,797	1,563	14,797
Hibikinada Development Co.,Ltd.	1,561	14,775	1,561	14,775
T & T MARITIME S. A.	1,361	12,878	1,361	12,878
PUISSANT SHIPPING ENTERPRISE S. A.	1,306	12,360	1,306	12,360
Muroran Co-Operative Electric Power Co., Ltd.	1,231	11,649	1,231	11,649
Makuhari Techno-Garden Co., Ltd.	972	9,205	972	9,205
H.C.M SHIPPING S.A.	532	5,040	532	5,040
Other	1,639	15,512	1,252	11,854 ^{*2}
	¥11,849	\$112,113	¥11,462	\$108,455

*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 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	
	2003		2003	
Contingent liabilities for:				
Guarantee of loans				
The Siam United Steel (1995) Co., Ltd.	¥16,251		¥16,251	
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	11,659		11,659 ^{*3}	
I/N Tek	8,105		8,105	
UNIGAL Ltda.	7,925		6,408 ^{*1}	
I/N Kote	7,325		7,325	
Wacker NSCE Malaysia Sdn.Bhd.	5,409		5,409	
Guanghou Pacific Tinplate Co., Ltd.	2,537		2,537	
Other	3,122		1,572 ^{*4}	
	¥62,336		¥59,268	

	Outstanding amounts for the year ended	Substantial amounts
	Millions of yen	Millions of yen
	2003	2003
Contingent liabilities for:		
Reserved guarantee of loans		
Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd.	¥17,414	¥6,234*2,3
Nippon Techno-Carbon Co., Ltd.	2,080	2,080
T & T MARITIME S. A.	1,834	1,834
Nilax Inc.	1,679	1,007*4
NISP MARITIME S. A.	1,776	1,776
Hibikinada Development Co., Ltd.	1,539	1,539
Muroran Co-Operative Electric Power Co., Ltd.	1,504	1,504
PUISSANT SHIPPING ENTERPRISE S. A.	1,491	1,491
Makuhari Techno-Garden Co., Ltd.	972	972
HIROHATA TERMINAL Co., Ltd.	672	672
Other	1,926	1,926
	¥32,891	¥21,039

*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 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
	2004	2003	2004
Notes and bills discounted	¥ 1,072	¥ 3,880	\$ 10,149
Notes and bills endorsed	1,011	964	9,566
	¥ 2,083	¥ 4,845	\$ 19,716

(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, 2004 and March 31, 2003 is as follows;

	Millions of yen		Thousands of dollars
	2004	2003	2004
Total amount of commitment lines	¥ —	¥ 7,789	\$ —
Used commitments	—	7,789	—
Unused commitments	¥ —	¥ —	\$ —

13. Segment Information

The segment information of NIPPON STEEL for 2004, 2003 and 2002 is as follows:

(1) Information by Business Segments

NIPPON STEEL operates in the following seven business segments.

Business segment	Major products and businesses
Steelmaking and steel fabrication	Bars; 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	Coal chemicals; titanium products; aluminum products; ceramic coated products;
System solutions	Engineering and consulting on computer systems
Power supply	Electricity supply
Other businesses	Finance and insurance; energy; theme park; others

	Millions of yen			Thousands of dollars
	2004	2003	2002	2004
Sales				
Steelmaking and steel fabrication				
Customers	¥2,127,949	¥1,941,907	¥1,791,743	\$20,133,874
Intersegment	28,997	38,902	36,463	274,361
Total Sales	2,156,946	1,980,809	1,828,206	20,408,236
Engineering and construction				
Customers	246,440	247,456	245,018	2,331,728
Intersegment	46,697	27,447	49,304	441,835
Total Sales	293,137	274,903	294,323	2,773,564
Urban development				
Customers	114,241	97,119	120,865	1,080,907
Intersegment	6,570	8,069	9,942	62,170
Total Sales	120,811	105,188	130,808	1,143,077
Chemicals and nonferrous materials				
Customers	244,579	265,266	248,176	2,314,126
Intersegment	31,217	80,966	77,988	295,364
Total Sales	275,797	346,232	326,164	2,609,490
System solutions				
Customers	124,998	125,526	122,087	1,182,688
Intersegment	25,851	27,616	27,311	244,601
Total Sales	150,850	153,143	149,398	1,427,290
Other businesses				
Customers	67,669	72,029	53,507	640,267
Intersegment	5,945	7,029	7,744	56,253
Total Sales	73,615	79,059	61,251	696,520
Elimination of intersegment transactions	(145,280)	(190,031)	(208,754)	(1,374,587)
Consolidated total	¥2,925,878	¥2,749,306	¥2,581,399	\$27,683,592

