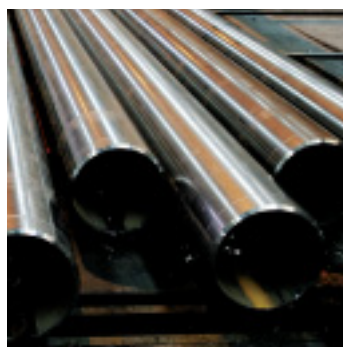


# Annual Report 2005

Year ended March 31, 2005



**Nippon Steel Corporation**

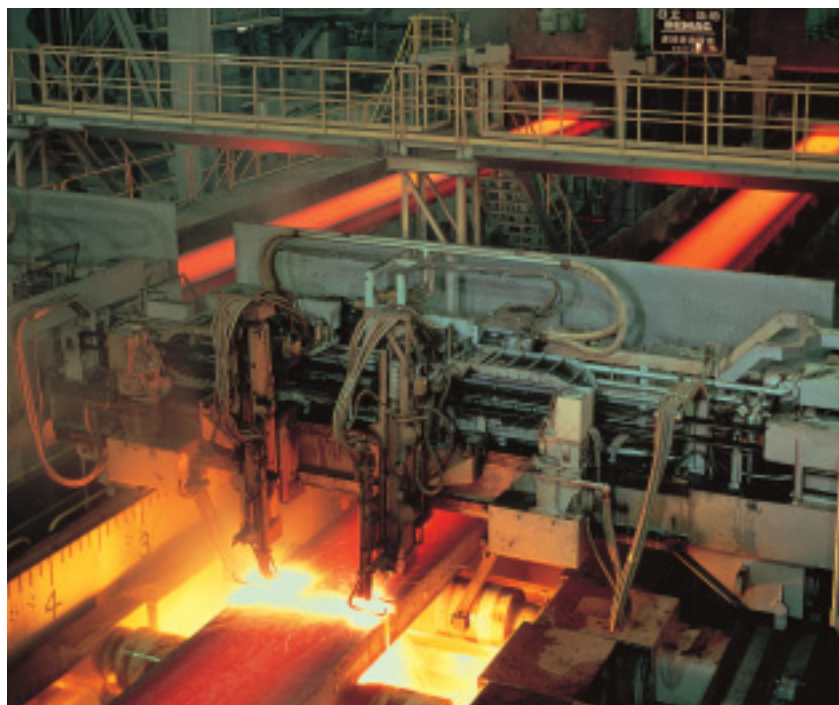
## Profile

Nippon Steel Corporation is Japan's No. 1 steelmaker and the world's third largest, in terms of crude steel production, with annual consolidated output of approximately 33 million tons.

Steelmaking and steel fabrication form the core operations of the Nippon Steel Group and lay a foundation for synergistic activities in such fields as engineering and construction, urban development, chemicals and nonferrous materials, and system solutions. These business segments ensure stable profitability for the Group.

Nippon Steel provides materials and solutions tailored to the needs of domestic customers and utilizes its expertise in steel and steelmaking to support manufacturers in Japan.

The Company has also secured a solid presence overseas, underpinned by distinctive research and development (R&D) capabilities and strategic alliances, and will strive to reach new heights through additional achievements.



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**Notes:** 1. This annual report is based on the Company's Japanese-language business report, a document prepared for financial authorities in accordance with the Commercial Code of Japan and accounting principles and practices generally accepted in Japan.

2. The accounting period covers a 12-month period beginning April 1 and ending March 31 the following year. In this annual report, "fiscal 2004" refers to the 12-month period ended March 31, 2005 (April 1, 2004–March 31, 2005), while "fiscal 2003" refers to the 12-month period ended March 31, 2004 (April 1, 2003–March 31, 2004).

3. The tonnage unit is metric ton.

4. While all products and services named in this annual report are, as of the publication date, trademarks or registered trademarks of Nippon Steel in Japan in the Japanese language and some of the English equivalents are trademarks or registered trademarks of Nippon Steel overseas, the Company may not have registered or currently use these English equivalents in Japan.



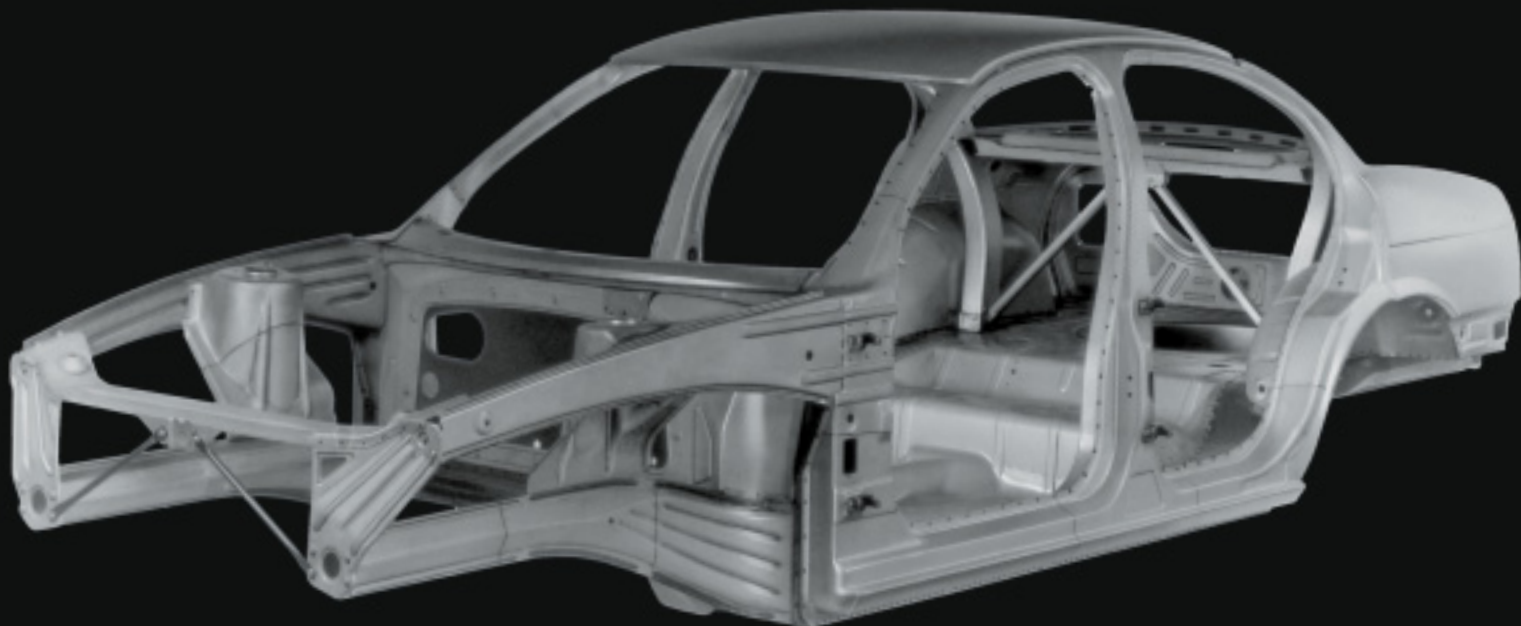


## *Special Feature: Steel Solutions for Japan's Manufacturing Sector*

The discovery of iron and subsequent manufacture of steel several thousand years ago marked a turning point in human history. Steel has helped build civilizations, and remains a key component in the foundation of comfortable, affluent societies even today in the 21st century.

For more than a century, Nippon Steel has tackled issues related to steel for customers in a diverse range of manufacturing industries and has distinguished itself with numerous breakthrough products.

We have grown as a company and as a group by forging close ties with manufacturers in Japan and enhancing the technical expertise that enables us to develop steel products tailored to prevailing needs. We will further hone our competitive edge by providing the manufacturing sector with high-quality, innovative steel products that expand the realm of possibility for companies to make the things they do.



# Controlling at the Atomic Level— Automotive Sheets

## 1 High Tensile-Strength Automotive Sheets

The automotive industry stands at the top of the manufacturing sector in Japan. Automobiles comprise more than 100 types of steel, including sheets for the body and specialty steels for the engine and drivetrain—each type tailored to a specific purpose.

Sheets for automotive bodies exemplify the best in technological innovation. This type of steel requires a combination of features: high strength, to ensure the safety of the vehicle's occupants; lightweight, to achieve enhanced fuel-efficiency; formability, to realize the fabrication of intricate body designs; and corrosion resistance, to prevent corrosion and extend durability.

High tensile-strength automotive sheets from Nippon Steel clear the strict requirements set by automakers. This achievement hinges on nanotechnology, a method of analyzing materials at the atomic level, which is used at the design stage and has facilitated the development of a steady stream of marketable products matched to the complex needs of automakers.

R&D has enhanced the lineup. Efforts have yielded such steels as transformation-induced plasticity (TRIP) high-strength sheets, which boast the flexibility automakers need to press-stamp the metal easily into the desired shapes as well as the impact-resistance

that allows the metal to instantly absorb force, such as that exerted during a collision. Another notable steel is bake-hardenable sheet, which becomes stronger through the high-temperature baking finish process.

Nippon Steel maintains business relationships with all domestic automakers. By meeting customer demands for high-quality steel,

the Company has captured approximately 50% of the domestic market for high tensile-strength automotive sheets, namely specialized steels, and with this lion's share of the market the Company has built a solid business foundation for growth in Japan.

As applications for high tensile-strength steel expand, the Company's bridging function—between materials and their

utilization—assumes greater importance from the customer's perspective. This function extends beyond the simple development of raw materials to a diverse array of steel-related solutions, including methods for fabrication, analysis, surface treatment, joining (including welding), and the evaluation and design of steel products.

Japanese automobiles are recognized worldwide for their superior quality. Nippon Steel will help sustain this reputation by transcending the requirements expressed by automakers and developing high tensile-strength automotive sheets ideally suited to each application.



**Nippon Steel has built a solid business foundation in Japan by providing a diverse array of steel-related solutions, from nanotechnology-based product design to services that bridge the gap between materials and their utilization.**





# Tackling Corrosion—Plates for Ships

## 2 Highly Corrosion-Resistant Plates for Ships

Of Nippon Steel's plates, those for ship-use are in greatest demand, particularly for constructing the deck and outer hull. With Japan's major shipbuilders keen to develop high-tech, high-value-added vessels, Nippon Steel is ready to help with high-strength steel, including plates, for screws, crankshafts and other components that reinforce ship safety.

In 2003, the Company broke new ground with Nippon Steel's Green Protect-1 (NSGP-1), the world's first bottom plate for oil tanker cargo tanks that resists pitting corrosion. Indeed, NSGP-1 effectively slows the growth of corrosion on cargo tank bottom plates to approximately one-fifth. Having attracted considerable attention as a revolutionary steel product, the Company has directed concerted efforts toward expanding interest among shipbuilders.

Previously, bottom plates in oil tanker cargo tanks were non-coated, and the operating environment of such tanks would become seriously impaired, with pits as deep as three to four millimeters appearing in the span of a year. The application of a thick film was regarded as the primary solution to the corrosion problem, but achieving a perfect coating was nearly impossible,

and measures to prevent pitting corrosion as well as the burden of inspection and maintenance activities were major challenges for tanker operators.

Through joint research with a shipowner and shipbuilder, Nippon Steel came up with an innovative technique, based on examination of the state of corrosion on actual ships. Never

applied to corrosion-proof steel before, the method boosts the ability of steel to withstand the conditions that cause corrosion and ultimately impedes the progress of surface decomposition.

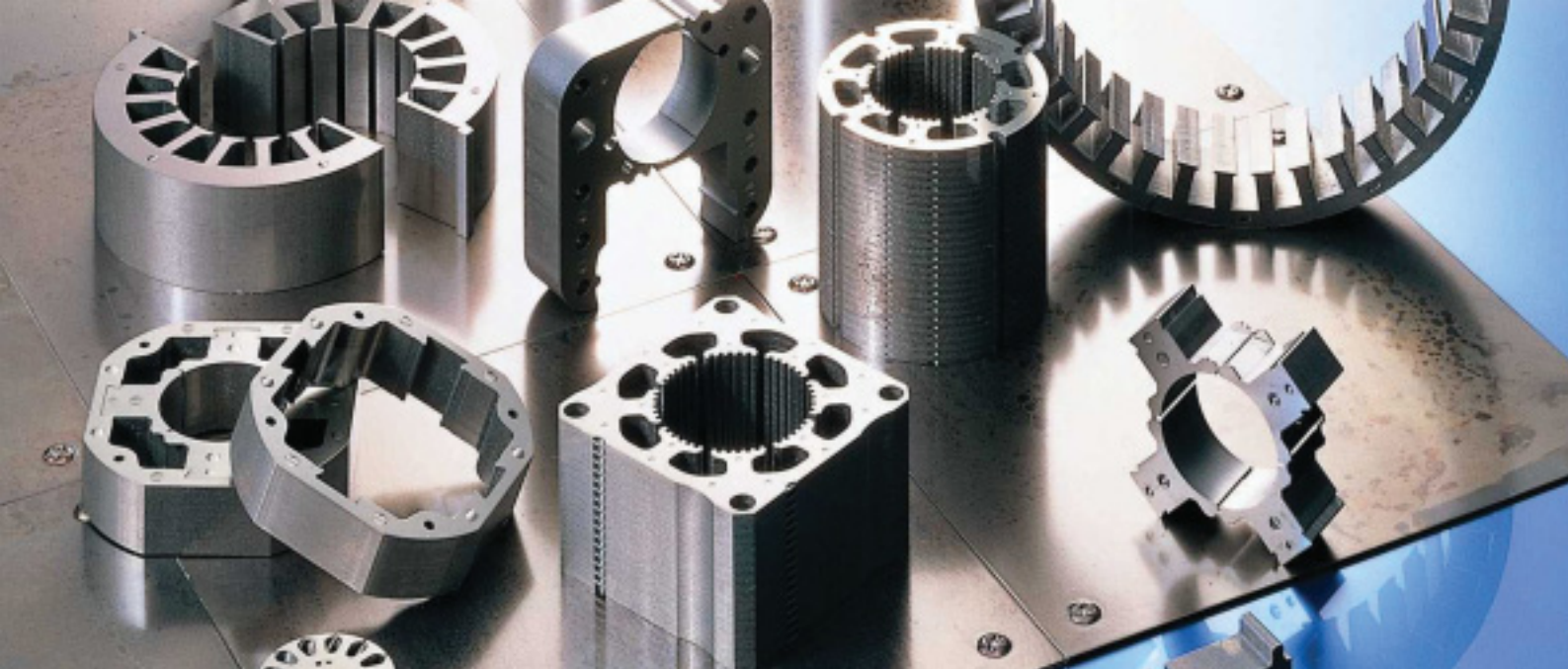
The new steel boasts qualities, such as weldability and workability, equal to or better than existing plate steel for ship use, thereby significantly enhancing the corrosion resistance of cargo tank bottom plates

without any change to the established shipbuilding processes. This could lead to reduced maintenance, such as touch-ups and welding, and eliminate the high environmental impact of tank-lining operations.

High-value-added steel plates from Nippon Steel offer both direct and indirect benefits. Not only do they support the efforts of shipbuilders in constructing quality vessels but they also contribute to the reliability of shipping companies and limit adverse effects on the environment.



**Nippon Steel underpins the high-value-added quality of shipbuilders' efforts by examining actual on-board operating environments and using this knowledge to develop innovative steel plates for ships.**



# Heart of Energy-Saving Hybrid Cars— Electrical Steel

## 3 Highly Efficient Electrical Steel

Motors change electrical energy into mechanical motion. Nippon Steel makes electrical steel—a specialty steel that facilitates the efficient conversion of electricity into motive force. Electrical steel, which fulfills an indispensable function in generating the electricity that powers industrialized societies, is found in the hearts of motors used to run electrical home appliances, industrial equipment and other machinery.

Nippon Steel maintains the world's top spot for electrical steel, in terms of quality as well as quantity. This achievement reflects leading-edge product development capabilities as well as advanced production methods that ensure an uninterrupted supply of industrial goods and expert proposal-making skills that encompass a range of technologies, from material design to application.

Efforts to reduce core loss, which occurs when energy changes into heat instead of mechanical motion, exemplify the Company's commitment to excellence. It is important to curb core loss from an energy-saving perspective as well as an environment-friendly perspective.



**Nippon Steel's proposals for boosting the efficiency and performance of energy-saving motors underpin the growing popularity of hybrid cars.**

Nippon Steel provides customers with electrical steel optimally suited to the specifications of the equipment in which the steel is used. In addition, the Company analyzes the complex factors that exacerbate core loss in plate fabrication and assembly processes and offers solutions—keys to enhance the efficiency and performance of motors.

In recent years, automakers have begun using the Company's electrical steel in the motors of their hybrid cars. Touted as energy-saving vehicles, hybrid cars must be highly efficient, of course, but the market also demands compact size and high-performance features as well.

In response, Nippon Steel developed an electrical steel that maintains high motor output through high magnetization while achieving lower

core loss. As hybrid cars become more widespread, demand for this specialty steel will grow. Aside from higher sales for the Company, automobile owners and the environment will benefit by significantly reduced energy consumption.

In 2003, approximately 100,000 hybrid cars were produced in Japan. The number should multiply more than 10-fold, surpassing one million units, by 2010, and the value of Nippon Steel's electrical steel for these environment-friendly vehicles will surely rise.



# Building Parallel Ties with Customers—Steel Cord

## 4 Special Wire Rods for Steel Cord

Steel cord is a steel fiber used to reinforce radial tires. Wire rods made by Nippon Steel for steel cord account for approximately 65% of the domestic market and roughly 25% of the world market. The Company holds the No. 1 share in both markets by an overwhelming lead. Another commendable statistic is that one in every four automobiles riding the roads with radial tires is made with Nippon Steel products.

Wire rods for steel cord ship out with diameters of at least 5.5mm. The rods are drawn to diameters of 0.15mm to 0.40mm at tiremaking plants, and the resulting ultrafine wires are twisted into cord.

Nippon Steel's wire rods for steel cord are highly regarded by tiremakers at home and abroad. This top-quality status reflects the excellent processing stability of the wire rods during drawing, twisting and fabrication operations.

Steel cord is a material for which most of the processing required to reach the finished product is handled by the customer.

Tiremakers require clean steel, with very few inclusions, to prevent such inconveniences as severed cord during drawing. To accurately understand the stages of steel cord processing, Nippon Steel installed drawing equipment at the R&D facilities in steel-works, which runs repeated tests and then relays the results to the production site.



**An accurate understanding of the fabrication processes used by tiremakers underscores the customer-oriented solutions unique to Nippon Steel.**

Nippon Steel has earned high praise for promoting sophisticated solutions tailored to customers' needs. On the logistics front, for example, the Company introduced an integrated distribution system that hinders the formation of quality-impairments, such as rust and surface flaws, during shipment, and established a structure to ensure efficient delivery of products to customers.

The trend toward reduced vehicle weights is likely to continue, and steel cord will have to be lighter and offer more high-performance features. For its part, Nippon Steel will constantly strive toward new breakthroughs and devise and develop wire rods for steel cord of the finest quality worldwide.