Operating profit (loss)

Steelmaking and steel fabrication	¥ 189,717	¥ 112,816	¥ 23,482	\$ 1,795,033
Engineering and construction	4,359	2,460	9,913	41,251
Urban development	13,526	4,469	15,576	127,987
Chemicals and nonferrous materials	12,667	13,458	10,379	119,854
System solutions	9,182	9,776	10,504	86,880
Other businesses	(4,310)	(2,155)	1,457	(40,785)
Elimination of intersegment transactions	(668)	2,135	1,731	(6,321)
Consolidated total	¥ 224,475	¥ 142,961	¥ 73,044	\$ 2,123,901

Identifiable assets

Steelmaking and steel fabrication	¥2,931,098	¥2,813,843	¥2,963,927	\$27,732,973
Engineering and construction	206,113	216,367	246,122	1,950,171
Urban development	160,394	186,962	193,400	1,517,589
Chemicals and nonferrous materials	281,847	292,937	316,898	2,666,737
System solutions	93,213	97,482	72,944	881,948
Other businesses	205,796	353,667	400,858	1,947,166
Elimination of intersegment transactions	(172,544)	(204,086)	(163,556)	(1,632,556)
Consolidated total	¥3,705,917	¥3,757,175	¥4,030,596	\$35,064,032

Depreciation of identifiable assets

Steelmaking and steel fabrication	¥ 153,923	¥ 163,644	¥ 164,693	\$ 1,456,363
Engineering and construction	2,472	1,914	2,008	23,397
Urban development	2,409	2,509	4,754	22,798
Chemicals and nonferrous materials	11,853	13,416	17,264	112,148
System solutions	1,240	1,282	1,160	11,740
Other businesses	12,051	14,255	7,819	114,025
Elimination of intersegment transactions	(440)	(369)	(365)	(4,166)
Consolidated total	¥ 183,510	¥ 196,653	¥ 197,336	\$ 1,736,308

Impairment loss of identifiable assets

Steelmaking and steel fabrication	¥30,977	¥ —	¥ —	\$293,097
Engineering and construction	—	—	—	—
Urban development	14,788	—	—	139,927
Chemicals and nonferrous materials	1,455	—	—	13,768
System solutions	—	—	—	—
Other businesses	12,833	—	—	121,427
Elimination of intersegment transactions	—	—	—	—
Consolidated total	¥ 60,055	¥ —	¥ —	\$568,219

Capital expenditure for identifiable assets

Steelmaking and steel fabrication	¥ 141,477	¥ 125,765	¥165,202	\$ 1,338,612
Engineering and construction	1,851	2,180	1,949	17,521
Urban development	1,320	2,533	904	12,490
Chemicals and nonferrous materials	9,219	12,066	10,442	87,234
System solutions	1,437	1,097	1,720	13,600
Other businesses	1,805	22,804	19,543	17,079
Elimination of intersegment transactions	(7,519)	(3,131)	(3,961)	(71,142)
Consolidated total	¥ 149,593	¥ 163,318	¥195,801	\$ 1,415,396

(Year ended March 31, 2004)

According to the change in definition of sales at Nippon Steel Chemical Co., Ltd in the year ended March 31, 2004, sales of the "Chemicals and nonferrous materials" segment decreased by ¥49,923 million (\$472,353 thousand) (¥14,491 million (\$137,108 thousand) at "Customers" and ¥35,432 million (\$335,244 thousand) at "Intersegment"), operating costs and expenses decreased by ¥49,923 million (\$472,353 thousand).

This change in definition, however, has no effect on operating profit.

(Year ended March 31, 2003)

According to the change in the basis of dividing business segments performed in the year ended March 31, 2002, sales of the "Urban development" segment decreased by ¥7,453 million, operating costs and expenses decreased by ¥8,218 million, operating profit increased by ¥765 million, depreciation of identifiable assets decreased by ¥1,929 million, capital expenditure of identifiable assets decreased by ¥382 million.

Sales of the "Other businesses" segment increased by ¥7,453 million, operating costs and expenses increased by ¥8,218 million operating profit decreased by ¥765 million, depreciation of identifiable assets increased by ¥1,929 million, capital expenditure of identifiable assets increased by ¥382 million.

(2) Overseas Sales

Overseas sales, which include export sales of Nippon Steel Corporation and its domestic subsidiaries and sales (other than

exports to Japan) recorded by foreign subsidiaries, are as follows;

	Millions of yen		Thousands of dollars
	2004	2003	2004
Overseas sales	¥ 658,236	¥ 611,129	\$ 6,227,989
Consolidated net sales	2,925,878	2,749,306	27,683,592
Overseas sales as proportion of consolidated net sales	22.5%	22.2%	22.5%

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, geographical segment information is not presented.

14. Securities

(Year ended March 31, 2004)

Information regarding marketable securities and investments in securities at March 31, 2004 is as follows;

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

	Millions of yen		
	2004		
	Carrying amount	Current price	Unrealized gain (loss)
Other	¥209	¥210	¥0
Total	¥209	¥210	¥0

	Thousands of dollars		
	2004		
	Carrying amount	Current price	Unrealized gain (loss)
Other	\$1,986	\$1,988	\$1
Total	\$1,986	\$1,988	\$1

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

	Millions of yen		
	2004		
	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	¥140,428	¥341,832	¥201,404
Bonds and debentures			
Government bonds and municipal bonds	59	60	0
Debentures	666	721	54
Other	25,449	43,406	17,957
Subtotal	¥166,603	¥386,020	¥219,416
Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost;			
Corporate shares	¥29,634	¥28,453	¥(1,180)
Other	447	335	(112)
Subtotal	¥30,082	¥28,788	¥(1,293)
Total	¥196,686	¥414,809	¥218,123

Thousands of dollars			
2004			
	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	\$1,328,679	\$3,234,292	\$1,905,612
Bonds and debentures			
Government bonds and municipal bonds	565	572	7
Debentures	6,306	6,825	518
Other	240,791	410,695	169,903
Subtotal	1,576,343	3,652,385	2,076,041
Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost;			
Corporate shares	\$ 280,390	\$ 269,216	\$ (11,174)
Other	4,237	3,171	(1,066)
Subtotal	284,627	272,387	(12,240)
Total	\$1,860,970	\$3,924,772	\$2,063,801

(3) Available-for-sale securities sold in the year ended March 31, 2004

Millions of yen		
2004		
Amount of sales	Gain on sales	Loss on sales
¥29,713	¥7,261	¥(2,465)

Thousands of dollars		
2004		
Amount of sales	Gain on sales	Loss on sales
\$281,134	\$68,703	\$(23,330)

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

Millions of yen	
2004	
Held-to-maturity debt securities	¥ 3
Available-for-sale securities	
Shares of private companies, etc.	47,066
Money management funds, etc.	279

Thousands of dollars	
2004	
Held-to-maturity debt securities	\$ 29
Available-for-sale securities	
Shares of private companies, etc.	445,324
Money management funds, etc.	2,649

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

Millions of yen				
2004				
	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	¥ 54	¥ 91	¥82	¥—
Debentures	—	700	—	—
Other	103	105	—	—
Other	88	78	—	—
Total	¥246	¥974	¥82	¥—