# Consolidated Financial Highlights

Nippon Steel Corporation and Consolidated Subsidiaries  
Years ended March 31

Nippon Steel posted record-high performance results for fiscal 2004. On a consolidated basis, net sales reached ¥3,389.3 billion; operating profit amounted to ¥429.9 billion; ordinary profit totaled ¥371.4 billion; and net income was ¥220.6 billion. This success reflects increased steel demand in East Asia, particularly in China, and steps to boost sales prices, in line with supply-and-demand conditions for steel materials, as well as the rewards of long-term rationalization efforts embraced by the Nippon Steel Group.

	Millions of yen			Change (%)	Millions of U.S. dollars <sup>1</sup>
	2005	2004	2003	2005/2004	2005
<b>Operating Results</b> (for the year)					
Net sales	¥3,389,356	¥2,925,878	¥2,749,306	15.8%	\$31,561
Operating profit	429,948	224,475	142,961	91.5	4,003
Ordinary profit	371,446	172,851	68,879	114.9	3,458
Net income (loss)	220,601	41,515	(51,686)	431.4	2,054
<b>Financial Position</b> (at year-end)					
Total assets	3,872,110	3,705,917	3,757,175	4.5	36,056
Total shareholders' equity	1,188,409	938,581	789,443	26.5	11,066
Interest-bearing debt	1,282,266	1,561,228	1,871,875	(17.9)	11,940
<b>Per share data</b> (yen and U.S. dollars)					
Net income	¥32.73	¥6.15	¥(7.69)	432.2	\$0.305
Dividends	5.00	1.50	1.50	233.3	0.046
<b>Ratios</b>					
Return on sales <sup>2</sup>	11.0%	5.9%	2.5%		
Return on assets <sup>3</sup>	9.8	4.6	1.8		
Return on equity <sup>4</sup>	20.7	4.8	(6.1)		
Shareholders' equity <sup>5</sup>	30.7	25.3	21.0		
Debt-to-equity <sup>6</sup> (times)	1.08	1.66	2.37		
<b>Reference</b>					
Consolidated crude steel production (thousands of tons)	32,791	32,733	32,344		
Price of steel (non-consolidated, thousands of yen per ton)	61.6	52.2	48.2		
Export ratio (non-consolidated, value basis; %)	31.6	31.3	31.7		

Notes: 1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥107.39 = US\$1, the approximate rate of exchange on March 31, 2005.

2. Return on sales = (Ordinary profit/Net sales) x 100

3. Return on assets = (Ordinary profit/Total assets) x 100

4. Return on equity = (Net income/Total shareholders' equity) x 100

5. Shareholders' equity = (Total shareholders' equity/Total assets) x 100

6. Debt-to-equity = Interest-bearing debt/Total shareholders' equity



Through activities designed to reinforce the Group's financial footing, interest-bearing debt decreased 17.9%, to ¥1,282.2 billion, while the debt-to-equity ratio improved 0.58 point, to 1.08 times.



# To Our Stakeholders

As Japan moved toward economic recovery in fiscal 2004, ended March 31, 2005, the importance of industries that produce the basic materials used by the manufacturing sector to make finished goods acquired renewed significance. As a member of one of these essential basic material industries, Nippon Steel endeavored to overcome rising costs, especially increasing raw material and fuel prices, and provide high-value products and services. These efforts were rewarded with the highest profits in the Company's history. Nippon Steel is the No. 1 steelmaker in Japan, and management will strive to sustain the Company's unshakable lead.



Representative Director and  
Chairman of the Board of Directors

*Akira Chihaya*  
Akira Chihaya

## Fiscal Overview

In fiscal 2004, the domestic economy assumed a more gentle recovery tone as a result of improved corporate earnings and increased capital investment. The steel industry benefited from expanding worldwide demand, particularly from East Asia—most notably, China—which increased crude steel production in Japan to 112.89 million tons, up 1.9 million tons from fiscal 2003. Although heightened demand caused raw material and fuel prices as well as ocean freight costs to soar, the Nippon Steel Group made every effort to absorb the elevated costs.

In steel operations—our core business segment—we prioritized efforts to maintain steady output and shipments of steel products and thereby respond fully to the brisk demand for steel at home and abroad. Specifically, we used capital to boost integrated-process capabilities at our steelworks and strengthened long-term relationships with suppliers of raw materials to ensure uninterrupted procurement of the necessary raw materials and fuels for steelmaking operations. In regard to prices, our customers understood the challenges we faced and accepted our need to raise prices. We also reinforced the consolidated management structure and applied the selection-and-concentration approach to encourage more effective utilization of management resources throughout the Group.

These efforts led to dramatic gains in sales and income—indeed, the highest in our corporate history. On a consolidated basis, net sales grew 15.8%, to ¥3,389.3 billion. Operating profit climbed 91.5%, to ¥429.9 billion. Ordinary profit surged 114.9%, to ¥371.4 billion. Net income vaulted more than five times—up 431.4%—to ¥220.6 billion.

With a view toward enhancing the return of profits to shareholders, Nippon Steel switched from the long-term stable dividend offered in the past in favor of dividends reflecting consolidated financial performance, effective from fiscal 2004. This change reflects management's commitment to securing and keeping the respect of valued shareholders.

Fiscal 2005 will be the final year of the Medium-Term Consolidated Business Plan that has guided Nippon Steel in its business activities since fiscal 2003. We will be working on a new medium-term plan to be implemented in fiscal 2006.

### Guiding Principles and Action Guidelines

“Growing with society” is a motto that has fueled our development as a company and as a group. But it was only a perception, not a documented corporate philosophy. In December 2004, we decided to formulate guiding principles for the Group as well as action guidelines that employees throughout the Group would observe to put these guiding principles into practice.

The contents clearly define a direction for the Company and the Group, with designated roles for executives and a common set of values to work by. This serves to reinforce our sense of unity and broaden our capacity to tackle wide-ranging issues amid the dizzying pace of change in our operating environment.

This effort represents a commitment to employees in management positions and to society as a whole, and we will consistently strive to bring actual management activities closer to the stated ideal.

### Fiscal 2005 Forecast

In Japan, the economy should acquire a firm undertone, paralleling the continued expansion of the world economy. In steel operations, we predict favorable demand from the domestic manufacturing sector, especially the automotive, shipbuilding and industrial machinery industries. We also expect exports, particularly to East Asia, to remain brisk. Tempering the positive demand conditions, however, will be unprecedented price increases on primary raw materials and fuels as well as higher costs associated with ocean freight and auxiliary materials. These market factors could have a huge impact on steel operations.

Against this backdrop, Nippon Steel will reemphasize the priority of ensuring an uninterrupted supply of steel to customers and strive to maintain output and shipments at levels matched to demand. At the same time, the entire Group will work to curtail costs as much as possible.

On behalf of the Board of Directors, we ask for the continued understanding and support of all our stakeholders, from shareholders and customers to our employees and the communities in which we operate.



Representative Director and President

A handwritten signature in black ink, appearing to read 'Akio Mimura'.

Akio Mimura





In fiscal 2004, Nippon Steel prioritized the steady output and shipment of steel tailored to the requirements of customers to meet brisk demand at home and abroad. This focus yielded tremendous fiscal success, substantiated by record-high results. The Company will endeavor to strengthen its ability to respond to manufacturers' needs, develop high-value-added products and supply them to our customers, and sharpen an already finely honed competitive edge still further.

**Q What characterizes the business environment for steel operations?**

Annual worldwide steel consumption hovered between 700–800 million tons for approximately 20 years, until 2000, and then began to climb higher. Indeed, a sudden rise in demand for steel in East Asia, especially China, pushed the level over the one-billion-ton mark in fiscal 2004.

In Japan, the demand graph has traced an upward path since fiscal 2003 and steel consumption topped 70 million tons again in fiscal 2004, thanks to brisk demand hinging on the domestic manufacturing sector, particularly the automotive and shipbuilding industries.

Higher steel consumption is supported by the strength of manufacturers headquartered in Japan, including automakers, as they reinforce output at production bases around the world. Some industry watchers are concerned that increased production capacity in China could have an adverse impact

on the worldwide supply and demand of steel, but most steel produced in China is low-grade from small-scale steelmakers, turning out less than five million tons a year.

Nippon Steel's mainstay products are high- and middle-grade steels for the manufacturing sector, and supply-and-demand conditions in the markets for these grades are likely to remain tight.

**Demand for high-value-added products targeted at the manufacturing sector—our key customer group for steel products—should remain steady over the medium to long term. We will maintain our considerable lead over the competition by constantly developing high-value-added products to meet the needs of customers.**

Given the state of the markets at home and abroad, we will stick to a proven formula—providing an uninterrupted supply of our mainstay steel products to the manufacturing sector.

A true cause for concern, however, is the soaring price of natural resources in international markets, a repercussion of rapid economic growth in China. For two straight years, prices for iron ore and coking coal—the main ingredients in steelmaking—have exploded upward, paralleling heightened demand for steel and rising crude steel production. We had to come up with an appropriate response to increasing raw material and fuel prices as well as



# An Interview with the President

climbing ocean freight costs and, with the understanding of our customers, executed price increases.

Over the past few years, global integration and realignment of steelmaking operations have left a tangible mark on the steel industry. But rather than expanding production capacity, these restructuring efforts have led to the closure of inefficient facilities and solved problems associated with excess capacity. These efforts will tighten worldwide supply and demand for steel and stabilize related markets.

## **Q** Against this backdrop of major changes in the operating environment, what issues did Nippon Steel tackle?

We focused on three issues: first, enhancing our ability to supply steel; second, responding to increasing raw material and fuel prices on the international market and ensuring stable procurement; and third, honing cost competitiveness.

On the first point, steel operations form our core business, with 70% of all steel shipments destined for domestic customers and 30%, overseas. In Japan, 70% of our shipments are high- and middle-grade steels for manufacturers, primarily automakers and shipbuilders, while in other parts of Asia, which accounts for approximately 80% of our exports, shipments are almost exclusively routed to manufacturers.

In fiscal 2004, Nippon Steel was not

always able to sustain full production capacity, due to the blast furnace relining at the Oita Works and a blackout at the Nagoya Works. However, selective investments at existing facilities since then have been gradually clearing production bottlenecks.

By enlarging and relining blast furnaces over the past five years, we have realized an improvement in the production capacity of crude steel equivalent to a medium-sized blast furnace. In addition, in the second half of fiscal 2004 we raised integrated production capacity by applying approximately ¥40 billion to solve a host of outstanding issues at existing downstream facilities. We aim to improve production capacity by approximately 7%, or two million tons, in fiscal 2005.

To better address demand for high-grade steels, we are installing a line to make galvanized sheets and coils for automotive use

and pursuing the establishment of a joint venture in Shanghai. We also seek to maximize the supply capabilities of Group companies and alliance partners, and will endeavor to fortify the Group's overall ability to meet delivery requests.

The construction of integrated facilities with blast furnaces takes time as well as money—tens of billions of yen, in fact. Therefore, we are selective, identifying key capital investment projects on a relatively small scale, which allows us to achieve the desired results in a short time with high investment efficiency. In this way, we fulfill our responsibility as a basic

**We will reinforce our demand response and fulfill our responsibility as a provider of basic materials by focusing on two objectives: eliminating production bottlenecks caused by heightened demand for high- and middle-grade steel materials by improving integrated production capabilities; and utilizing Group companies and alliance partners to raise production capacity for high-grade steel materials.**



materials provider, meeting booming demand with a ready supply of steel.

On the second point, soaring raw material and fuel prices in international markets, as well as the heightened cost of ocean freight is one of the Company's major issues.

To ensure stable, long-term procurement of quality raw materials, we formulate approaches such as long-term business agreements or investment in mining companies to promote mine development, which draw on our long-standing relationship with raw material suppliers.

We also try to absorb as much of the procurement costs as possible by applying new technology and operating methods that facilitate greater use of lower-priced, and thus lower-quality, raw materials, without impairing the excellence of our own products. In addition, when faced with particularly challenging market conditions—like now—we keep our customers apprised of the situation so that they understand the actions we have to take.

Lastly, on the topic of a sharper competitive edge, the spotlight is on costs.

External factors, such as increased demand for steel in Asia and an improved state of supply and demand through global industry realignment, are not the only reasons for Nippon Steel's record-high results in fiscal 2004. Our success is also a reflection of vigilant rationalization efforts executed over the past decade. We can take great pride in this achievement.

For example, the Company has decreased the number of employees by approximately two-thirds—from 55,863 people at the end of March 1990 to 20,432 people at the end of March 2005—and now enjoys one of the highest productivity per employee ratios in the world.

To maintain and build on globally top-notch competitive strengths, we must cut costs. This is an enduring theme, and we will never let up in our pursuit of enhanced cost-competitiveness.

### **Q Please comment on the Company's growth strategies and future direction.**

Our business strategy has and always will hinge on domestic steel operations. Our mainstay products are high-valued-added steel materials for manufacturers, such as automakers, shipbuilders and

makers of electrical home appliances, and because these markets, at home and also overseas, are supplied by a limited number of basic material manufacturers—that is, steelmakers—the prospects for stable demand over the medium to long term are good. We have a tremendous lead over the competition and will maintain this position by developing a steady stream of high-value-added products and reinforcing our ability to meet the needs of our customers.

Our strength is in providing products matched more precisely to customers' needs, thanks to the close ties we have with our customers in Japan. Our

**External factors, such as increased demand for steel and an improved state of supply and demand through global industry realignment, are not the only reasons for the record-high results in fiscal 2004. Our success is also a reflection of vigilant rationalization efforts executed over the past decade—an accomplishment of which we can be proud. Continued efforts to reinforce cost-competitiveness will serve to expand and further sharpen Nippon Steel's competitive edge on the world stage.**





overseas relationships are also solid, and we utilize our global alliance network to fine-tune support for globally active Japanese manufacturers. Put another way, Nippon Steel is growing along with the Japanese manufacturing sector.

Demand for steel is growing in East Asia, paralleling the phenomenal economic growth there. We aim to capitalize on this opportunity to expand our own business by promoting high- and middle-grade steels—the products that underscore our competitive excellence.

These efforts will raise our profile in markets around the world.

### **Q How about your financial strategy, specifically cash flow application?**

Improving our financial composition has been a priority, and concerted efforts have yielded commendable results. For instance, the debt-to-equity ratio, an indicator of financial strength where lower is better, dropped to 1.08 times at the end of March 2005, and we expect to cut the ratio to 0.74 times by the end of March 2006. We will continue to reinforce our financial footing to reach a debt-to-equity benchmark of 0.5 times, which indicates an “A class” global rating.

We also considered the use of funds to enhance our operating structure, through strategic applications of cash, lending and investing, and capital spending, which is instrumental in growing a company. We decided to

add approximately ¥100 billion to the original investment amount stated in the current Medium-Term Consolidated Business Plan.

Some of the additional funds will be allocated toward measures to improve integrated processing capabilities—already expected in the first half fiscal 2005—and for the construction of continuous galvanizing lines at Kimitsu, Nagoya and Hirohata works to meet brisk demand for high-grade steels.

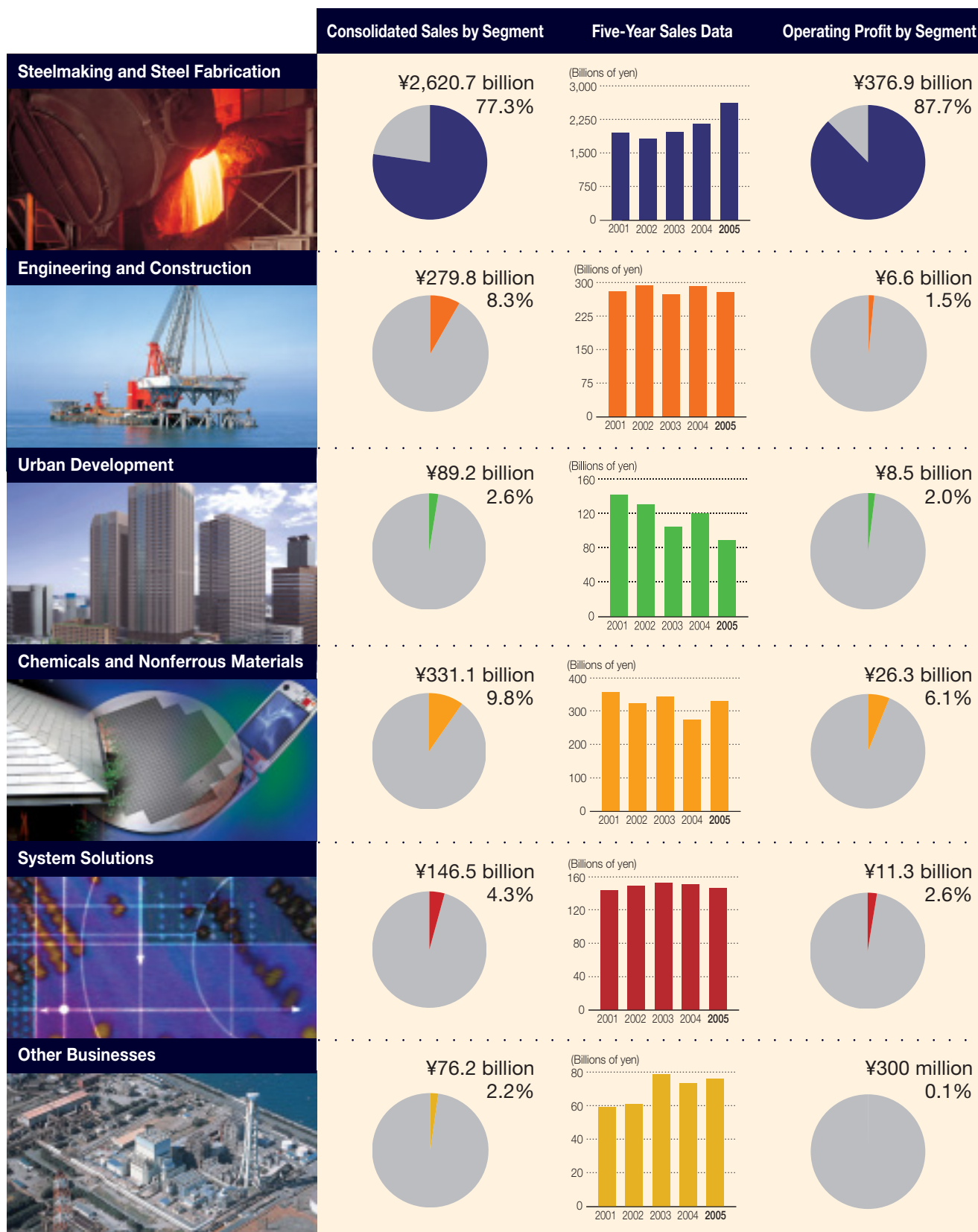
### **Q What are your thoughts on returning profits to shareholders?**

Nippon Steel adopted a dividend policy based on fiscal performance rather than on long-term stability, effective from fiscal 2004. We set targets—a payout ratio of approximately 20% on a consolidated basis and almost 30% on a non-consolidated basis—but

since our first priority at the moment is to strengthen financial structure, we have lowered the bars slightly. We are now aiming for a payout ratio of 15%–20% on a consolidated basis and 20%–30% on a non-consolidated basis. We will continue to focus on reinforcing our financial footing and, while seeking to balance internal reserves and investments, which underpin corporate growth, endeavor to boost net income and enhance corporate value.

**We will strive to achieve a higher profile in global markets by actively developing operations that utilize the competitive strengths of high- and middle-grade steel products that we have fostered through close, long-term ties with customers at home and abroad. We will also cement a firmer financial position and elevate corporate value for all stakeholders.**

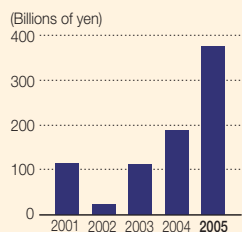
# Operations at a Glance



Note: Ratio of sales to external customers by business segment includes duplication of intersegment sales.