Thousands of dollars

	2004			
	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	\$ 518	\$ 864	\$ 783	\$ —
Debentures	—	6,623	—	—
Other	975	993	—	—
Other	837	743	—	—
Total	\$ 2,331	\$ 9,224	\$ 783	\$ —

(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

(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
Subtotal	¥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)
Subtotal	¥114,808	¥94,081	¥(20,726)
Total	¥232,162	¥268,890	¥36,727

(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)

(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

(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	—	—	—	—
Total	¥202	¥1,044	¥101	¥ —

15. Retirement Benefits

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

NIPPON STEEL may pay special retirement allowances on voluntary retirement which are not included in the projected

benefit obligations.

In addition to the above, certain domestic consolidated subsidiaries operate a defined contribution pension plan.

Projected benefit obligations as of March 31, 2004 and 2003 are analyzed as follows:

	Millions of yen		Thousands of dollars
	2004	2003	2004
Projected benefit obligations	¥(632,108)	¥(646,506)	\$(5,980,778)
Plan assets	456,153	391,223	4,315,955
Accrued pension and severance costs	112,797	110,109	1,067,250
Prepaid pension cost	(78,420)	(74,449)	(741,989)
Balance	(141,578)	(219,623)	(1,339,561)
Consisting of:			
Unrecognized balance of the transition obligation	(6,904)	(11,630)	(65,330)
Unrecognized actuarial differences	(147,913)	(222,156)	(1,399,503)
Unrecognized balance of prior service costs*2	13,239	14,162	125,271
	(141,578)	(219,623)	(1,339,561)

*1 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 Due to decrease in the expected rate and annuity benefit ratio used in the tax-qualified pension scheme and welfare pension plan for Nippon Steel Corporation and certain consolidated subsidiaries, the unrecognized balance of prior service costs had arisen.

*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, 2004 and 2003 is as follows:

	Millions of yen		Thousands of dollars
	2004	2003	2004
Service costs ^{*2, 4}	¥16,259	¥17,856	\$153,838
Interest costs	13,536	14,267	128,076
Expected return on plan assets	(6,880)	(8,164)	(65,098)
Amortization of transition obligation	4,597	5,042	43,495
Amortization of actuarial differences	19,144	12,433	181,139
Amortization of prior service costs ^{*3}	(1,635)	(1,362)	(15,477)
Net pension expense	45,021	40,072	425,974
Loss (gain) on relinquishment of entrusted portion of the pension fund ^{*5}	495	(443)	4,692
Other ^{*6}	249	—	2,355
	45,766	39,628	433,023

*1 In addition to the net pension expense above, special benefits for early retirement of ¥11,121 million (\$105,227 thousand) were paid for the year ended March 31, 2004, ¥10,777 million (\$101,969 thousand) of which was recorded as a special loss, and ¥10,336 million was paid for the year ended March 31, 2003, ¥10,136 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".

*5 In conjunction with relinquishment of the substitutional portion of the welfare pension plan, a one-time amortization of the actuarial difference of the plan assets of ¥495 million (\$ 4,691 thousand) was charged as a special loss for the year ended March 31, 2004.

*6 This amount represents payments for defined contribution pension plans.

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

	As of March 31, 2004	As of March 31, 2003
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%–3.1% (mainly 2.1%)
Expected rate of return on plan assets	0.0%–4.0% (mainly 2.1%)	0.0%–4.0% (mainly 2.1%)
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.

16. Information on Derivatives

NIPPON STEEL utilizes derivative financial instruments, which are comprised 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 rates, currency prices 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 sheets, 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.

17. Related Party Transactions

Transactions of Nippon Steel Corporation with its directors are as follows;
(Year ended March 31, 2004)

(a) Name of Director (b) Title of related parties (c) Equity ownership percentage of Nippon Steel Corp.	Millions of yen				Thousands of dollars		Notes
	Transactions made during the year ended March 31, 2004		Resulting account balances		Transactions made during the year ended March 31, 2004	Resulting account balances	
	Description of transactions	Amounts	Account	Amounts	Amounts	Amounts	
(a) Akira Chihaya [Representative Director and President of Nippon Steel Corp.]	Contribution	¥196	—	—	\$1,854	—	(1)
(b) Chairman of The Nippon Steel Arts Foundation	Acceptance of maintenance of Kioi Hall	1	Notes and accounts receivable	1	16	16	(2)
(c) 0.0%	Acceptance of repair work of Kioi Hall	1	—	—	11	—	(2)
(a) Josei Ito [Corporate Auditor of Nippon Steel Corp.]	Borrowing long-term loans	¥2,000	Long-term loans	¥2,000	\$18,923	\$18,923	(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 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) The interest rate was determined considering market interest rates. The repayment term was 7 years, and original principal will be repaid as a lump-sum at the maturity date. No guarantee was set up by Nippon Steel Corporation.

(Year ended March 31, 2003)

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

18. Subsequent Events

(Year ended March 31, 2004)

1. Share exchange

At the meeting of the Board of Directors held on April 28, 2004, Nippon Steel Corporation approved making Nittetsu Steel Sheet Corporation ("Nittetsu Steel Sheet"), Nittetsu Steel Pipe Co., Ltd. ("Nittetsu Steel Pipe") and Nippon Steel Metal Products Co., Ltd. ("Nippon Steel Metal Products"), wholly-owned subsidiaries of Nippon Steel Corporation through a share exchange on July 31, 2004.

(1) Share exchange schedule

June 25, 2004	Shareholders meeting to approve the share exchange agreement (Each company of Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe and Nippon Steel Metal Products)
July 30, 2004	Last day of share certificate submission period (Each company of Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe and Nippon Steel Metal Products)
July 31, 2004	Effective date of the share exchange

Notes:

- *1 Nippon Steel Corporation will perform the share exchanges with each of subsidiaries without the approval of its shareholders, pursuant to the provisions of Clause 1 of Article 358 of the Commercial Code of Japan.
- *2 Each procedures of share exchanges between Nippon Steel Corporation and subsidiaries may perform portionly.

(2) Share exchange ratio

	Nippon Steel Corporation	Nittetsu Steel Sheet	Nittetsu Steel Pipe	Nippon Steel Metal Products
Share exchange ratio	1	1.095	0.646	1.679

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 each subsidiaries may decide to amend the ratio.

Notes:

- *1 Allotment of shares:
For each share of each subsidiary, except for the shares which Nippon Steel Corporation possesses, the share exchange ratio shown above 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. 62,979,951 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. Purchase of treasury stock

Pursuant to the provisions set forth in Article 210 of the Commercial Code of Japan, Nippon Steel Corporation purchased treasury stock from the market based on the approval of shareholders' meeting held on June 26, 2003 up to a ceiling of 500 million shares amounting to ¥60 billion (\$567,697 thousand).

During the purchasing period from April 30, 2004 to May 24, 2004, Nippon Steel Corporation purchased treasury stock as follows.

- a. Category of purchased shares
Nippon Steel Corporation's common stock
- b. Number of purchased shares
72,564,000 shares
- c. Amount of purchased shares
¥15,999,945,000 (\$151,385 thousand)
- d. Process of purchase
Purchased from the Tokyo Stock Market

(Year ended March 31, 2003)

1. At the meeting of the Board of Directors held on April 25, 2003, Nippon Steel Corporation approved 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 the 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

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.

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, 2004 and 2003, 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 generally accepted 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 18 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.

As discussed in Note 18 to the consolidated financial statements, Nippon Steel Corporation entered into an agreement as making Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe Co., Ltd. and Nippon Steel Metal Products Co., Ltd. wholly-owned subsidiaries of Nippon Steel Corporation through a share exchange, and purchased treasury stocks for the period from April 30, 2004 to May 24, 2004.

As discussed in Note 2(17) to the consolidated financial statements, effective for the year ended March 31, 2004, Nippon Steel Corporation and its subsidiaries changed their accounting policy for impairment of fixed assets.