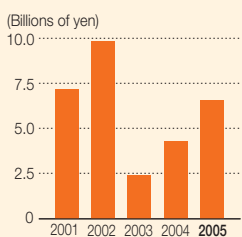
## Five-Year Operating Profit (Loss) Data

## Business Content

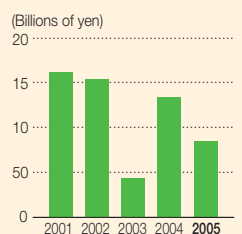


With the world's most advanced technologies for production of high-grade steel materials requiring high processability, corrosion-resistance and high-strength welds, steelmaking and steel fabrication operations at Nippon Steel make a wide range of welding and processing solutions available to customers of steel.

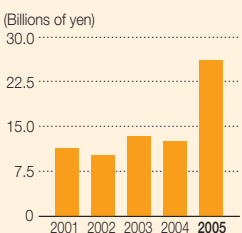
The Company maintains 10 steelworks across Japan, from Hokkaido in the north to Kyushu in the south, which function as production points, R&D facilities and customer service centers. These locations are also involved in recycling activities, a pursuit that capitalizes on the excellent potential of today's steel industry in building a recycling-oriented society.



Through the Engineering Divisions Group, established in 1974, Nippon Steel has participated in numerous projects, from the construction of steelmaking, environmental and energy plants to publicly financed installations, such as bridges, waterworks, pipelines and structures, at home and abroad. This group utilizes the Company's plant technology and operating know-how gained through years in the steel business as well as Company-made steel materials to execute these projects.



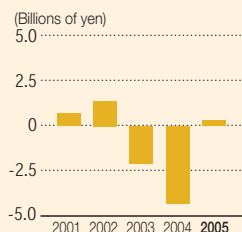
To Nippon Steel, its steelworks have never been just production points, but rather integral components of the towns and cities that grow up around them. For more than a century, the Company has contributed to the development of communities in which people live, work and play and a local culture thrives. Nippon Steel City Produce, Inc., resourcefully applies Nippon Steel's years of community-building know-how and its urban development network to promote optimum land utilization.



Nippon Steel's chemicals and nonferrous materials business hinges on three segments: the chemicals business of Nippon Steel Chemical, Co., Ltd., which began with carbon chemistry as it related to steelmaking, enjoys a large share of the global market for advanced electronic materials; new materials, which explores the potential of materials other than steel; and titanium, which expands the scope of applications for titanium, a material exhibiting excellent strength, light weight and rustproof qualities for today's sophisticated market requirements.



NS Solutions Corporation, an independent, open-system integrator under the Nippon Steel umbrella, draws on the experience and sophisticated information technology capabilities of its parent company to tailor solutions to customer needs. NS Solutions was listed on the First Section of the Tokyo Stock Exchange on October 2002.



Nippon Steel effectively utilizes its steelmaking infrastructure and accumulated know-how to supply wholesale electricity to local power companies from five of its steelworks.



# Review of Operations

## Steelmaking and Steel Fabrication

### Fiscal Summary

In Japan, demand for steel from the manufacturing sector, mainly the automotive, shipbuilding and industrial equipment industries, remained strong in fiscal 2004. Demand from the construction sector was mixed, showing a decline for civil engineering-use steel, due to a drop in public spending projects, and a rise in steel for structures, thanks to favorable private-sector capital investment. When combined, domestic demand from manufacturers and the construction sector surpassed the 70 million ton mark for the second year in a row. Overseas, demand was also brisk, especially from China, where remarkable economic growth is fueling private and public capital spending.

Indeed, heightened demand led to an industry milestone, as worldwide crude steel production topped the one-billion-ton mark.

Conditions that drove up demand for steel in East Asia—the Company's primary market—also created obstacles in supplying this market. Soaring ocean freight, for example, squeezed the

supply-and-demand balance. China is a case in point, where tight conditions on high-value-added materials used by manufacturers caused a spike in the prices of these materials despite price adjustments on construction materials under the government's macroeconomic policy.

As worldwide steel production rose to meet expanding demand, suppliers of raw materials and fuels were hard-pressed to satisfy the growing needs of steelmakers. For Nippon Steel, the impact of higher raw material and fuel prices and ocean freight reached a value of ¥190.0 billion.

Against this backdrop, the Company worked to eliminate the production bottleneck triggered by brisk demand for high- and middle-grade steel products and utilized the production capacity of Group companies and alliance partners to reinforce its ability make the required deliveries. Every effort was made to absorb the cost effects of increasing raw material and fuel prices, while the Company succeeded in gaining the understanding of its customers regarding price increases.

As a result, consolidated sales from steelmaking and steel fabrication operations climbed 21.5%, to ¥2,620.7 billion, and operating profit jumped 98.7%, to ¥376.9 billion.

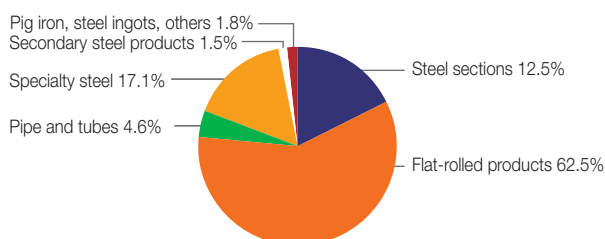
### Segment Performance (Consolidated)

(Billions of yen)

	2003	2004	2005
Sales	¥1,980.8	¥2,156.9	¥2,620.7
Operating profit	112.8	189.7	376.9

### Sales by Product (Non-Consolidated)

Total: ¥1,850.1 billion



### Reinforcing Supply Response

#### World's Largest Blast Furnace

Relining of the No. 2 blast furnace at the Oita Works, at a cost of approximately ¥30 billion, wrapped up in May 2004. Nippon Steel applied the large block ring method, which entails the dismantling and assembly of the furnace in ring-shaped blocks, to dramatically shorten relining time and incorporated measures to extend facility lifetime. With a capacity of 5,775 m<sup>3</sup>, the progressive No. 2 blast furnace is the world's largest in terms of volume.

Over the past five years, Nippon Steel has overhauled five blast furnaces at four steelworks. Through these upgrades, the Company has realized an improvement in the capacity of crude steel equivalent to a medium-sized blast furnace with volume of approximately 3,000 m<sup>3</sup>.

In addition to the Oita Works' relining, the Company executed a series of investments at existing facilities used in post-steelmaking processes to quickly and effectively solve a host of outstanding issues. These efforts should boost production capacity by approximately two million tons in fiscal 2005.

### Renewal and Construction of Galvanized Sheet Production Facility

The primary customers of high- and middle-grade steels are manufacturers, and more specifically, automakers. To better address the needs of these customers, Nippon Steel began renovation of galvanized sheet and coil lines at the Kimitsu and Nagoya works. The enhanced lines are expected to go on line in the first half of fiscal 2006. A similar facility will be newly installed at the Hirohata Works and go on line in the second half of fiscal 2006.

To meet an anticipated rise in demand from automakers in China for high-grade steel sheets over the medium to long term, Nippon Steel established Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd., with Baoshan Iron & Steel Co., Ltd., and Luxembourg-based Arcelor. The joint venture which handles production and sale of steel sheets for automotive use commenced operations in August 2004 and began producing galvanized steel sheets at the end of March 2005.

### Utilizing Partners' Capacity

To sharpen its competitive edge in the bar and wire rod business, Nippon Steel formed a basic agreement with Nakayama Steel Works, Ltd., in December 2004 to form a joint venture for steel bars and wire rods. The joint venture NS Bar and Wire Co., Ltd., was established in April 2005, with equity of 60% from Nippon Steel and 40% from Nakayama Steel Works.

In February 2005, Nippon Steel concluded a basic agreement to acquire and restart an idled electric furnace owned by Mitsubishi

Steel Mfg. Co., Ltd., and to utilize the rolling capacity of Mitsubishi Steel Muroran Inc. The furnace was relit in August 2005.

By improving integrated production capabilities, from semifinishing to rolling, the Company can better respond to burgeoning demand for specialty steels, including those for the automotive industry.

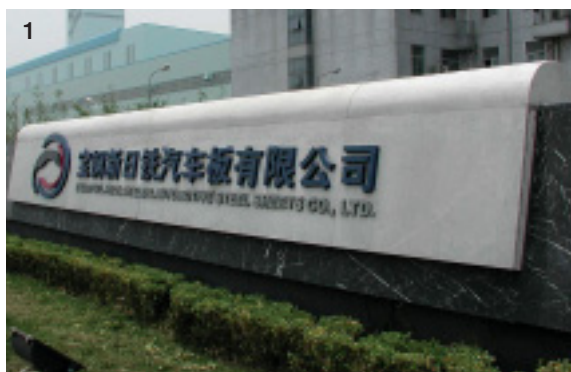
### Strengthening Procurement Capabilities

#### Building Long-Term Business Ties with Major Suppliers

Nippon Steel reached a basic agreement with the Rio Tinto Group, headquartered in Melbourne and London, in April 2004 on a comprehensive alliance covering several initiatives: the acquisition of interests in and joint development of Australian coking coal and iron ore mines; the signing of long-term contracts for these raw materials; cooperation on ocean freight; and the exchange of technologies related to raw materials used in steelmaking.

In line with the agreement, in July 2004 Nippon Steel took 8% equity in Rio Tinto's Hail Creek joint venture and concluded a long-term purchase contract granting the Company approximately 30 million tons of coal from this mine over a period of 15 years. Then in October 2004, the Company formed an agreement with Hamersley Iron Pty Limited, an iron ore producer under the Rio Tinto umbrella, regarding acquisition of interests—28.2%—in and joint development of the Beasley River mine; a long-term purchase contract for 150 million tons of iron ore from the Yandicoogina mine over a period of 20 years or more; and support for expanding capacity at this mine.

Another basic agreement that strengthens Nippon Steel's raw material procurement capabilities was reached in May 2004 with Companhia Vale do Rio Doce, the largest iron ore producer in the world. This agreement paved the way for a long-term purchase contract for 70 million tons of iron ore to be supplied over a 10-year period from 2005.



1. Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd.
2. Yasuo Inubushi, president of Kobe Steel (left), and Hiroshi Shimosuma, president of Sumitomo Metals (middle), join hands with Nippon Steel president Akio Mimura, to mark the signing of an agreement to share output from semifinished product facilities at Sumitomo Metal's Wakayama Works.
3. No. 2 blast furnace at the Oita Works

These efforts, namely long-term purchase contracts with leading suppliers and active equity participation in mine development, will guarantee Nippon Steel multiple, stable sources of raw materials for years to come.

### Long-Term Coke Contract with Mitsui Mining

In September 2004, Nippon Steel finalized an agreement with Mitsui Mining Co., Ltd., that will have the Mitsui Group member resume operation of an idled coke furnace with annual capacity of approximately 500,000 tons and supply all of the output to Nippon Steel for 10 years. This agreement reinforces ties between the two companies and enables Nippon Steel to secure a stable, competitive source of coke.

## Solid Global Alliance Network

### Nippon Steel, Sumitomo Metals and Kobe Steel Share Semifinished Products

In March 2005, Nippon Steel and Kobe Steel, Ltd., agreed to take equity stakes in East Asia United Steel Corporation, a joint venture by Sumitomo Metal Industries, Ltd., China Steel Corporation and Sumitomo Corporation that is operated at Sumitomo Metals' Wakayama Works. Under the pact, East Asia United Steel will share semifinished products, such as slabs and billets, with Nippon Steel and Kobe Steel, based on respective equity stakes, and thereby promote a more efficient response to demand for steel in domestic and global markets.

As a way to deepen our relationship, each partner has decided to increase cross-shareholdings of each other's shares. We are also exploring the possibility of mutual cooperation in such areas as R&D; procurement; intellectual property; the environment and recycling; and electricity, control and systems.

## Stronger Ties to Arcelor and POSCO

Aiming to build a structure more responsive to the globalization of automakers and their strategy of a "world car" for the mass market, we are taking new steps with Arcelor, such as the promotion of features common to the existing products of both companies and a broader lineup through cross-licensing. We are also showing concrete results from joint R&D.

With POSCO in South Korea, we are marking steady progress on the cooperative development of basic technologies. We have jointly applied for patents on the results achieved so far and have benefited from our steelworks engineers' participation in technical exchanges.

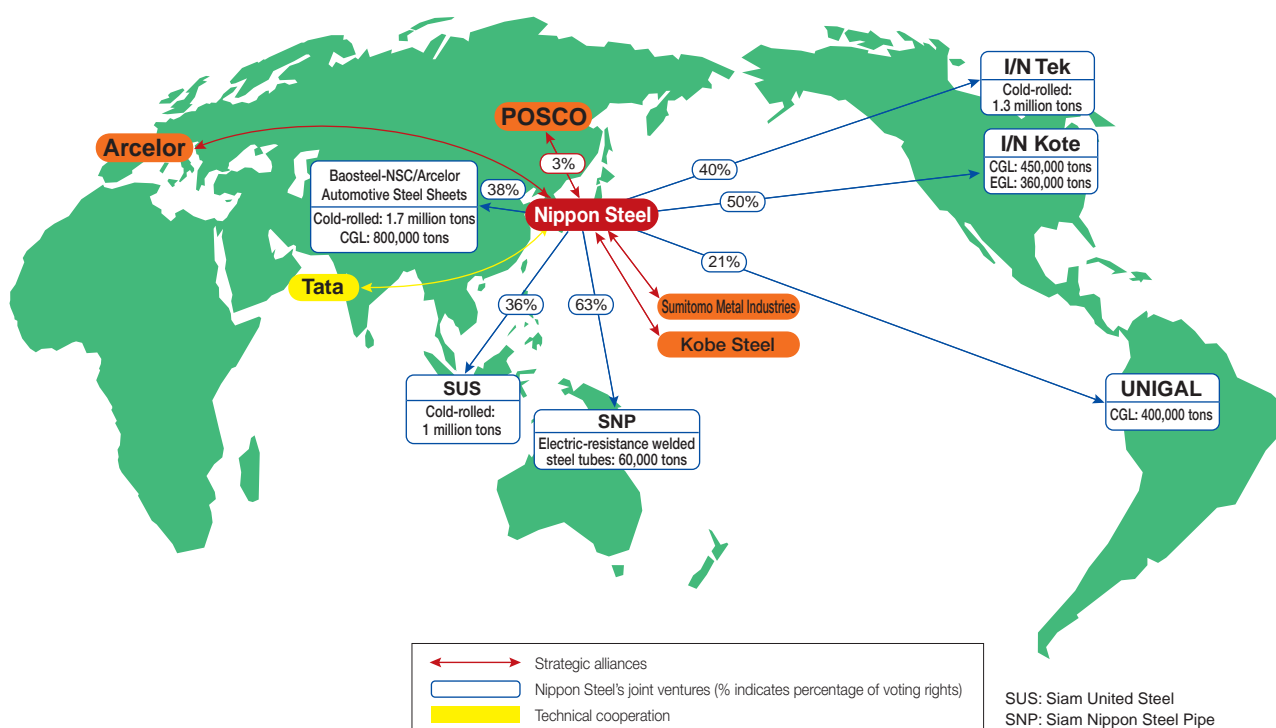
In the area of raw materials, Nippon Steel and POSCO have both acquired interests in Australian coal mines owned by U.S.-based American Metals & Coal International, Inc., and are pursuing a similar position in a Canadian coal mine.

In engineering activities, Nippon Steel transferred direct-melting gasification technology to POSCO Engineering & Construction Co., Ltd., a POSCO subsidiary.

## Reinforce Consolidated Management Structure

To reinforce our consolidated management structure, we have embraced a process of selection and concentration for Group companies. Over the last two fiscal years, we have achieved a net decrease of 15 companies, and the Group now comprises 329 members. While we are involved in 37 companies, we sold or excepted 52 companies in our pursuit of streamlined, profitable core steelmaking operations.

## Global Alliance Network





# Domestic Steelworks and Their Products

(Crude steel production in thousands of tons)



Kimitsu Works (Chiba)

## Nagoya (Aichi)



Crude steel production: 5,677  
Employees: 2,695  
Main products: Plates, sheets,  
pipe and tubes

## Hirohata (Hyogo)

Crude steel production: 1,153  
Employees: 1,041  
Main product: Sheets

## Yawata (Fukuoka)



Crude steel production: 3,870  
Employees: 2,490  
Main products: Sheets, shapes,  
rails, pipe and tubes

## Oita (Oita)



Crude steel production: 8,179  
Employees: 1,456  
Main products: Plates and sheets

## Hikari Pipe & Tube Division (Yamaguchi)

Employees: 207  
Main products: Pipe and tubes,  
titanium

## Muroran (Hokkaido)



Crude steel production: 1,492  
Employees: 493  
Main products: Bars and wire rods

## Kamaishi (Iwate)

Employees: 147  
Main product: Wire rods

## Tokyo (Tokyo)

Employees: 91  
Main products: Pipe and tubes

## Kimitsu (Chiba)

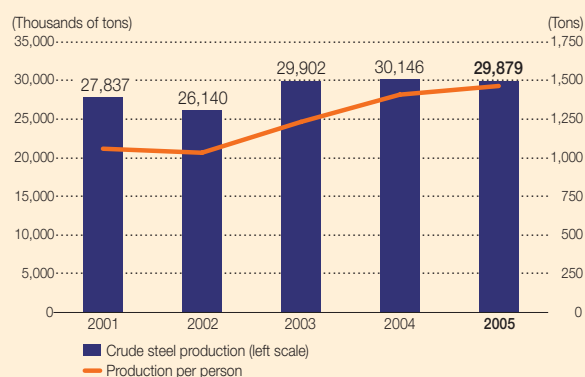


Crude steel production: 9,507  
Employees: 2,822  
Main products: Plates, sheets,  
shapes, wire rods,  
pipe and tubes

## Sakai (Osaka)

Employees: 186  
Main product: Shapes

## Crude Steel Production and Production per Person (Non-Consolidated) As of March 31

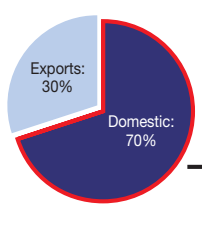


# Product Review

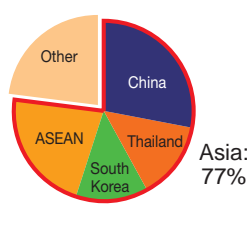
## Percentage of Shipments by Demand Sector

- The domestic market consumes approximately 70% of Nippon Steel's steel products.
- Approximately 77% of the Company's exports go to Asia.
- More than 70% of the Company's high-grade steels are supplied to manufacturers at home and abroad.

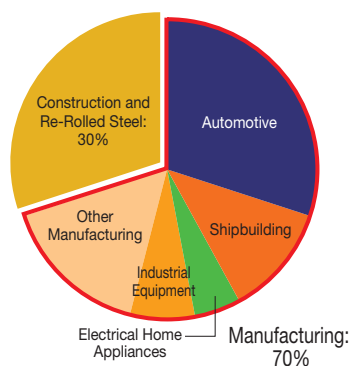
Domestic/Export Ratio



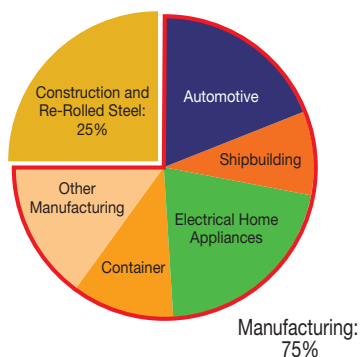
Breakdown of Exports by Region



Breakdown of Domestic Shipments by Industry



Breakdown of Asian Shipments by Industry



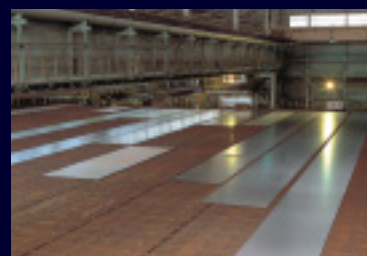
## 1. Plates

### <Main Products>

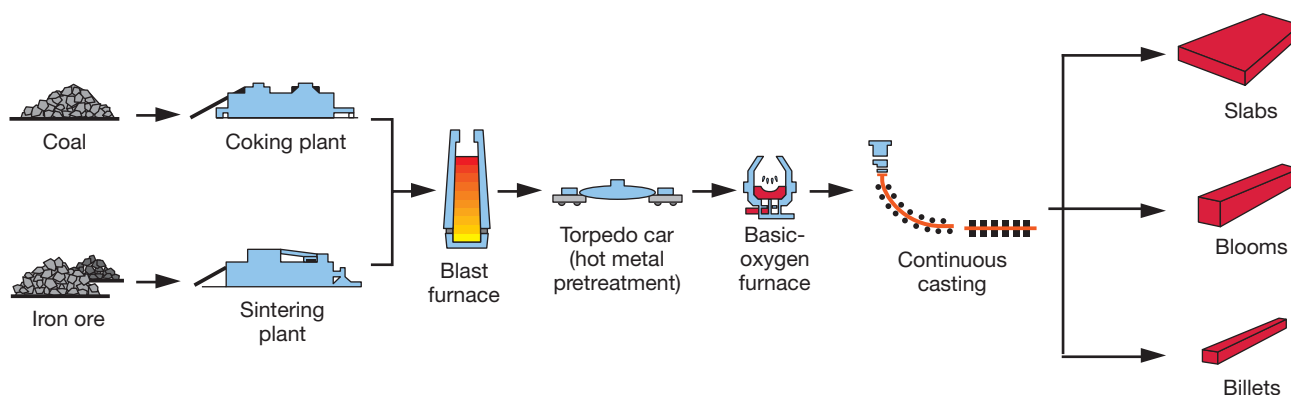
Heavy plates, medium plates

### <Uses>

Large structures that underpin social infrastructure, including factories, buildings, bridges, cars, offshore structures, building equipment, civil engineering projects, tanks and pressure vessels, and nuclear, thermal and hydroelectric plants.



## Steelmaking Flow



#### <Highlights>

Nippon Steel's plates, boasting high strength, high durability and corrosion-resistance, enjoy a solid reputation for reliability, and their use in building projects contributes to structural safety and enhanced productivity during the construction process. With the environment in mind, the Company also offers new S-TEN1, with superior sulfuric-acid resistance, which is ideal for exhaust gas treatment systems operating under extremely corrosive conditions.

Nippon Steel has the capacity for making big plates, including the world's widest, at 5.3 meters. HTUFF, a heavy plate that can withstand high-heat input welding and thereby retain its toughness at welds far better than similar products, helps trim the cost of constructing large structures, such as ships, pipelines and high-storied buildings, at home and abroad.

The advantages of facilities, equipment and technology that we have over overseas steelmakers helps us provide products that play a major part in honing the international competitiveness of our domestic customers.

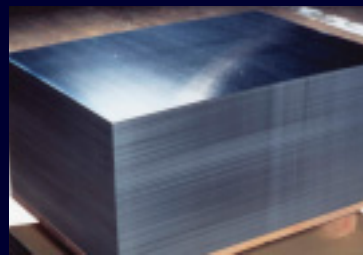
## 2. Sheets

#### <Main Products>

Hot-rolled sheets, cold-rolled sheets, surface-treated sheets, pre-coated sheets, tinplate and electrical sheets

#### <Uses>

A wide assortment, including automobiles, electrical machinery, steel furniture, office equipment, construction materials, containers, motors and transmissions.



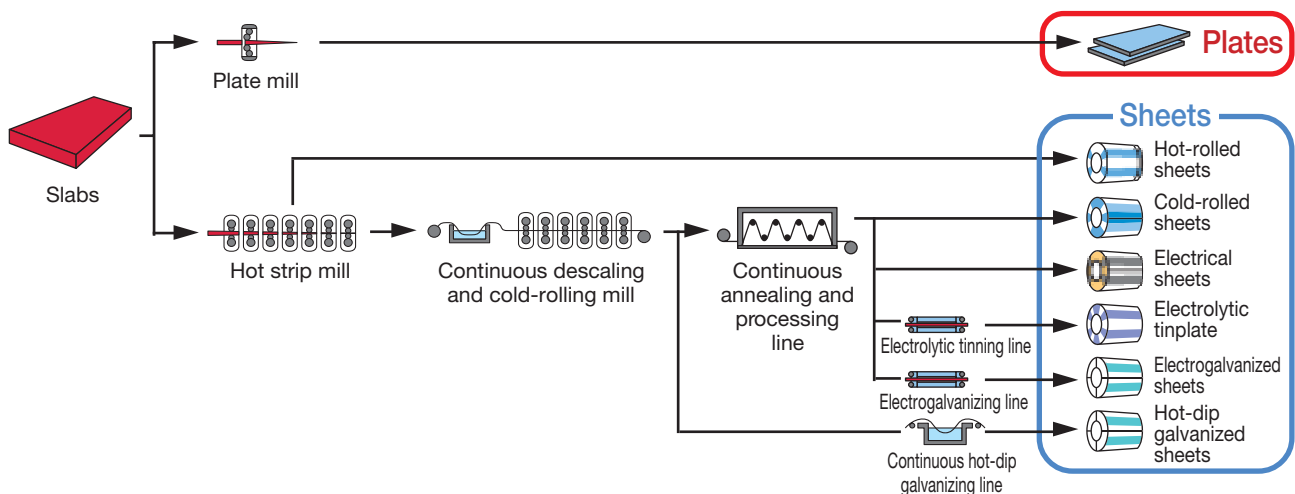
#### <Highlights>

Nippon Steel boasts outstanding responsiveness and an extensive product lineup, enabling it to meet a wide range of customer needs. We continue to lead the industry in introducing high-performance sheets that satisfy the increasingly sophisticated requirements of automakers.

In this era of increasing environmental awareness, Nippon Steel's environment-friendly Eco-Products® are finding increasingly diverse applications. These include extra-thin tin sheets that facilitate the production of lightweight steel cans and high-efficiency electrical sheets that help reduce energy requirements for home electrical appliances. Laminated steel for cans and coated sheets increasingly popular for the bodies of home electrical appliances allow manufacturers to skip the painting process, thereby reducing the environmental impact of production.

Nippon Steel also assists manufacturers' efforts to comply with restrictions imposed by, among others, the End-of-Life Vehicles (ELV) and Restriction of Hazardous Substances (RoHS) directives, by offering a selection of sheets free from lead, hexavalent chromium and other banned substances.

Nittetsu Super Frame® (NSF), an innovative construction method for steel-framed houses that uses sheets and lightweight steel shapes developed exclusively by Nippon Steel, is encouraging increased interest in steel-framed housing.





### 3. Bars and Wire Rods

#### <Main Products>

Bars, bars-in-coils, low-carbon wire rods, high-carbon wire rods and foundry pig iron

#### <Uses>

The bars, wire rods and pig iron produced by Nippon Steel are used widely in such industries as automotive and construction materials where they undergo additional processing, including heat-treatment, extrusion or forging. In the automotive industry, these steel materials become components, such as shafts and gears, and steel cord for tires, while in the construction materials industry they are turned into wires, nails and concrete reinforcing rebar.



#### <Highlights>

Nippon Steel's bars and wire rods are used predominantly in the automotive industry and usually end up in key safety components, such as the engine, drivetrain and suspension. Domestic automakers demand an extremely high level of strength and durability from these components, and Nippon Steel has implemented production processes and quality-control measures that enable the Company to provide steel materials to these exacting standards. Demand for high-grade bars and wire rods is growing, as Japan's automakers increase production at overseas plants.

In the construction materials industry, Nippon Steel's highly durable wire rods are fabricated into high tensile-strength cables to support wide-span suspension bridges.

To spur demand overseas, which has considerable potential for expansion, Nippon Steel is pursuing joint ventures with makers of secondary steel products, such as galvanized wire rods for enormous bridges, automotive fasteners, such as nuts, bolts and washers, and steel cord for tires. Toward this end, in April 2005 the Company formed an agreement with Tokyo Rope Manufacturing Co., Ltd., and Metal One Corporation to establish a joint venture to make and market steel cord in China.

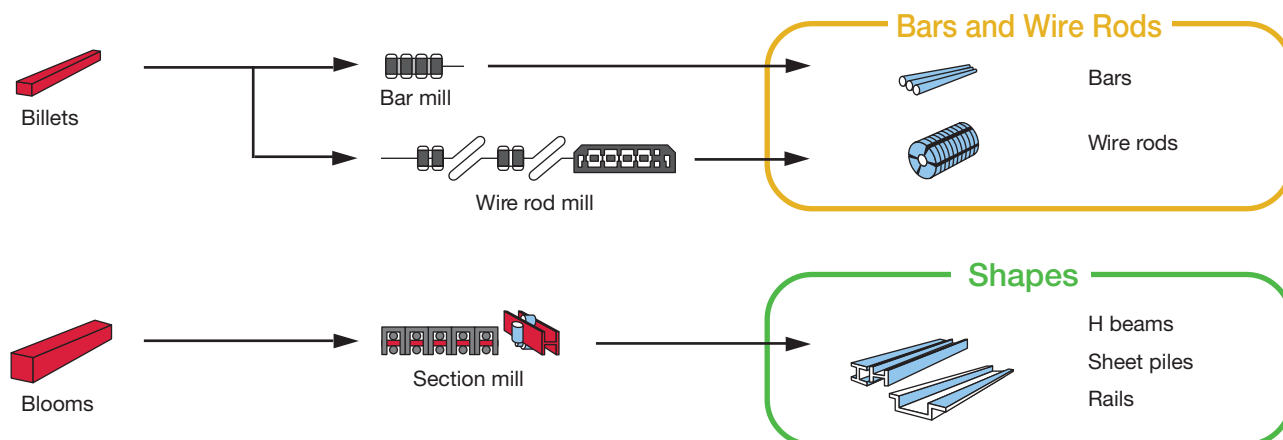
### 4. Construction Materials

#### <Main Products>

H beams, sheet piles, rails for railways, pipe piles and fabricated products such as segments.

#### <Uses>

For the civil engineering and construction industries, which build environments from very deep underground to very tall skyscrapers, Nippon Steel offers fabricated products and construction methods matched to a spectrum of needs but focuses on materials, such as H beams and sheet piles.



#### <Highlights>

Nippon Steel's H-shapes, NITTETSU HYPER BEAM H-beams with constant outside dimensions, plates for steel structure and other products are used widely, particularly in construction materials. The Company also offers customized products, including Fire Resistance (FR) Steel, a ground-breaking steel material developed in 1989 that enhances the heat-resistance of structural steels, as well as safe, efficient solutions that involve maximizing its technological capabilities in the field to gauge and respond to customers' needs for fire-resistant materials.

Nippon Steel provides a wide range of preformed materials. These include sheet steel piles, pipe piles and other products for use in port, river and building foundations, and steel segments for use in tunnels and embankments for underground flow. In 2004, the Company developed the highly economical "Hat-Type Steel Sheet Piles 900," while in 2005 our products, which contributed to the decrease in environmental burden, became the first for civil engineering to be awarded the Eco Mark.

## 5. Pipe and Tubes

#### <Main Products>

UO pipes and seamless, spiral, electric-resistance welded and butt-welded pipe and tubes

#### <Uses>

Steel pipe and tubes are used in a diverse range of installations, from boilers, oil country tubular goods, and oil and natural gas pipelines built by energy-related industries to propeller shafts and equipment cylinders, for automobiles, construction equipment and industrial equipment, and further to distribution and general construction pipe used in building construction and civil engineering.

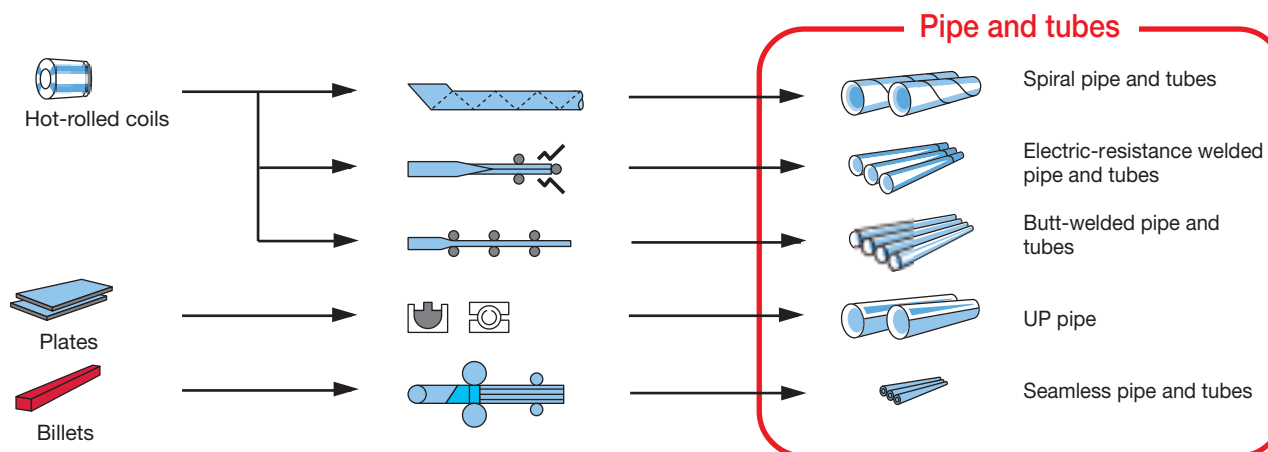


#### <Highlights>

All of Nippon Steel's pipe and tubes, from steel materials to finished products, benefit from the comprehensive benefit of integrated development, production and marketing systems. The Company provides high-value-added products suited to increasingly complex market needs, typified by greater severity in the environments where the pipe and tubes are used, reduced stages in production or construction processes, and heightened efforts to maintain safety.

Pipe for pipelines epitomize Nippon Steel's comprehensive capabilities. The Company was the first steelmaker in the world to develop ultrahigh-tensile-strength pipe—the X-120—for pipelines. These pipes, incorporating all the Company's expertise, are far stronger than predecessor products and have been extremely well received because they facilitate high-pressure transport of natural gas and contribute to lower pipeline construction costs.

In the area of pipe and tubes for automotive use, Nippon Steel was quick to embrace hydroforming, a next-generation fabrication technique that has captured the interest of component makers in recent years. The Company draws on several capabilities, including a reservoir of know-how on ideal shape and pipe performance for each component as well as simulation technology, acquired through steel fabrication research, to underpin efficient development and practical application of hydroformed components.



# Engineering and Construction

## Fiscal Summary

Nippon Steel's engineering business covers a wide range of building construction projects, from steel, environmental and energy-related plants to public infrastructures, such as bridges, waterworks, pipelines and facilities, at home and abroad.

Through the Engineering Divisions Group, the Company works to reinforce domestic activities by expanding interest in proposal-style projects fined-tuned to the needs of customers and society as a whole. Of note in fiscal 2004, we acquired an order from the city of Nagoya for a large-scale, waste direct melting/recycling furnace qualifying under the Private Finance Initiative (PFI), which calls on the private sector to construct, maintain and manage public facilities. We also won orders from the private sector for various construction projects, including buildings for a distribution company and urban facilities.

Overseas, we continued to attract orders and execute projects for the oil and natural gas industries, especially in Southeast Asia.

We also energetically marketed proposals for steel plants to globally active steelmakers wishing to cement a stronger presence in China.

Despite these efforts, the engineering and construction business posted mixed results. Sales fell 4.5%, to ¥279.8 billion, but operating profit rose 53.6%, to ¥6.6 billion.

## Plant and Environmental Solutions

Heightened worldwide demand for steel spurred a rapid recovery in capital investment to construct steel plants at home and abroad. Seeking to maximize this opportunity, Nippon Steel aggressively promoted its distinctive expertise in blast furnace, coke dry quenching (CDQ) and steel processing technologies and systems to key domestic customers with an obvious interest in renewing their capital investment plans. In China, the Company endeavored to raise its profile and establish a firmer operating foundation by working more closely with local subsidiaries.

In the area of environmental plants, Nippon Steel boasts numerous achievements in the construction of waste-processing facilities for regional governments. The Company is expanding the scope of this business, substantiated by large-scale orders for polychlorinated biphenyl treatment facilities, and aims to capitalize on wider application of the PFI program, which is generating new interest in public works projects.

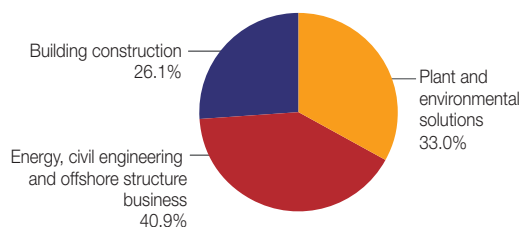
## Segment Performance (Consolidated)

(Billions of yen)

	2003	2004	2005
Sales	¥274.9	¥293.1	<b>¥279.8</b>
Operating profit	2.4	4.3	<b>6.6</b>

## Sales by Product (Consolidated)

Total: ¥279.8 billion



## CDQ Order from Wuhan Iron & Steel

In September 2004, Nippon Steel received an order for a second CDQ plant from Wuhan Iron & Steel (Group) Corporation, the third largest integrated blast furnace steelmaker in China, in terms of crude steel production. The first order was placed in 2001. Gaining a second order from this customer underpins our status as a top supplier of CDQ plants amid the recent rise in demand for environmentally friendly, energy-saving steelmaking facilities, especially in China.



## New Business Chances through Wider Application of the PFI Program

In December 2004, Nippon Steel was awarded an order for a melting furnace—the first under the PFI program—in a project to revamp superannuated facilities at a waste treatment plant in Narumi, a district of Nagoya, in Aichi Prefecture. We will seize the opportunities afforded by an enhanced ordering environment, hinging on broader scope of PFI eligibility, and emphasize proposal-style marketing to secure new contracts.

## Energy, Civil Engineering and Offshore Structure Business

Nippon Steel's energy, civil engineering and offshore structure business centers on clean, environment-friendly natural gas, from the production, receiving and storage of this energy source to its distribution and application. We take an active role in the construction of pipelines and plants as well as extend related engineering expertise. To complement these activities, we explore the potential of new businesses and new products, particularly innovative energy sources, such as hydrogen.

Overseas, demand for construction and engineering services for oil and gas development projects has expanded against a backdrop of increasing oil prices, and Nippon Steel is actively involved in the construction of undersea pipelines and gas field platforms, particularly in Southeast Asia. We aim to enhance our profile in this market by broadening the scope of our services and adding greater value to them.