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 PricewaterhouseCoopers

Tokyo, Japan
June 25, 2004

(Reference-Unaudited)

Non-Consolidated Balance Sheets

Nippon Steel Corporation

As of March 31, 2004 and 2003

	Millions of yen		Thousands of dollars
	2004	2003	2004
ASSETS			
Current assets:			
Cash and bank deposits	¥ 17,188	¥ 7,278	\$ 162,635
Receivables:			
Notes receivable	3,817	4,461	36,122
Accounts receivable - trade	197,569	164,456	1,869,327
Accounts receivable	48,175	47,210	455,820
Less: Allowance for doubtful accounts	(2,682)	(1,248)	(25,379)
	246,880	214,880	2,335,890
Inventories	338,101	376,752	3,198,994
Deferred tax assets	19,600	2,400	185,448
Other	122,498	138,876	1,159,033
Total current assets	744,269	740,187	7,042,002
Fixed assets:			
Tangible fixed assets:			
Buildings and structures	1,076,779	1,114,502	10,188,097
Machinery and equipment	3,717,995	3,829,738	35,178,306
	4,794,775	4,944,240	45,366,403
Less: Accumulated depreciation	(3,926,412)	(3,995,059)	(37,150,276)
	868,362	949,181	8,216,126
Land	201,257	231,316	1,904,220
Construction in progress	61,595	47,956	582,793
	1,131,215	1,228,455	10,703,141
Intangible fixed assets:			
Goodwill	—	60	—
Patents and utility rights	1,457	1,214	13,788
Software	429	2,233	4,066
	1,887	3,507	17,855
Investments and others:			
Investments in securities	404,960	270,434	3,831,585
Investments in subsidiaries and affiliates	343,115	312,289	3,246,428
Other	31,034	42,062	293,639
Less: Allowance for doubtful accounts	(4,127)	(8,238)	(39,056)
	774,982	616,547	7,332,596
Total fixed assets	1,908,084	1,848,510	18,053,593
Total assets	¥2,652,353	¥2,588,698	\$25,095,595

	Millions of yen		Thousands of dollars
	2004	2003	2004
LIABILITIES			
Current liabilities:			
Short-term loans and long-term loans	¥ 106,776	¥ 225,646	\$ 1,010,276
due within one year	50,000	30,000	473,081
Bonds and notes due within one year	98,729	—	934,137
Convertible bonds due within one year	31,000	20,000	293,310
Commercial paper			
Payables:			
Notes payable	2,777	3,975	26,275
Accounts payable - trade	161,920	157,483	1,532,030
Accounts payable	63,836	60,114	604,000
	228,534	221,573	2,162,306
Accrued income taxes and enterprise taxes	35,810	245	338,828
Accrued expenses	230,106	253,141	2,177,184
Advances received	21,003	26,373	198,726
Other	8,125	4,485	76,883
Total current liabilities	810,085	781,466	7,664,736
Long-term liabilities:			
Bonds and notes	330,000	340,000	3,122,338
Convertible bonds	—	98,729	—
Long-term loans	459,367	473,834	4,346,363
Deferred tax liabilities	57,300	—	542,151
Accrued pension and severance costs	60,806	67,952	575,331
Reserve for repairs to blast furnaces	48,147	48,385	455,555
Allowance for loss on guarantees	38,292	61,300	362,314
Other	3,253	3,258	30,785
Total long-term liabilities	997,168	1,093,459	9,434,839
Total liabilities	1,807,254	1,874,926	17,099,575
SHAREHOLDERS' EQUITY			
Common stock:			
Authorized—9,917,077,000 shares			
Issued and outstanding—			
6,806,980,977 shares			
as of March 31, 2004 and 2003	419,524	419,524	3,969,391
Additional paid-in capital	105,820	105,518	1,001,232
Special tax-purpose reserve	98,321	101,432	930,284
Retained earnings	110,955	86,652	1,049,823
Unrealized gains on			
available-for-sale securities	116,644	20,039	1,103,643
Less: Treasury stock, at cost	(6,167)	(19,395)	(58,355)
Total shareholders' equity	845,099	713,772	7,996,019
Total liabilities and shareholders' equity	¥2,652,353	¥2,588,698	\$25,095,595

(Reference-Unaudited)

Non-Consolidated Statements of Income

Nippon Steel Corporation

Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of dollars
	2004	2003	2004
Operating revenues:			
Net sales	¥1,861,829	¥1,789,706	\$17,615,945
Operating costs and expenses:			
Cost of sales	1,535,676	1,537,331	14,530,010
Selling, general and administrative expenses	163,185	160,095	1,544,003
	1,698,862	1,697,426	16,074,014
Operating profit	162,966	92,279	1,541,931
Non-operating profit and loss:			
Non-operating profit:			
Interest and dividend income	8,541	10,085	80,815
Miscellaneous	6,675	6,608	63,160
	15,216	16,694	143,976
Non-operating loss:			
Interest expenses	17,776	21,996	168,192
Miscellaneous	42,728	38,618	404,281
	60,504	60,614	572,474
Ordinary profit	117,678	48,359	1,113,433
Special profit and loss:			
Special profit:			
Gain on sales of tangible fixed assets	—	6,588	—
Gain on sales of investments in securities and investments in subsidiaries and affiliates	5,714	24,357	54,070
	5,714	30,946	54,070
Special loss:			
Loss on disposal of tangible fixed assets and other assets	820	—	7,763
Loss on impairment of fixed assets	34,283	—	324,381
Loss on valuation of investments in securities	2,204	41,295	20,854
Special retirement allowances for voluntary retirement	7,933	7,957	75,066
Industrial water obligation fee	3,649	—	34,533
Loss on accidents at works	4,377	—	41,422
Loss on the integration of stainless-steel business	6,492	—	61,429
Provision for allowance for loss on guarantees	12,346	61,300	116,820
	72,109	110,553	682,272
Income (loss) before income taxes and minority interest	51,284	(31,247)	485,232
Income taxes - current	37,500	900	354,811
Income taxes - deferred	(17,400)	(11,700)	(164,632)
Net income (loss)	¥ 31,184	¥ (20,447)	\$ 295,053
Per share (stated in yen and in dollars):			
Net income (loss)	¥4.62	(¥3.02)	\$0.044
Cash dividends applicable to the year	¥1.50	¥1.50	\$0.014
Weighted average number of shares outstanding (in thousands)	6,736,038	6,748,835	

Non-Consolidated Statements of Shareholders' Equity

Nippon Steel Corporation

Years ended March 31, 2004 and 2003

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Special tax-purpose reserve	Voluntary reserve	Retained earnings
Balance at March 31, 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
Net income for the year ended							
March 31, 2004		—	—	—	—	—	31,184
Year-end cash dividends		—	—	—	—	—	(9,991)
Transfer to legal reserve		—	—	—	—	—	—
Transfer to special tax-purpose reserve		—	—	—	(9,913)	—	9,913
Transfer to voluntary reserve		—	—	—	6,802	—	(6,802)
Effect of share exchange, etc.		—	301	—	—	—	—
Balance at March 31, 2004	6,806,981	¥419,524	¥105,820	¥ —	¥ 98,321	¥ —	¥110,955

	Thousands	Thousands of dollars					
Balance at March 31, 2003	6,806,981	\$3,969,391	\$998,376	\$ —	\$959,720	\$ —	\$819,872
Net income for the year ended							
March 31, 2004		—	—	—	—	—	295,053
Year-end cash dividends		—	—	—	—	—	(94,538)
Transfer to legal reserve		—	—	—	—	—	—
Transfer to special tax-purpose reserve		—	—	—	(93,796)	—	93,796
Transfer to voluntary reserve		—	—	—	64,360	—	(64,360)
Effect of share exchange, etc.		—	2,855	—	—	—	—
Balance at March 31, 2004	6,806,981	\$3,969,391	\$1,001,231	\$ —	\$930,284	\$ —	\$1,049,823