### Construction of a Hydrogen Station at Expo 2005

The 2005 World Exposition, Aichi, Japan, comprised two sites—one at Nagakute and the other at Seto—and fuel cell buses carried visitors between the two sites. Nippon Steel teamed up with Toho Gas Co., Ltd., and Taiyo Nippon Sanso Corporation to build a hydrogen refueling station at the bus terminal on the Seto site.

This effort was driven, so to speak, by the tremendous potential to be gained by reapplying gas generated as a by-product of steel-making to make hydrogen fuel. We are already delivering hydrogen gas to customers for industrial use.

## Building Construction

Nippon Steel has applied a rather narrow perspective to its general construction and system construction business, concentrating on two key areas—distribution and manufacturing—where the Company has amassed particular expertise. In the PFI and urban solutions business, we draw on our reputation for reliability and the strength of our network, and maintain a solid position in this market as Japan's top planner for these kinds of projects.

In the area of steel frames, we offer seismic isolation and antivibration devices, including our patented Unbonded Brace. These products have attracted increasing attention, owing to heightened interest in disaster prevention. We are also working to enhance the environmental impact-reducing NS ECO-PILE screw-in pipe piles and thereby expand the range of use to include geothermal applications.

### Biggest PFI Project in Japan Gets Started

Construction of the Central Government Building No. 7, an urban redevelopment project and the largest PFI effort undertaken in Japan so far, broke ground in January 2005.

Given the initial go-ahead in 2001, consortium members, led by Nippon Steel, established a special purpose company, Kasumigaseki No. 7 Building PFI Co., Ltd., to oversee the design and construction of the twin high-rise towers for central government agencies and private-sector tenants and to undertake maintenance and management operations over 15 years.



1. The gasifying waste melting furnace at Akita Total Environment Center is the largest of its type in Japan with processing capacity of 400 tons per day.
2. Total Yadana-WP3, in Myanmar, is a gas field exploration platform under construction 100 km off the Myanmar coast.
3. Central Government Building No. 7 Project





# Urban Development

## Fiscal Summary

In the urban development business, Nippon Steel is represented by Nippon Steel City Produce, Inc., a wholly owned subsidiary. Renowned for its achievements, the subsidiary focuses on effective utilization of idle land owned by the Company, such as the Yawata-Higashida site in Kitakyushu and the Hanada site in Sakai, near Osaka. These activities are complemented by a pursuit we have dubbed “the property value revitalization business”—that is, efforts to transform low-use urban areas into condominium developments in major cities.

In fiscal 2004, sales from the urban development business decreased 26.1%, to ¥89.2 billion, and operating profit fell 37.1%, to ¥8.5 billion.

Segment Performance (Consolidated)		(Billions of yen)		
	2003	2004	2005	
Sales	¥105.1	¥120.8	¥89.2	
Operating profit	4.4	13.5	8.5	

## Business Areas

Nippon Steel City Produce is involved in four business areas: housing sales, which focuses on the sale of detached homes built on former industrial sites throughout Japan; real estate solutions, which utilizes the company's familiarity with industrial sites to facilitate development of idle land, such as vacant factories; property rentals, which comprises the design, rental, management and maintenance of offices buildings; and lifestyle-related proposals, which covers a wide range of activities, from the services of insurance agent and provider of office services to restaurant operation.

The construction of steelworks has provided Nippon Steel with more than a century of experience in creating living environments

close to production sites and towns where culture grows. Nippon Steel City Produce draws on this know-how and a network that its parent company has nurtured to promote optimum land utilization.

## Major Development

### Established Top REIT Asset Management

In October 2004, Nippon Steel City Produce, Oji Real Estate Co., Ltd., and the Sumitomo Trust & Banking Co., Ltd., jointly established Top REIT Asset Management Co., Ltd., an asset management company, to set up a Japanese real estate investment trust (REIT). The three companies were to start the fund at ¥50 billion and list it on the Tokyo Stock Exchange, then expand it to approximately ¥300 billion by acquiring real estate assets of the Nippon Steel Group and the Oji Paper Group and accessing non-group assets through Sumitomo Trust's real estate connections.

A balanced fund, this J-REIT will invest in office buildings and residential and commercial properties, especially in metropolitan Tokyo, Osaka and Nagoya, but it will also include acquisitions in other areas, carefully selected on the basis of location and profit potential, to diversify associated risk.





# Chemicals and Nonferrous Materials

## Fiscal Summary

Nippon Steel's chemicals and nonferrous materials business comprises three segments: chemicals, which covers a wide range, from coal—a key ingredient in steelmaking—to leading-edge electronic materials; new materials, which focuses on materials boasting even greater potential than steel; and titanium, which seeks to expand the scope of applications for this mineral.

In the chemicals segment, soaring prices for naphtha and raw materials, as well as inventory adjustments by mobile phone makers, had an adverse impact on the sales volume of ESPANEX, a material for printed circuit boards. But the situation was offset by favorable demand for styrene monomer and coal tar products at home and abroad. As a result, profits from chemicals dramatically improved over the previous fiscal year.

In the new materials segment, demand for semiconductor bonding materials and metal foil, particularly for use in hard disk drive suspensions, buoyed sales despite inventory adjustments in our primary market—the information technology (IT)-related industry—and underscored favorable results.

In the titanium segment, demand for the material in chemical and electrical home applications was extremely positive worldwide, but especially so in China. Shipments reached an all-time high.

Aggregate sales from these three segments jumped 20.1%, to ¥331.1 billion, and operating profit soared 108.2%, to ¥26.3 billion, marking dramatic gains on both sales and profit fronts.

Segment Performance (Consolidated)		(Billions of yen)		
	2003	2004	2005	
Sales	¥346.2	¥275.7	¥331.1	
Operating profit	13.4	12.6	26.3	

## Chemicals

Nippon Steel Chemical Co., Ltd., forms the centerpiece of our chemicals segment. With its starting point in the coal chemical business, which made efficient use of such by-products of the steelmaking process as coal tar and coke oven gas, the company added petrochemicals and set the stage for a business generating an assortment of basic chemicals. In recent years, considerable interest has been directed toward electronic materials, which make the most of accumulated expertise in coal- and petrochemical-related technologies, and this business now functions as a pillar of profit growth.

Seeking to further strengthen its business structure, Nippon Steel Chemical painstakingly pursues a process of selection and concentration, by reevaluating products and operating activities from the perspectives of distinctive technologies and continued high profitability. Based on these guidelines, the company spun off and then consolidated its industrial gas marketing operations with those of Air Water Inc. in the July 2004 establishment of NSCC Air Water Inc. The new company supplies industrial gases to Nippon Steel's steelworks and to buyers outside the Group as well.

In October of the same year, Nippon Steel Chemical and Air Water Chemical Inc. set up C-Chem Co., Ltd., which assumed the tar manufacturing, sales and development functions of both establishing companies. The new company boasts the highest tar distilling capacity in Japan and aims to become the world leader by enriching product lineup and implementing production and sales structures tailored to market needs.

On the product front, ESPANEX, a two-layer, adhesive-free, copper-clad laminated (CCL) sheet developed by Nippon Steel Chemical for flexible printed circuit boards, retained its overwhelming share of the world market for two-layer CCLs. It has scored particularly high marks for use in such applications as liquid crystal display driver circuit boards, including those featured in mobile phones and video cameras, where high performance and high reliability are essential.



## New Materials

In the new materials segment, Nippon Steel utilizes various technologies acquired through steelmaking, such as analysis, simulation, structural control and joining, to promote a diverse range of solutions, from the provision of advanced materials, components and devices to processing services. These material solutions have played a pivotal role in the miniaturization, integration and enhanced performance of semiconductors and electronic equipment.

Through the selection-and-concentration approach to business, the new materials segment has amassed outstanding technologies in niche fields, especially semiconductors, and cemented a market presence that simply cannot be ignored. Specifically, we have consolidated the fully equipped facilities and basic platforms that the new materials segment shares with steelmaking into areas where they yield the greatest results. We have pioneered advanced materials with incredible potential and will grow these seeds of opportunity into commercially viable products.

For example, Nippon Steel's unique microball bumping technology that achieves "one-shot" ball placement on a wafer is well regarded in the semiconductor industry and has already been applied to mass-production systems. The Company expects to license the use of this technology to outside companies in the future.

The primary application of semiconductors was once limited to personal computers, but no longer. Semiconductors are now an integral component of digital cameras, mobile phones, portable devices and digital household appliances. A key strategy for the new materials segment will be two-directional, moving vertically to deepen the high-value-added quality of new technologies, and horizontally, to extend the fringes of this business.

## Titanium

Nippon Steel is developing its titanium rolling business as a new area where the Company can maximize steel-related know-how, technologies and production facilities.

Titanium is light, strong and resists corrosion. It also exhibits excellent formability. Recently, the material has attracted attention for additional qualities—its coloring performance offers decorative potential and direct contact with it poses no harm to humans. Titanium certainly stands out as an environmentally friendly material for the 21st century.

Nippon Steel enjoys a technological and cost advantage as it uses existing steelmaking lines and makes effective use of steelmaking, R&D and sales facilities. The Company has also built reliable partnerships with international and domestic manufacturers skilled in titanium processing, positioning it well to realize the potential of titanium and cultivate markets for this increasingly important material. This strategic approach to business development has enabled Nippon Steel to secure a leading share of the global market for titanium for general industrial applications. Going forward, the Company will strive to further expand this business by fostering demand for titanium in conventional customer sectors, as well as creating new demand in such fields as automobile parts and architectural applications for personal residences.

## New Materials Segment

### Nippon Steel

- Metal foil, metal catalyst carriers, CMP pad conditioners
- Fine ceramics
- Microball bumping
- Hot isostatic pressing processed products (target materials)

### Affiliates

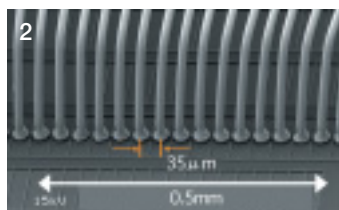
- Nippon Micrometal Corporation Semiconductor bonding materials
- Nittetsu Micrometal Corporation Philippines
- Nippon Micrometal Corporation Malaysia Representative
- Hangzhou New Material Chroma Co., Ltd.

- Nippon Steel Composite Corporation Carbon fiber composites
- Nippon Steel Graphite Fiber Co., Ltd. Pitch carbon fiber

- Micron Co., Ltd. Spherical filler particles
- Harimic Malaysia Sdn. Bhd.

- Yutaka Electric Mfg. Co., Ltd. Power supply equipment and related products
- Yutaka Electronics Co., Ltd.

Advanced Technology Research Laboratories Technical Development Bureau



1. Establishment of C-Chem Co., Ltd. (left: Tsuneyoshi Nishi, president of Nippon Steel Chemical)
2. Gold bonding wire on semiconductor
3. Titanium roof of Shimane Art Museum
4. Titanium roof of the teahouse of Kinkakuji, the Golden Pavilion, in Kyoto

# System Solutions

## Fiscal Summary

Nippon Steel entered the system solutions business in 1986 with a strong foundation in world-class system technologies accumulated over many years in the steelmaking business. Seeking to reinforce the business, we integrated the Electronics & Information Systems Division and subsidiary Nippon Steel Information & Communication Systems Inc., in April 2001 to create NS Solutions Corporation, which forms the core of our system solution business today.

The need for system optimization and reduced system costs is growing, and NS Solutions is actively responding with integrated, customer-oriented services, covering all aspects from system design to configuration, operation and maintenance. The company also helps customers make the switch from mainframes to open systems.

In fiscal 2004, sales slipped 2.9%, to ¥146.5 billion, owing to heightened competition in the IT market. However, enhanced project management and other measures to fortify the operating structure led to a 24.0% jump in operating profit, to ¥11.3 billion.

Segment Performance (Consolidated)	(Billions of yen)		
	2003	2004	2005
Sales	¥153.1	¥150.8	<b>¥146.5</b>
Operating profit	9.7	9.1	<b>11.3</b>

## NS Solutions' Business Areas

As an independent, open-system integrator, NS Solutions offers solutions that accurately reflect the customer's perspective. The company utilizes access to leading-edge products and technologies through strategic alliances with European and American companies, including Oracle, as well as its own advanced IT capabilities nurtured at the System R&D Center and development bases all over Japan, to meet customer needs.

Specifically, NS Solutions advises customers on information systems and offers three kinds of solutions: business solutions, which tailor system planning, proposal, design and configuration efforts to the business activities of certain industry sectors; platform solutions, which create system platforms with platform configuration technologies and major software products geared to a multivendor structure; and business services, which assume management and maintenance of information systems under outsourcing contracts.

NS Solutions has built on the expertise Nippon Steel gained in steelmaking systems, an IT-intensive area, transcending mere technologies to boast all-encompassing know-how, from planning through configuration to operation. This reservoir of knowledge can be applied to business solutions appropriate to industries other than steelmaking, and this is where NS Solutions has an overwhelming edge over its competition.

NS Solutions always has the practical solutions to support customers' efforts to create new value.

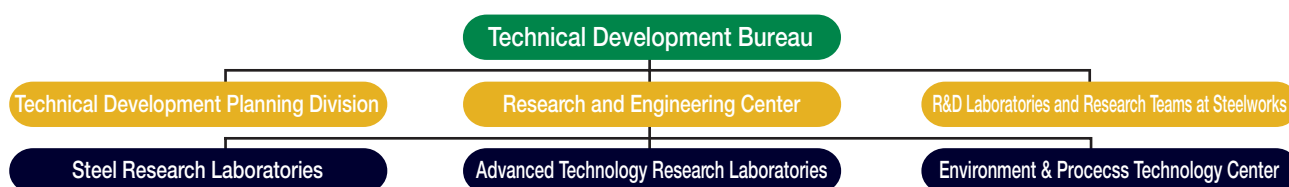


# Research and Development

## R&D System

In the true spirit of research and engineering, Nippon Steel introduced an integrated structure in 1991, linking basic research and applied development with plant engineering, to better tackle the development of materials, especially steel, with innovative features. We brought the R&D Division and the Plant Engineering &

Technology Bureau together as the Technical Development Bureau, then realigned R&D laboratories across the country, and established a new structure with the Research and Engineering Center as the core and R&D laboratories and research teams at each steelworks providing support.



- *Steel Research Laboratories:* R&D efforts are diverse, from new products geared to customer demands to solutions in all aspects of steel product use. A list of themes tackled includes methods to reduce the weight of automobiles, structural and component system solutions and techniques to enhance product durability and lifecycles.
- *Advanced Technology Research Laboratories:* The focus is on development of basic technologies with potential in several areas, from steel to advanced materials, energy and the environment. Research results underpin the development of advanced materials, such as solder microballs, and technologies used in hydrogen production systems and water treatment.

- *Environment & Process Technology Center:* With expertise in such areas as systems, measurement, mechatronics and factory automation, the center responds to the need for energy, environmental and resource-recycling processes, develops new iron and steelmaking process technology and undertakes plant engineering related to iron and steel production.
- *R&D Laboratories and Research Teams at Steelworks:* The R&D laboratories at each steelworks are staffed by on-site research teams and function as technical helpdesks for customers.

## R&D Activities

### Basic Direction

Under the current Medium-Term Consolidated Business Plan, the basic direction of R&D at Nippon Steel hinges on three points.

1. To work closely with the customers of the Company's products and services to derive new technology at all levels, from basic and leading-edge research to development and engineering, which will lead to new products and technology solutions that enhance the integrated competitiveness of Nippon Steel as well as its customers.

2. To improve and accelerate the results gained through joint research with alliance partners Arcelor and POSCO.
3. To apply technical expertise achieved through steelmaking and thereby reinforce energy-, environment- and recycling-related R&D, which will underpin the creation of a recycling-oriented society and address the problems associated with global warming.

## R&D Trends

In steel operations, Nippon Steel prioritizes R&D efforts that reinforce the Company's international cost-competitiveness, generate products worthy of distinction and address new operating requirements, such as environment-friendly, energy-saving activities.

The results are commendable. GA-TRIP, the world's first high-strength coated sheet with 590 and 780 MPa class TRIP plating characteristics, is used for mass-produced automobiles. Order volume is steady for HTUFF high-strength heavy plates with oxide and sulfide nanomolecules in the heat-affected zone—the steel closest to the welding heat source—that make the steel more resistant to large heat input. New S-TEN1, a steel tough enough to withstand hydrochloric acid, has scored high marks for dramatically reducing repair costs to waste incinerators and was awarded the Nikkei Superior Product Award in January 2004.

Nippon Steel has tied up with POSCO on R&D to improve steel-making processes and with Arcelor on automotive sheets. The

Company is also considering joint research and mutual technology transfers with Sumitomo Metals and Kobe Steel on upstream production and basic research.

In environmental engineering-related R&D, Nippon Steel is spotlighting technology that enhances the competitiveness of its waste direct melting/recycling furnace, gasification technology for waste plastics and gas-to-liquid fuel technology. In the area of construction materials, R&D efforts led to the development of a seismic isolator dubbed the Unbonded Brace. This product won the Ichimura Award in fiscal 2004.

## R&D Expenditures

	(Billions of yen)				
	2001	2002	2003	2004	2005
Consolidated	¥39.3	¥35.1	¥35.8	¥35.3	¥36.3
Nonconsolidated	33.6	28.7	29.0	27.2	27.3

## R&D Showcase

### New S-TEN1: Waste Incinerator's Best Friend

New S-TEN1 is a steel product with dramatically improved resistance to hydrochloric acid over its predecessor S-TEN1, which itself demonstrated extremely high resistance to sulfuric acid.

In recent years, the social impact of waste processing has acquired a higher profile as landfills approach capacity, but greater use of waste incineration facilities to reduce the amount of waste dumped into landfills has triggered a new situation in need of a response. The steel materials inside the facilities are being corroded by hydrochloric acid generated during incineration, with plastics and food waste being the primary culprits. New S-TEN1 addresses this problem, of course, but it can also be used in various environments where steel comes in direct contact with hydrochloric acid. By extending the useful life of equipment and safely postponing regular maintenance for longer periods, New S-TEN1 helps reduce the corrosion-repair costs born by taxpayers.

### New S-TEN1 Corrosion-Resistance Test



### Unbonded Brace: For Seismic-Resistant Structures

The Unbonded Brace is a seismic-tolerant steel product attached diagonally to structural components, such as crossbeams and pillars, and limits damage to a building by absorbing the seismic energy released during an earthquake. Compared with previous structural steel solutions which acted like springs to withstand shaking and impact, the Unbonded Brace actually absorbs seismic energy by utilizing the inherent nature of steel to accept deformation and retain that shape. It is the realization of a completely new concept in steel materials, featuring a steel plate core surrounded by but not bonded to a concrete-filled steel tube. This configuration allows the core to slide inside the tube and absorb energy equally well in tension or compression positions. As a trailblazer among buckling-resistant braces, the Unbonded Brace will be used in the damping structures of nearly all skyscrapers, and its use will probably be extended to high and medium-height buildings as well.







# Sustainable Development

## Environmental Activities

### Promoting Environment Management

#### Our View

The business activities of Nippon Steel account for approximately 3% of Japan's total energy consumption, underlining the incredibly huge effect that the Company has on the environment. It is therefore imperative that we strive to reduce the environmental impact of our operations—all our operations, from the procurement of raw materials, building materials and equipment to the disposal of finished products. Our efforts are not restricted to actions taken with regard to our own operations, though. We go a step further, supporting social sustainability through maximum use of the earth-friendly, energy-saving technologies and existing infrastructures we have created.