Principal Subsidiaries and Affiliates (as of March 31, 2004)

Consolidated Subsidiaries (259 companies)

Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacturing/sales and other operations)
Steelmaking and Steel Fabrication (169 companies)			
Nittetsu Steel Sheet Corporation	57.8	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, coke
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
Nippon Steel & Sumikin Stainless Steel Corporation	80.0	5,000	Stainless steel
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.	85.0	1,500	Cement
Nittetsu Elex Co., Ltd.	90.3	1,032	Electrical instrumentation apparatuses
Nippon Steel Transportation Co., Ltd.	87.8	500	Marine and land transportation, loading/unloading
Nippon Steel U.S.A., Inc.	100.0	US\$22 million	Investment in U.S. companies, information collection
Nippon Steel Australia Pty. Limited	100.0	A\$21 million	Participation in mine development in Australia
Siam Nippon Steel Pipe Co., Ltd.	60.8	THB779 million	Machine structural ERW pipe and tubes
152 other companies			

Engineering and Construction (18 companies)

Urban Development (13 companies)

Nippon Steel City Produce, Inc.	100.0	5,750	Real estate
12 other companies			

Chemicals and Nonferrous Materials (25 companies)

Nippon Steel Chemical Co., Ltd.	100.0	5,000	Coke, chemical products
Yutaka Electric Mfg. Co., Ltd.	100.0	1,250	Power supply equipment for electronics equipment, transformers
23 other companies			

System Solutions (11 companies)

NS Solutions Corporation	72.2	12,952	Engineering and consulting services pertaining to computer systems
10 other companies			

Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacturing/sales and other operations)
Services and Others (23 companies)			
Nittetsu Finance Co., Ltd.	100.0	1,000	Finance and lending operations
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 operations in the Euromoney market
Nippon Steel Southeast Asia Pte. Ltd.	100.0	SG\$16 million	Investment in Asian companies, information collection
Space World, Inc.	46.0	2,000	Operation of space-oriented training facilities and exhibition booths, amusement facilities
17 other companies			

Affiliates Accounted for by the Equity Method (73 companies)

Companies	Voting right percentage	Paid-in capital (¥ million)	Main lines of business (manufacturing/sales and other operations)
Nichia Steel Works, Ltd.	24.5	8,604	Wire products, bolts, prepainted galvanized sheets
Japan Casting & Forging Corporation	42.0	6,000	Castings, forgings, ingots, blooms
Krosaki Harima Corporation	45.6	5,537	Refractories, refractory construction
Taihei Kogyo Co., Ltd.	38.0	5,468	Civil engineering work, building construction, machinery and equipment
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
Suzuki Metal Industry Co., Ltd.	22.2	1,200	Wire products
Sanyu Co., Ltd.	17.4	1,028	Cold-finished bars, cold-heading wire
The Siam United Steel (1995) Company Limited	36.3	THB9,000 million	Refractories
Guangzhou Pacific Tinplate Co., Ltd.	27.3	US\$36 million	Tinplate
Nippon Steel Trading Co., Ltd.	39.1	8,750	Trading of iron and steel, nonferrous metals, machinery and raw materials
Kyushu Oil Company Limited	36.0	6,300	Petroleum refining, sale of petroleum products
Tetra Co., Ltd.	22.9	2,251	Civil engineering work, block business
58 other companies			

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Nippon Steel Corporation

Head Office

6-3, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8071,
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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
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Number of Shareholders

490,810

URL

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Listings

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

Ten Major Shareholders

Japan Trustee Services Bank, Ltd.
The Master Trust Bank of Japan, Ltd.
State Street Bank & Trust Company
Nippon Life Insurance Co.
Trust & Custody Services Bank, Ltd.
Mizuho Corporate Bank, Ltd.
Meiji Yasuda Life Insurance Co.
The Chase Manhattan Bank N.A. London
The Dai-ichi Mutual Life Insurance Co.
The Tokio Marine and Fire Insurance Co., Ltd.

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