Environment management is a corporate approach that highlights environmental responses as a standard component of business and seeks the swift and voluntary implementation of these responses. It also requires cooperation with communities and other industry sectors to create an environmentally sound social structure.

#### Basic Environmental Policy

Since its establishment, Nippon Steel has made environmental protection a key management priority, and the Company has taken a comprehensive approach to its environmental policy.

Our Basic Environmental Policy, formulated in 1972, was reviewed many times, and in 2000 we revised the content more significantly, with an emphasis on three goals: to contribute to a society committed to environmental protection; to reduce environmental impact from every stage of our operations; and to take our efforts to the international community to safeguard the environment on a global scale.

As further reinforcement, we prepared the Medium-Term Environment Management Plan, which runs from fiscal 2003 through fiscal 2005, and have been working to achieve the following five objectives:

1. Propose measures to fight global warming by pursuing R&D to reduce energy consumption and carbon dioxide emissions
2. Help build a recycling society by pushing in-house emissions down to zero and giving by-products from other companies a new use in the steelmaking process
3. Pursue environmental risk management consistent with environmental regulations
4. Provide environmental and energy solutions, such as eco-friendly products
5. Actively encourage a close relationship with stakeholders—that is, customers, communities and Group interests—on environmental issues.

Environmental problems are risks. They are also opportunities—chances to demonstrate corporate value. Nippon Steel will strive to show its value as a concerned corporate citizen by providing appropriate disclosure on corporate activities affecting the environment and maintaining close ties with customers and the people in the communities where it operates. These efforts will contribute to social sustainability.

### Working to Curb Global Warming

#### Energy-Saving Pursuits

The problem of global warming requires a comprehensive, energy-saving response. Following the first oil crisis and until 1990, Nippon Steel implemented various measures, including expanded continuous processing and improved waste heat recovery. These efforts were rewarded with a dramatic reduction—more than 20%—in energy consumption, compared with 1973.

Seeking to realize even greater energy savings, Nippon Steel embraced an industrywide voluntary action program to cut energy consumption by 10%, with 1990 as the base year, effective 2010. Through several approaches, including the installation of advanced energy-saving equipment and the introduction of waste plastics and used tires as raw materials, we have raised energy efficiency and thereby enhanced energy savings.

As of fiscal 2004, these efforts had reduced energy consumption 7.8% from the level in 1990.

### The Potential of Hydrogen

A long-term R&D effort at Nippon Steel aimed at dealing with global warming has been the production of hydrogen from the by-product gases of steelmaking. We established an R&D facility for producing liquefied hydrogen at the Kimitsu Works as part of the Ministry of Economy, Trade and Industry's hydrogen and fuel cell verification project, and have been running tests there since March 2004. We also provided hydrogen from the Nagoya Works for hydrogen-powered fuel cell buses filling up at the hydrogen supply station on the Seto site of EXPO 2005 in Aichi.

## Building a Recycling Society

### Progress on Zero In-House Emissions

Nippon Steel has been working to cut the amount of final waste disposal to meet its target of a 50% reduction in the amount of final disposal from the fiscal 1997 base figure by 2010, in line with a decision made in 1999 by the Japanese government. In fiscal 2004, the Company disposed of 307,000 tons of waste, or 18% less than in fiscal 2005 and 53% less than in fiscal 1997. We are almost down to our goal of 300,000 tons by fiscal 2010.

### New Life for Waste Plastics, Used Tires

To realize energy savings and stress the potential of a recycling society, we are keen to utilize waste plastics, used tires and other materials generated by society and other industries. Five of our steelworks—Muroran, Kimitsu, Nagoya, Yawata and Oita—effectively use waste plastics to fuel coke ovens. In fiscal 2004, we recycled approximately 160,000 tons of waste plastics from containers and packages.

Used tires have been another form of reapplied raw materials since 1998. The Hirohata Works feeds roughly 60,000 tons of used tires into its cold iron-source melting furnace each year as a partial substitute for coal and iron scrap. In July 2004, the works fired up a used tire gasification and recycling facility and introduced a system for processing 120,000 tons of used tires per year. This represents a little more than 10% of all the used tires in Japan.

### Automobile Recycling

Through an alliance with the Yawata Works and West-Japan Auto Recycle Co., Ltd., Nippon Steel has been recycling used vehicles in Kitakyushu Eco-Town since 2000. West-Japan Auto Recycle harvests the reusable components from used vehicles and the steel scraps that remain after the dismantling and sorting process are used by the Yawata Works as raw material for high-grade steel products, such as automotive steel sheets. This setup achieves a recycle rate of nearly 100% because it generates no shredder dust.

The Kimitsu Works began a similar effort in January 2005 through an agreement with neighboring East-Japan Resource Recycling Co., Ltd.

### Outside Honors

Efforts to foster a recycling society through our steelmaking infrastructure have garnered high praise from public organizations.

In December 2004, the Hirohata Works was presented with the Minister of Economy, Trade and Industry Award at the first annual Eco-Products Awards—for utilizing a steelmaking infrastructure to recycle used tires. In April 2005, the same works received an award at the 14th Global Environment Awards for being the award council's choice as an excellent company.

In March 2005, the Nagoya Works took the gold award at the 2005 Aichi Environmental Awards for recycling of used plastic containers and wrapping.

## Cross-Border Efforts

Resolution of global environment issues requires efforts that go beyond corporate and industry borders, past regional boundaries and even across national borders. To promote such efforts, the Japan Iron and Steel Federation, led by Nippon Steel, and the China Iron and Steel Association, in rapidly growing China, cosponsored the Japan-China Advanced Technology Exchange Meeting for Environmental Protection and Energy-Saving. The event, which was held in Beijing in July 2005, should contribute to healthy development of the steel industry in China and prompt greater interest in protecting the Earth.



1. Used tire gasification and recycling facility at Hirohata Works



2. Hydrogen supply station at EXPO 2005 in Aichi



3. Signing of memorandum at the Japan-China Advanced Technology Exchange Meeting for Environmental Protection and Energy-Saving



# Ties to Stakeholders

## Shareholders and Investors

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### Quarterly Reporting

To ensure timely disclosure of information useful to shareholders and investors, Nippon Steel advanced the release of fiscal data in fiscal 2003, with annual and semiannual fiscal results issued in April and October and performance forecasts issued in March and September. With strong indications that quarterly disclosure of fiscal status and performance results will soon become mandatory, the Company adopted this format ahead of time in fiscal 2004.

We will continue to enrich the content of our reports to enable shareholders and investors to form accurate opinions on the financial and management condition of the Nippon Steel Group.

### Domestic and Overseas Investor Relations

Nippon Steel actively engages in a variety of investor relations (IR) activities at home and abroad. In Japan, we hold information meetings four times a year so that invited analysts and institutional investors can better understand our business results and financial position. Overseas, our efforts hinge on visits by members of the management team to institutional investors twice a year.

Beginning in fiscal 2005, we plan to strengthen our ties to individual shareholders to foster greater understanding of our business results, management direction and production facilities. This will be accomplished through such activities as tours of our steelworks and information meetings.

Also in fiscal 2005, we will revamp our web site to facilitate the distribution of appropriate information, through e-mail, for example, and enrich the content of the scope of PR and IR materials, including our annual reports.

## Customers and Suppliers

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### Providing Reliable Products

Efforts to ensure our products and services are reliable and meet the needs of customers hinge on two points: a quality guarantee, for which we must standardize and then upgrade production and management systems; and quality control, for which we must enhance production, management, development and improvement of each product.

We feel our quality control systems and related programs are top-notch, a status substantiated by third parties. Our 10 domestic steelworks have all acquired internationally recognized ISO 9001 certification.

At Nippon Steel, we are always looking for ways to respond swiftly to the needs of our customers by promoting activities that production and marketing divisions can pursue together.

### Building Partnerships with Suppliers

Nippon Steel strives to build on relationships of mutual understanding and bonds of trust with suppliers and applies a long-term

perspective to the formation of partnerships. These efforts are underpinned by purchasing policies for the head office and each steelworks, legal compliance, and the pursuit of fair and impartial transactions with suppliers, based on fiscal rationale.

## Communities

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### Greening and Clean-Up Activities

To promote an atmosphere of harmonious coexistence between man and nature, Nippon Steel has been engaged in community forestation projects since 1971. Over the years, densely planted seedlings and directly seeded acorns have developed into forests that now hug the perimeter of each steelworks and act as air filters, absorbing CO<sub>2</sub> and generating oxygen, and as ecological buffers that prevent soot, dust and noise from reaching the surrounding neighborhoods.

We encourage our employees to be active volunteers in their respective communities. Many take part in street-cleaning programs and energetically participate in such local clean-up projects as flower-planting.

### Links to the Community

Nippon Steel endeavors to coexist with local communities. Each year, we welcome approximately 80,000 elementary and junior high school students to our steelworks. We also open plants to the public during regional festivals to give ordinary citizens a chance to see the steelmaking process. In addition, our sports and accommodation facilities, including playing fields and Company-owned lodges in resort areas, are made available to the public.

## Support for Culture and Education

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### Through the Doors of Kioi Hall

In 1990, Nippon Steel founded Kioi Hall, in the Chiyoda district of Tokyo, to support artistic and cultural pursuits. Currently managed by the Nippon Steel Arts Foundation, Kioi Hall is a venue for classical performances, highlighting the Kioi Sinfonietta Tokyo—the hall's own chamber orchestra—as well as traditional Japanese performances, such as *nagauta*, a “long song” that accompanies *kabuki* theater, and *gidayu*, the narrative music that accompanies *bunraku* puppetry. The hall is also rented out to groups, such as amateur orchestras, for private recitals.

In March 2005, more than 1.5 million people passed through the doors of Kioi Hall.

Nippon Steel likes to cultivate new talent in the field of music. Since 1990, we have presented the Nippon Steel Music Awards to young classical musicians with promising futures and to people in many fields who have contributed to the development of classical music in Japan.

The Nippon Steel Arts Foundation has earned a solid reputation for the performances at the Kioi Hall and for activities in support



of the arts. In December 2004, the foundation received the Mecenat Award for Creative Operation at the Mecenat Awards 2004, sponsored by the Association for Corporate Support of the Arts, Japan.

### Through Sports

For many years, we contributed to the development and promotion of competitive sports in Japan. Today, we are cultivating a team spirit with communities through our support for local sports clubs, including judo, baseball, rugby and volleyball teams.

### Overseas

At our overseas offices, as well, we extend broad-based support in all areas, from education and the arts to sports and social welfare programs, through donations and other forms of corporate philanthropy.

## Enhancing the Attraction of Steel

### New Learning Publications

In October 2004, we published the picture book titled "A New Story About the Future of Iron," the fourth volume in the *New Story About Iron* series. This series debuted in 2000 and has been distributed to visitors on tours of our steelworks and at exhibitions. The series has gained a wide following and generated a huge response from readers, not only from children but also from parents and educators. Combined circulation for all four volumes hovers around 300,000 copies.

In December 2004, we introduced "Easy to Read Iron & Steel Making." This book about Japanese key industries describes steel-making, from the birth of the industry to leading-edge technologies, in easy-to-understand terms, and has won high marks from many readers.

### Hands-On Experience

Nippon Steel implemented a hands-on steelmaking program at the Yawata Works in January 2005 that lets students of every age, from elementary school to university, as well as adults in Kitakyushu realize the importance of steelmaking in society while at the same time having fun. The steelmaking method used in this program is based on the *tatara* ironmaking method used long ago in Japan.

This event was cosponsored with the city of Kitakyushu and had support from many areas of society, including firefighters, the police and people in the field of education. It was a real community effort.

Since the hands-on experience teaches participants the value of manufacturing in a way book-learning never could, the program has been well received and more than measured up to expectations.



1. Information meeting
2. Educational tools: *A New Story About Iron* series and *Easy to Read Iron & Steel Making*
3. Regular performance of the Kioi Sinfonietta Tokyo
4. Kamaishi Seawaves
5. Hands-on experience, *tatara*



# Corporate Governance

Nippon Steel has formulated the Group's Guiding Principles built on a corporate philosophy and management principles. Our corporate philosophy states that with core operations in steelmaking, we will contribute to the development of industry and the enhancement of people's lives by creating and providing ever-increasing value. The accompanying four management principles will help us to realize this goal.

Corporate governance is one of the management structures that we will continually reinforce as we work toward our ultimate goal.

## Nippon Steel Group's Guiding Principles

### Corporate Philosophy

Nippon Steel Group, focused on steel manufacturing, will contribute to industrial development and the enhancement of peoples' lives through creating and supplying valuable and attractive products and ideas.

In our core steel business, as well as in other fields developed from that core business, we will provide attractive high-level technologies, products and services, both at home and abroad, that meet the needs of society by contributing to the development of industry and the enrichment of people's daily lives.

### Management Principles

#### 1. To Continue to be a Trusted and Responsible Member of Society

We will continually strive to be a responsible member of society by being environmentally friendly, building safe workplaces, working to ensure smooth operations and complying with society's rules and regulations. At the same time, we will grow in harmony with society by securing revenues appropriate to earning the trust of our stockholders, customers and society.

#### 2. To Continuously Challenge Ourselves to Develop and Improve World-Leading Technologies

Our capacity for technological development is the basis of our competitiveness. We will constantly pursue technological progress, and aim to produce the best and strongest technology in all the fields we are involved in. Furthermore, we are committed to enhancing our manufacturing capability by giving priority to improving our field operations, which represent the starting point of our corporate activities.

#### 3. To Always Try to Change Ourselves so that we can Deal with the Future and Attain Further Development

As the business environment changes around us, no matter how drastically, we will work to quickly and accurately grasp the direction of those changes. To meet the challenges presented by such changes, we will constantly endeavor to improve ourselves without being constrained by past experience. Every employee will aim to improve our business by becoming a leader of

change, and by never being satisfied with the status quo.

#### 4. To Realize a Group Full of Vitality by Developing and Empowering People

The best results are achieved when "people"—the source of our Group's energy—make full use of their abilities, communicate freely and cooperate closely. We will build a dynamic organization where people can grow through their assignments, enjoy their work and be proud to be a member of our Group.

We are committed to fair and transparent business management based on these principles.

## Nippon Steel Group: Employee Action Guidelines

We formulated a code of conduct for the whole Group to encourage employees—executives and staff alike—to adopt energetic working methods and achieve strategic, efficient business activities in each division, in line with the aforementioned management principles. This code of conduct also facilitates suitable decision making in the event a difficult situation arises.

### Passion and Creativity

We will aim to manufacture the world's top quality products and constantly challenge ourselves to do better.

### Workplace and Products

We will strive for continuous improvement in our products with the workplace playing a central role.

### Independence and Self Direction

We will be ambitious, set high goals, think independently, act swiftly and persevere until the job is done.

### Fairness and Trust

We will emphasize mutual trust based on free discussion, the honoring of agreements and compliance with rules and regulations.

### Development and Training

We will develop our own skills and train the next generation of employees.

We will adhere to these guiding principles with fairness and rigor.

## Management Administration System

Nippon Steel has embraced the auditor system. Under this system, the Board of Directors comprises 37 members, all of whom are from inside the Company, but of the six corporate auditors, three are from outside. In 1999, anticipating an amendment to the Commercial Code of Japan regarding external auditors, we began appointing external auditors to the Board of Auditors; a 50–50 split.

The individuals on the Board of Directors are highly knowledgeable and experienced in the businesses conducted by Nippon Steel, which underpins the Company's efforts to sustain and enhance management efficiency. This structure is supported by wider functions for corporate auditors, including those of external auditors, to maintain and reinforce management stability.

## Internal Controls and Risk Management System

To ensure that business activities are undertaken efficiently and in a manner consistent with prevailing social standards, according to laws and in-house rules and regulations, Nippon Steel observes the following internal controls and risk management structure.

Decisions on key business issues are ultimately determined by the Board of Directors, which convenes once or twice a month, following discussion by the Corporate Policy Committee, a group that includes participation by the chairman, president and executive vice presidents and normally meets once a week.

We have also established 16 Companywide committees, each assigned a specific focus, such as ordinary budget, investment and finance, fund management, technology development and environment management, to hash out the details of certain issues and thereby facilitate subsequent, more decision-oriented discussions by the Corporate Policy Committee and the Board of Directors.

The execution of businesses activities mandated by the Board of Directors and other executive committees is promptly implemented by the directors responsible for said operations and the general managers of the relevant divisions under the direction of the chairman and the president. To entrench the internal system for monitoring progress on the implementation of decisions, the Company has clarified in its corporate rules the organizational authorities, persons in charge and appropriate business procedures required to execute decisions.

Turning to the issue of reliable financial reporting, the key is independent and meticulously strict oversight by the general manager in each division, in accordance with relevant internal regulations and manuals, particularly *Basic Rules on Financial Accounting*. The Accounting & Finance Division at Nippon Steel headquarters complements the efforts of senior division management by regularly monitoring the transactions undertaken in each division.

## Internal Audits and Corporate Auditors' Audits

Nippon Steel works on a daily basis to enhance the value of internal audits. A prime example is the Risk Management Committee, chaired by the executive vice president in charge of general administration. This committee tracks the status of risk management efforts and the internal control system and shares information with

corporate auditors. If new situations arise, the committee will investigate and, when necessary, instruct the division responsible to draft concrete solutions. The committee will then review the division's progress on solving any remaining issues.

With a view toward greater risk responsiveness within the entire Nippon Steel Group, the Company implemented a consolidated risk management system wherein each company under the Group umbrella designates a person responsible for risk management to encourage information sharing and improve risk-hedging methods.

In April 2005, Nippon Steel set up the Corporate Risk Management Group under the General Administration Division to enrich the scope of internal audits and elicit greater risk responsiveness.

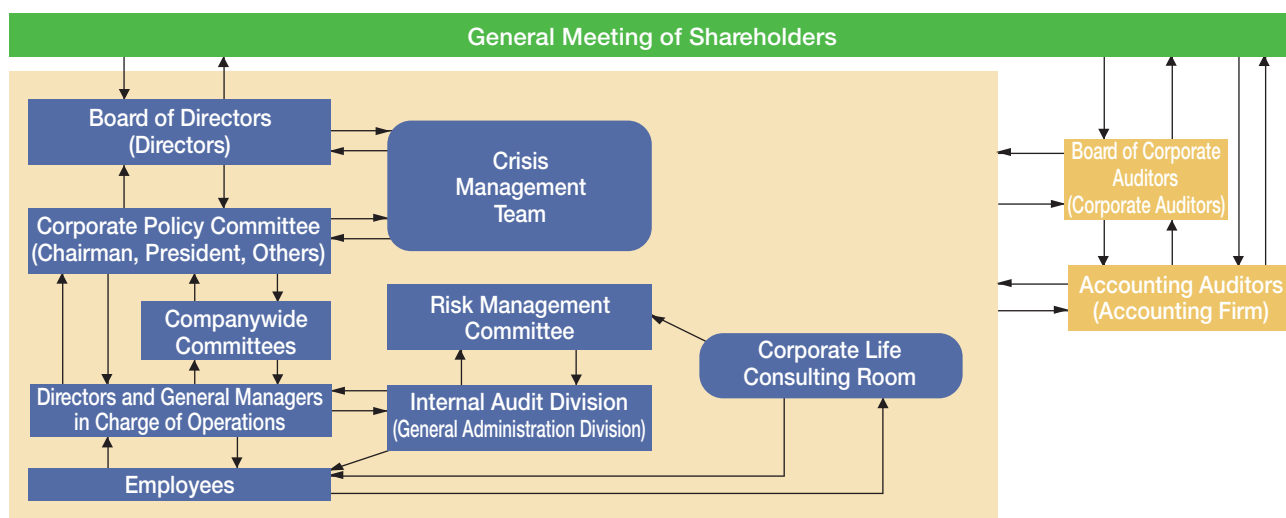
Audits by corporate auditors are exercises in proactive and tangible investigation aimed at precluding the possibility of scandals. Auditors apply an interactive process to ascertain the status of such aspects of corporate governance as legal compliance, risk management and internal controls. Through the participation of outside auditors with considerable insight into corporate activities, corporate auditors can execute audits of Nippon Steel's business activities accurately and impartially, independent of senior management at the Company.

## Compliance

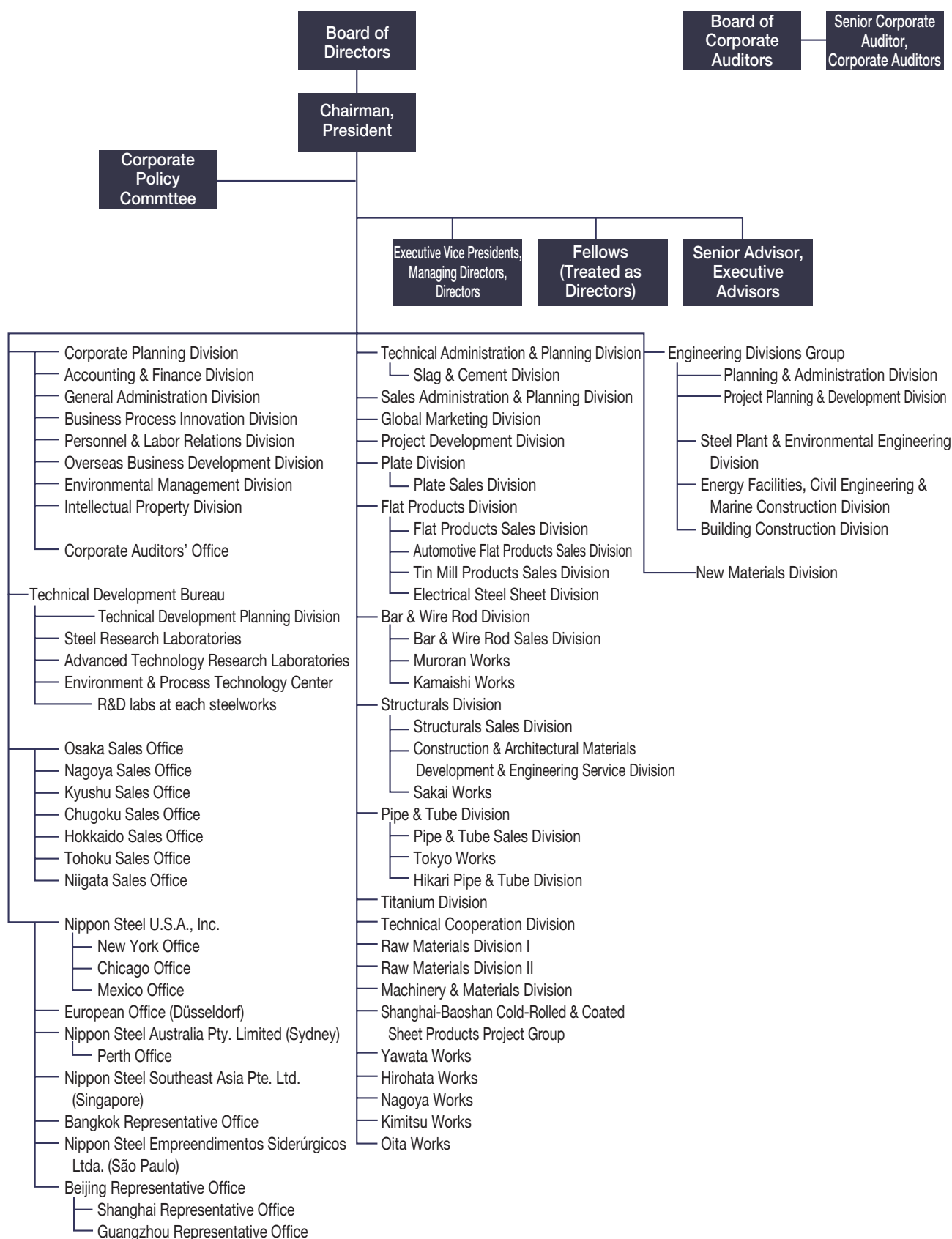
The sound development of society hinges on legal compliance and business activities sensitive to prevailing social standards. Nippon Steel instills this idea as a fundamental corporate policy through messages from senior management and regular legal education programs organized according to line of work and position. These programs drive home the importance of such topics as the Antimonopoly Law and provide concrete examples of unlawful behavior.

All employees are made aware of the *Antimonopoly Law Compliance Manual* as well as the *30 Don't's of Business Behavior*, another compliance manual with easy-to-understand examples of business-related actions that could be construed as breaking the law. We strive to ensure that employees undertake their daily tasks and execute business transactions with legal compliance and corporate ethics firmly in mind.

We also hold lectures by lawyers specializing in the Antimonopoly Law, to further underscore the vital importance of compliance.



# Organization (As of July 2005)



# Executive Team (As of July 2005)



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

## Representative Directors and Executive Vice Presidents



Nobuyoshi Fujiwara



Makoto Haya



Naoki Okumura



Kazuo Nagahiro



Hideaki Sekizawa



Shoji Muneoka

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

Akira Chihaya

### Representative Director and President

Akio Mimura

### Representative Directors and Executive Vice Presidents

Nobuyoshi Fujiwara  
Makoto Haya  
Naoki Okumura  
Kazuo Nagahiro  
Hideaki Sekizawa  
Shoji Muneoka

### Managing Directors

Hiroshi Shima  
Mitsuo Kitagawa  
Koichi Nakamura  
Tetsuo Imakubo  
Kiichiroh Masuda  
Hidemi Ohta  
Katsutoshi Kurikawa  
Junji Oota

### Directors

Bunyu Futamura  
Yuki Iriyama  
Itsuo Takahashi  
Keisuke Kuroki  
Tadashi Higashi  
Yasuo Takeda  
Kizoh Hirayama  
Kozoh Uchida  
Shinichi Taniguchi  
Masakazu Iwaki  
Yasuo Hamamoto

Norio Katsuyama  
Kosei Shindo  
Junji Uchida  
Masaru Kiuchi  
Yoshichika Nishio  
Shinichi Nakatsu  
Shigeru Ohshita  
Tohru Obata  
Yasuo Fujii  
Kiyoshi Nishioka

### Senior Corporate Auditor

Tetsuo Seki

### Corporate Auditors

Shigeru Matsuyama  
Tsutomu Haeno  
Hisashi Tanikawa\*  
Yoichi Kaya\*  
Shigemitsu Miki\*

\* External auditors



# Principal Subsidiaries and Affiliates

(As of March 31, 2005)

## Consolidated Subsidiaries (258 companies)

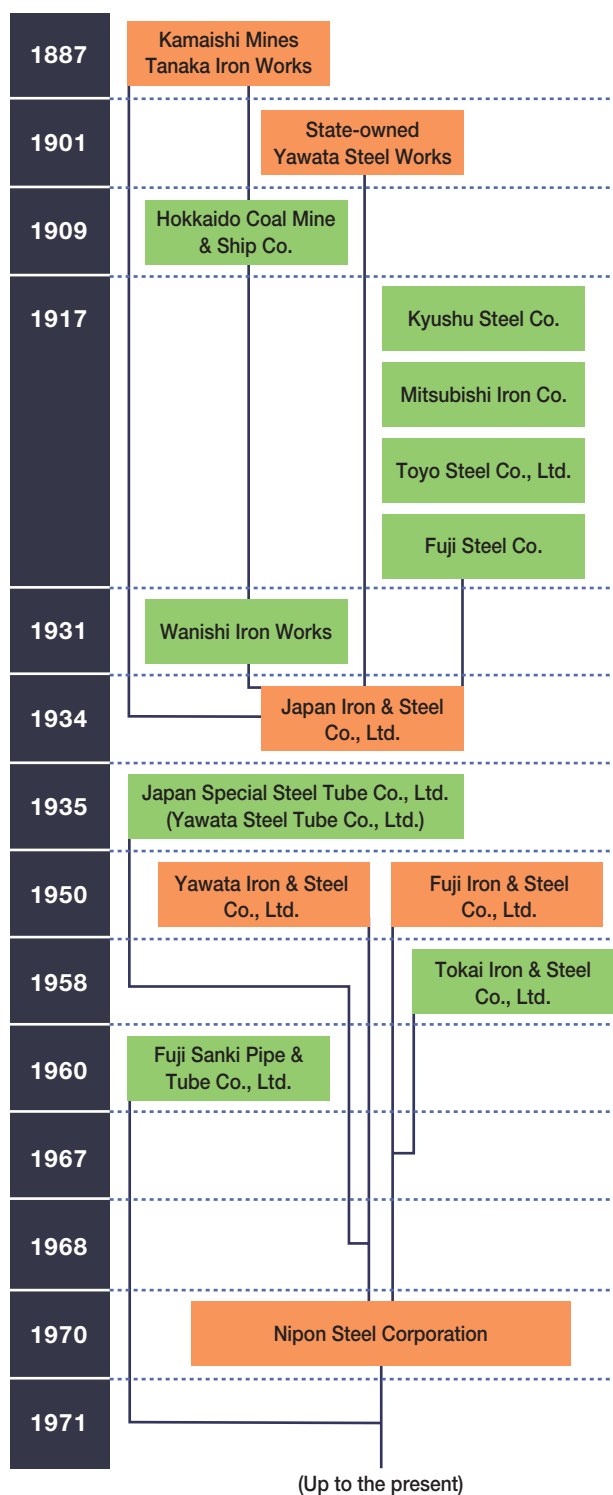
Company	Voting Rights (%)	Paid-in Capital (Millions of yen)	Business Content
<b>Steelmaking and Steel Fabrication</b> (168 companies)			
Nittetsu Steel Sheet Corporation	100.0%	¥11,019	Makes and markets galvanized sheets, color galvanized sheets, surface-treated sheets and construction materials
Hokkai Iron & Coke Co., Ltd.	80.0	9,255	Makes and markets coke, pig iron and blast-furnace slag
Osaka Steel Co., Ltd.	61.6	8,769	Makes and markets billets, shapes, deformed bars and fabricated products
Nippon Steel Metal Products Co., Ltd.	100.0	5,912	Makes and markets structural materials for buildings and civil engineering work, prepainted galvanized sheets and steelmaking fluxes and CC powders
Nippon Steel & Sumikin Stainless Steel Corporation	80.0	5,000	Makes and markets stainless steel
Nittetsu Steel Pipe Co., Ltd.	100.0	3,497	Makes, coats and markets steel pipe and tubes
Nippon Steel Logistics Co., Ltd.	59.7	2,238	Undertakes ocean and land transportation and warehousing
Nippon Steel Shipping Co., Ltd.	76.0	2,227	Undertakes ocean transportation
Nippon Steel Welding Products & Engineering Co., Ltd.	95.5	2,200	Makes and markets welding materials and apparatuses
Seitetsu Unyu Co., Ltd.	80.1	2,000	Undertakes harbor and land transportation and loading and unloading operations
Nippon Steel Drum Co., Ltd.	55.3	1,654	Makes and markets drums
Nippon Steel Blast Furnace Slag Cement Co., Ltd.	100.0	1,500	Makes and markets cement and slag products
Nittetsu Cement Co., Ltd.	85.0	1,500	Makes and markets cement
Nittetsu Elex Co., Ltd.	90.3	1,032	Designs and installs electrical instrumentation apparatuses
Nippon Steel Transportation Co., Ltd.	87.8	500	Undertakes harbor and land transportation and loading and unloading operations
Nippon Steel U.S.A., Inc.	100.0	US\$22 million	Invests in U.S. companies and gathers information
Nippon Steel Australia Pty. Limited	100.0	A\$21 million	Participates in mine development in Australia
Siam Nippon Steel Pipe Co., Ltd.	60.8	THB779 million	Makes and markets electric-resistance welded pipe and tubes for mechanical configurations
150 other companies			
<b>Engineering and Construction</b> (19 companies)			
<b>Urban Development</b> (13 companies)			
Nippon Steel City Produce, Inc.	100.0%	¥5,750	Buys, sells and rents real estate
12 other companies			
<b>Chemicals and Nonferrous Materials</b> (27 companies)			
Nippon Steel Chemical Co., Ltd.	100.0%	¥5,000	Makes and markets coke, chemicals and electronic components
Yutaka Electric Mfg. Co., Ltd.	100.0	1,250	Makes and markets power supply devices for electronics equipment
25 other companies			
<b>System Solutions</b> (11 companies)			
NS Solutions Corporation	72.2%	¥12,952	Provides engineering and consulting services pertaining to computer systems
10 other companies			

Company	Voting Rights (%)	Paid-in Capital (Millions of yen)	Business Content
<b>Services and Other</b> (20 companies)			
Space World, Inc.	46.0%	¥2,000	Manages space-oriented training facilities, exhibition halls and amusement facilities
Nittetsu Finance Co., Ltd.	100.0	1,000	Engages in financing and lending operations
Sunvenus Takarazuka Co., Ltd.	100.0	775	Manages private homes for senior citizens
Nittetsu Kagoshima Geothermal Co., Ltd.	70.0	700	Produces and sells geothermal steam for power generation
Nippon Steel International Finance (Netherlands) B.V.	100.0	US\$8 million	Undertakes capital procurement and investment in the Euromoney market
Nippon Steel Southeast Asia Pte. Ltd.	100.0	SG\$16 million	Invests in Asian companies and gathers information
14 other companies			

#### **Affiliates Accounted for by the Equity Method** (71 companies)

Company	Voting Rights (%)	Paid-in Capital (Millions of yen)	Business Content
Nichia Steel Works, Ltd.	25.9%	¥9,554	Makes and markets bolts, wire products and prepainted galvanized sheets
Japan Casting & Forging Corporation	42.0	6,000	Makes and markets castings, forgings, ingots and billets
Krosaki Harima Corporation	45.5	5,537	Makes, markets and constructs refractories
Taihei Kogyo Co., Ltd.	37.5	5,468	Undertakes civil engineering work; makes and mounts machinery and equipment; makes steel
Geostr Corporation	26.0	3,352	Makes and markets concrete products for building construction and civil engineering work
Daiwa Can Company	33.4	2,400	Makes and markets metal, plastic and paper containers
Sanko Metal Industrial Co., Ltd.	17.3	1,980	Makes, processes, installs and sells metal roofs and building materials
Suzuki Metal Industry Co., Ltd.	22.3	1,200	Makes and markets wire products
Sanyu Co., Ltd.	17.3	1,028	Makes and markets cold-finished bars and cold-heading wire
Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd.	40.0	RMB3 billion	Makes and markets cold-rolled and galvanized sheets
The Siam United Steel (1995) Company Limited	36.3	THB9,000 million	Makes and markets cold-rolled sheets
Guangzhou Pacific Tinsplate Co., Ltd.	27.3	US\$36 million	Makes and markets tinsplates
Kazusa Clean System Co., Ltd.	49.0	2,000	Undertakes disposal of general and industrial waste
Nippon Steel Trading Co., Ltd.	39.1	8,750	Buys and sells iron and steel, nonferrous metals, machinery and raw materials
Kyushu Oil Company Limited	36.0	6,300	Undertakes petroleum refining and the sale of petroleum products
Tetra Co., Ltd.	34.4	2,751	Undertakes civil engineering work and rents block frames
55 other companies			

# History (As of July 2005)



1857	Japan's first western-style blast furnace goes into operation in Kamaishi.
1875	The Ministry of Industry starts construction of a steelworks in Kamaishi.
1886	Entrepreneur Tanaka Chobei successfully taps pig iron at Kamaishi Mines Tanaka Iron Works (present-day Kamaishi Works).
1897	The Ministry of Agriculture and Commerce starts construction of a steelworks in Yawata.
1901	The state-owned Yawata Steel Works begins operation (present-day Yawata Works).
1909	Wanishi Iron Works of Hokkaido Coal Mine & Ship Co. starts operation (present-day Muroran Works).
1934	Japan Iron & Steel Co., Ltd., is formed on February 1 through the merger of state-owned Yawata Steel Works with Wanishi Iron Works, Kamaishi Mines, Mitsubishi Iron, Fuji Steel, Kyushu Steel and Toyo Steel.
1939	Japan Iron & Steel's Hirohata Works goes into operation.
1950	Japan Iron & Steel is dissolved to form Yawata Iron & Steel Co., Ltd., and Fuji Iron & Steel Co., Ltd.
1955	Yawata Iron & Steel begins operations at Hikari Works.
1958	Tokai Iron & Steel Co., Ltd., is established through a joint venture between Fuji Iron & Steel and Chubu Zaikai. Yawata Iron & Steel inaugurates the Tobata Area of Yawata Works.
1961	Yawata Iron & Steel begins operations at Sakai Works.
1965	Yawata Iron & Steel begins operations at Kimitsu Works.
1967	Fuji Iron & Steel absorbs Tokai Iron & Steel and renames the company its Nagoya Works.
1968	Yawata Iron & Steel absorbs Yawata Steel Tube Co., Ltd.
1970	Yawata Iron & Steel and Fuji Iron & Steel merge on March 31 to form Nippon Steel Corporation.
1971	Nippon Steel absorbs Fuji Sanki Pipe & Tube Co., Ltd. Oita Works goes into operation.
1974	Nippon Steel establishes the Engineering Divisions Group.
1984	Nippon Steel establishes the New Materials Projects Bureau.
1986	Nippon Steel establishes the Electronics Division.
1987	Nippon Steel establishes the Electronics & Information Systems Division, New Materials Division and Service Business Division.
1991	Nippon Steel creates the Technical Development Bureau by consolidating the Central R&D Bureau and the Plant Engineering & Technology Bureau. The Research & Engineering Center begins operations.
1993	Nippon Steel establishes the Semiconductor Division.
1997	Nippon Steel establishes the Silicon Wafer Division.
2000	Nippon Steel introduces a business structure based on product type into steelmaking and steel fabrication operations.
2001	Nippon Steel forms NS Solutions Corporation by merging the Electronics & Information Systems Division and subsidiary Nippon Steel Information & Communication Systems Inc.
2002	Nippon Steel integrates its urban development business into Nippon Steel City Produce, Inc.
2003	The stainless business is spun off to form Nippon Steel & Sumikin Stainless Corporation.





# Financial Statements

Nippon Steel Corporation and Consolidated Subsidiaries

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## Financial Review

### Financial Summary

Net sales of Nippon Steel Corporation and its consolidated subsidiaries (collectively "NIPPON STEEL") for the year ended March 31, 2005, increased ¥463.4 billion from the year ended March 31, 2004, to ¥3,389.3 billion. Operating profit increased ¥205.4 billion, to ¥429.9 billion, while net income increased ¥179.0 billion, to ¥220.6 billion.

### Segment Information

The recovery of the Japanese economy remained slow during fiscal 2004, as exemplified by improvements in corporate earnings and a recovery in equipment investment.

In the steel industry, national crude steel production reflected the growth of steel demand worldwide, increasing 1.90 million tons over the previous year to reach 112.89 million tons in fiscal 2004. Meanwhile, the global availability of raw materials steeply declined during fiscal 2004, leading to a dramatic rise in the cost of raw materials, fuels and ocean freight.

Despite this environment, the Nippon Steel Group exerted maximum effort to carry out its Medium-Term Consolidated Business Plan (fiscal 2003–2005).

An overview of the consolidated operating performance of each business sector in fiscal 2004 follows.

**Steelmaking and Steel Fabrication:** To best meet the robust demand for steel seen in Japan and elsewhere, NIPPON STEEL made stability in production and shipping its first priority. At the same time, strenuous endeavors were made to absorb the rise in costs brought about by soaring raw materials prices, ocean freight charges and other factors. Efforts to improve steel market prices were implemented while the understanding of customers was solicited.

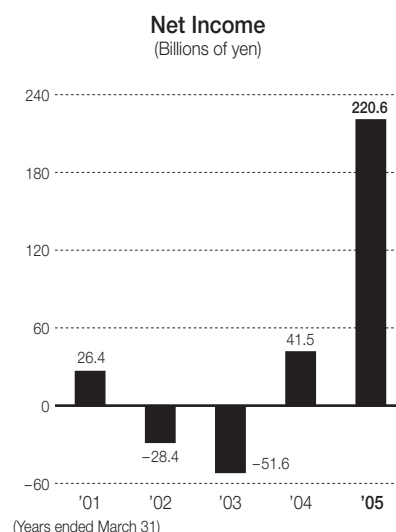
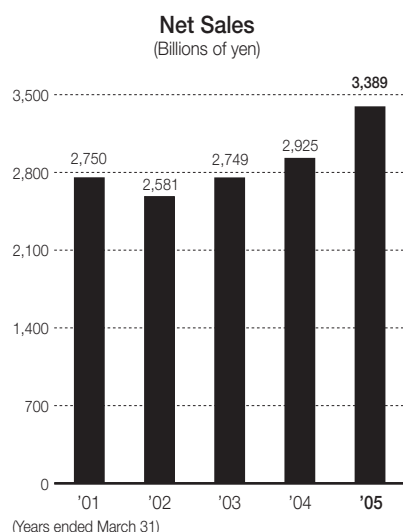
In the area of equipment investments, steps were taken to improve production capabilities in the integrated steel-making processes, including completion of the relining of the

No. 2 blast furnace at the Oita Works and the decision to newly install the No. 6 continuous caster at the Kimitsu Works. In addition, to improve its ability to respond to customer expectations on quality in the area of coated steel sheets used in automobiles and home appliances, NIPPON STEEL decided to invest in the refitting of the hot-dip galvanizing lines at the Nagoya and Kimitsu Works.

In the procurement of raw materials, NIPPON STEEL has continued to establish long-term business relationships with overseas suppliers. This has been done through such measures as participation and investment in the development of mines and the conclusion of long-term sale and purchase agreements. Besides signing long-term contracts for the stable procurement of iron ore and coking coal with Rio Tinto (Australia and the U.K.), Rio Doce (Brazil) and other suppliers, NIPPON STEEL made capital contributions to Mitsui Mining Co., Ltd., in March 2005 for the stable procurement of cokes.

In the field of R&D, in addition to the strengthening of cost competitiveness, development of highly differentiated products and commitment to environmental preservation and energy conservation, emphasis has been laid on provision of high-added-value products and technical solutions to further gain the trust of customers.

Sustained emphasis has been placed on strengthening NIPPON STEEL's alliances with other domestic and foreign steelmakers. In April 2005, NIPPON STEEL and Nakayama Steel Works, Ltd., agreed to jointly invest in and establish NS Bousen Co., Ltd., an enterprise specializing in rolling bars and wire rods. With the aim of expanding capacity in integrated specialty steel production, NIPPON STEEL purchased an idle electric furnace from Mitsubishi Steel Mfg. Co., Ltd., in February 2005 and put it into operation, while also deciding to make use of surplus rolling capacity at Mitsubishi Steel Muroran Inc. In March 2005, NIPPON STEEL, Sumitomo Metal Industries, Ltd., and Kobe Steel,



Ltd., relying on the solid results of past cooperative measures, took another step forward in enhancing both the scope and depth of their cooperative programs. Specifically, NIPPON STEEL and Kobe Steel entered into agreements with Sumitomo Metal Industries to make capital contributions to East Asia United Steel Corporation (existing shareholders: Sumitomo Metals, China Steel Corporation and Sumitomo Corporation), and to jointly use the existing iron- and steelmaking facilities at the Wakayama Works of Sumikin Iron & Steel Corporation. The respective companies will also conduct studies on the possibility of mutual cooperation between two or more of the three companies, as needed, in such areas as R&D, intellectual property, procurement, electricity, control and systems, and the environment and recycling. In addition, studies will commence on the possibility of additional cross-purchases of each other's shares.

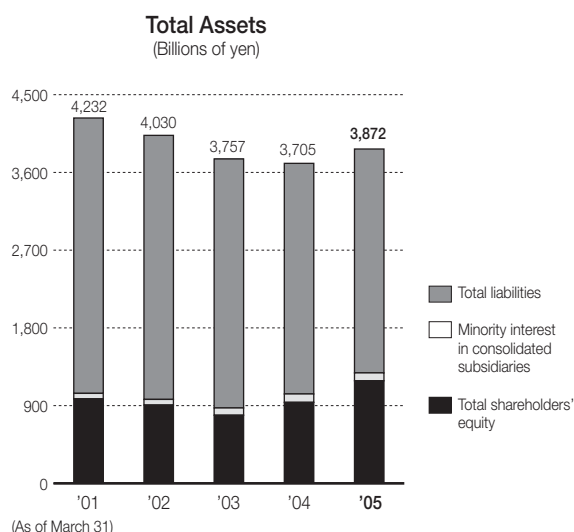
As for alliances with foreign steelmakers, NIPPON STEEL joined with Baoshan Iron & Steel Co., Ltd., of China and Arcelor of Europe in July 2004 to establish Baosteel-NSC/ Arcelor Automotive Steel Sheets Co., Ltd., a joint venture to manufacture and sell automotive steel sheets. This newly established company began operating a hot-dip galvanizing line at the end of March 2005. NIPPON STEEL and Arcelor also pressed ahead with other cooperative measures, such as joint R&D activities in the area of automotive steel sheets. As part of the strategic alliance with POSCO (Korea), Nippon Steel and POSCO have decided to each acquire interests in Australian coal mines owned by American Metals & Coal International, Inc. (U.S.A.). Similar cooperation with POSCO is currently underway in Canada.

NIPPON STEEL has continued to pursue even stronger consolidated management for the operation of all Nippon Steel Group companies through selection and concentration of businesses. In July 2004, as originally planned, three consolidated subsidiaries, Nittetsu Steel Sheet Corporation,

Nittetsu Steel Pipe Co., Ltd., and Nippon Steel Metal Products Co., Ltd., became wholly owned subsidiaries of NIPPON STEEL. Following its establishment in October 2003, NIPPON STEEL & Sumikin Stainless Steel Corporation has efficiently promoted sales activities and cost reductions by capitalizing on the effects of integration, and has steadily made profits. In addition, business restructuring has been actively promoted among the Nippon Steel Group companies, mainly those engaged in sales and fabrication. In August 2004, Nippon Steel Bolten Co., Ltd., a consolidated subsidiary of NIPPON STEEL, and Nakayama Mitsuboshi Steel Products, Ltd., a consolidated subsidiary of Nakayama Steel Works, Ltd., integrated their bolt operations by jointly establishing a new company named NS Bolten Co., Ltd. In April 2005, Nippon Steel Welding Products & Engineering Co., Ltd., a consolidated subsidiary of NIPPON STEEL, became a wholly owned subsidiary of NIPPON STEEL.

Consolidated sales in steelmaking and steel fabrication in fiscal 2004 totaled ¥2,620.7 billion, a gain of ¥463.7 billion over the previous year (¥2,156.9 billion), and consolidated operating profit increased ¥187.2 billion over the previous year (¥189.7 billion), to ¥376.9 billion.

**Engineering and Construction:** In the engineering and construction sector, despite a still harsh operating environment, particularly in domestic public works-related fields, NIPPON STEEL was awarded contracts for a runway construction project at Haneda Airport and a large direct waste melting and recycling plant for the city of Nagoya that was financed as a private finance initiative (PFI) project. With an eye to further strengthening its business foundations, NIPPON STEEL is focusing its efforts on the promotion of customer-based solutions projects that meet both social and client needs. These efforts have been rewarded with contracts for such private-sector projects as construction





projects for logistics companies and various urban facilities.

Overseas, NIPPON STEEL has continued to receive orders for oil and natural gas development projects mainly in Southeast Asia. In addition, NIPPON STEEL has stepped up its marketing of iron- and steelmaking plants by capitalizing on a subsidiary in China involved in the steel plant business.

Consolidated sales in engineering and construction in fiscal 2004 decreased ¥13.2 billion from the previous year (¥293.1 billion), to ¥279.8 billion; but consolidated operating profit increased ¥2.3 billion over the previous year (¥4.3 billion), to ¥6.6 billion.

**Urban Development:** In the urban development sector, Nippon Steel City Produce, Inc., a wholly owned subsidiary of NIPPON STEEL, is promoting "asset value restoration business" as a developer with unique capabilities. This effort includes development projects that utilize idle company-owned land such as the Yawata-Higashida comprehensive development project in Kitakyushu and the Hanada development project in Sakai, Osaka, the redevelopment of underutilized urban areas and the sale of condominiums. In October 2004, NIPPON STEEL, along with Oji Real Estate Co., Ltd., and The Sumitomo Trust & Banking Co., Ltd., established Top REIT Asset Management Co., Ltd., an asset management company that promotes real estate investment trusts (J-REIT).

Both consolidated sales and operating profit in urban development in fiscal 2004 declined; there was a decrease of ¥31.5 billion from the previous year (¥120.8 billion), to ¥89.2 billion, in sales and a decrease of ¥5.0 billion from the previous year (¥13.5 billion), to ¥8.5 billion, in operating profit.

**Chemicals and Nonferrous Materials:** Nippon Steel Chemical Co., Ltd., a wholly owned subsidiary of NIPPON STEEL, spearheads the chemical operations of the Nippon Steel Group. Although the company's chemical operations were constantly exposed to profit-suppressing factors such as the soaring costs of crude oil and naphtha costs and a decrease in the sale of adhesive-free, copper-clad laminated sheets for flexible printed circuit boards (ESPANEX) due to stockpile adjustments in cell phones, overall profit performance improved by a significant margin over the previous year thanks to other factors, such as a favorable trend in the domestic and overseas markets for styrene monomers and coal-tar products. Further, Nippon Steel Chemical took various steps for the selection of and concentration on promising businesses, such as establishing joint venture companies with Air Water Chemical Co., Ltd.—(NSCC Air Water Inc. to undertake industrial gas operations and C-Chem Co., Ltd., to undertake tar operations. The company also stepped up R&D in electronic materials. All these endeavors are directed at further improving profit performance.

In new materials operations, the IT-related industries that constitute the major market for new materials underwent a stockpile adjustment. Nevertheless, the business

performance of new materials operations remained steady, primarily because of favorable shipments of metal foils mainly for hard disc drive suspensions and semiconductor bonding materials. The en-bloc micro-ball bumping technology for wafers that NIPPON STEEL independently developed has earned high praise in the market.

In titanium operations, increased demand in China and other major markets worldwide for chemical plants and power generation facilities led to record-high shipments of titanium products. NIPPON STEEL is aggressively promoting the market development of new applications in automobiles, housing and other areas.

Overall, consolidated sales in fiscal 2004 in the chemicals and nonferrous materials sector amounted to ¥331.1 billion, a gain of ¥55.3 billion over the previous year (¥275.7 billion), and consolidated operating profit rose to ¥26.3 billion, a gain of ¥13.7 billion over the previous year (¥12.6 billion).

**System Solutions:** Users are expressing a growing need for the optimization of entire systems with an accompanying reduction in system costs. Also, the operating environment continues to be marked by stricter scrutiny of investment costs and by declining prices. NS Solutions Corporation, a subsidiary of NIPPON STEEL, is aggressively promoting system solutions operations that accurately meet such user needs, for example, by way of integrated all-phase support from system planning and structuring to system maintenance and operation, as well as support in shifting from main frames to an open system. Furthermore, NS Solutions is striving to upgrade its project management capabilities and to improve its operating base.

Consolidated sales in system solutions in fiscal 2004 amounted to ¥146.5 billion, a decrease of ¥4.3 over the previous year (¥150.8 billion), while consolidated operating profit amounted to ¥11.3 billion, a gain of ¥2.2 over the previous year (¥9.1 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 fiscal 2004 amounted to ¥76.2 billion, a gain of ¥2.6 billion from the previous year (¥73.6 billion), and consolidated operating profit amounted to ¥0.3 billion, a gain of ¥4.6 billion from the previous year (losses of ¥4.3 billion).

With regard to sales activities in cold-rolled stainless steel sheets, NIPPON STEEL is scheduled to pay a surcharge in May 2005 in accordance with an order by the Fair Trade Commission.

As a result of the foregoing, consolidated net sales in fiscal 2004 came to ¥3,389.3 billion, or a gain of ¥463.4 billion over the previous year (¥2,925.8 billion). Consolidated operating profit was ¥429.9 billion, or a gain of ¥205.4 billion over the previous year (¥224.4 billion); and consolidated ordinary profit was ¥371.4 billion, or a gain of ¥198.5 billion

over the previous year (¥172.8 billion). A total special loss of ¥1.9 billion was posted, and as a result consolidated income before income taxes and minority interest was ¥369.4 billion, a gain of ¥295.8 billion over the previous year (¥73.6 billion).

After subtracting ¥155.0 billion as income tax—current, adding ¥17.8 billion as income tax—deferred and subtracting ¥11.6 billion as minority interest in the net income of consolidated subsidiaries, consolidated net income for fiscal 2004 was ¥220.6 billion (¥41.5 billion in the previous year).

As for non-consolidated operations, improved sales prices in the steelmaking and steel fabrication sector, supported by flourishing demand in both domestic and overseas markets, led to improved operating results. Net sales for fiscal 2004 rose to ¥2,147.8 billion, an increase of ¥286.0 billion over the previous year (¥1,861.8 billion); operating profit rose to ¥303.8 billion, an increase of ¥140.9 billion over the previous year (¥162.9 billion); and ordinary profit grew to ¥247.8 billion, an increase of ¥130.1 billion over the previous year (¥117.6 billion). A total special profit of ¥2.0 billion was posted, and as a result non-consolidated net income for fiscal 2004 came to ¥145.8 billion (¥31.1 billion in the previous year).

NIPPON STEEL has implemented a policy, starting with the current period, of distributing profits consistent with the consolidated operating results of each fiscal year, taking into account capital investment requirements aimed at raising corporate value, forecasts on future operating results and other relevant factors and, at the same time, further strengthening the Company's financial structure. NIPPON STEEL intends to pay a term-end dividend of ¥5.00 per share (consolidated payout ratio: 15.3%) for fiscal 2004, an increase of ¥3.50 per share from the previous year.

After careful deliberation, Nippon Steel has decided to propose the payment of bonuses to its directors.

### Financial Position

NIPPON STEEL's consolidated total assets at the end of fiscal 2004 increased ¥166.1 billion from the ¥3,705.9 billion posted at the end of the previous year, to ¥3,872.1 billion. This resulted from an increase in investments in securities (¥57.2 billion) due to the recovery of stock prices including those of affiliates accounted for by the equity method, an increase in inventories (¥25.3 billion) due to the rise in raw material prices and other factors, and an increase in cash and bank deposits (¥46.4 billion).

Consolidated total liabilities at the end of fiscal 2004 decreased ¥78.0 billion from the figure at the end of the previous year (¥2,670.1 billion), to ¥2,592.1 billion, resulting mainly from a reduction of interest-bearing debt (¥278.9 billion) despite an increase in accounts payable and notes payable due to the rise in raw material prices and other factors, and an increase in accrued income taxes and enterprise taxes.

Total shareholders' equity at the end of fiscal 2004 increased ¥249.8 billion from the level at the end of previous year (¥938.5 billion), to ¥1,188.4 billion, despite the decrease caused primarily by cash dividends of ¥10.1 billion paid through the appropriation of fiscal 2003's distributable profits and acquisition of treasury stock. The increase derived mainly from consolidated net income of ¥220.6 billion for fiscal 2004, an increase of ¥40.4 billion in unrealized gains on available-for-sale securities and an increase through Kabushiki Kokan (share-for-share exchange) that was conducted for the purpose of making three consolidated subsidiaries of NIPPON STEEL (Nittetsu Steel Sheet, Nittetsu Steel Pipe and Nippon Steel Metal Products) wholly owned subsidiaries.

### Statements of Cash Flows

Cash flows from operating activities during fiscal 2004 produced a total income of ¥539.4 billion (¥288.0 billion in the previous year). This total was obtained by adding ¥180.5 billion in depreciation and amortization and ¥9.1 billion in decrease of receivables to ¥369.4 billion in consolidated income before income taxes and minority interest; subtracting an increase of ¥38.7 billion in inventories and ¥38.4 billion in increase of purchase debts; and adding and subtracting payments for enterprise taxes and other items.

Cash flows from investing activities during fiscal 2004 came to a total expenditure of ¥174.9 billion (income of ¥51.8 billion in the previous year). This resulted from outlays of ¥189.2 billion for the acquisition of tangible and intangible fixed assets attributable mainly to the relining of the No. 2 blast furnace at the Oita Works and the acquisition of investments in securities (¥28.2 billion) such as the investment in Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd., a joint venture established by NIPPON STEEL, Baoshan Iron & Steel Co., Ltd., and Arcelor, minus ¥20.6 billion in proceeds from sales of investments in securities, primarily shares in financial institutions and ¥12.6 billion from sales of tangible and intangible fixed assets.

A total of ¥321.4 billion, after subtracting the increase in cash and bank deposits and making other adjustments from the cash flow of ¥364.4 billion arising from the increase, was appropriated for payments for purchase of treasury stock of ¥16.2 billion, repayment of loans and the redemption of bonds and notes (including the redemption of second convertible bonds) totaling ¥292.5 billion and the payment of ¥10.1 billion in cash dividends.

NIPPON STEEL has made every effort to further improve its consolidated financial structure on a sustained basis through such measures as the defeasance of previously issued corporate bonds with high interest rates. As a result, the consolidated balance of interest-bearing debt outstanding at the end of fiscal 2004 was reduced to ¥1,282.2 billion, and the ratio of interest-bearing debts to shareholders' equity (debt-to-equity ratio) improved 0.58 point, to 1.08 times.

## Consolidated Balance Sheets

Nippon Steel Corporation and Consolidated Subsidiaries  
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits (Notes 4 and 13)	¥ 127,629	¥ 81,219	\$ 1,188,469
Marketable securities (Notes 4 and 16)	1,011	1,019	9,420
Receivables:			
Notes and accounts receivable	463,298	455,917	4,314,170
Less: Allowance for doubtful accounts	(5,696)	(2,920)	(53,043)
	457,602	452,997	4,261,126
Inventories	565,915	540,562	5,269,722
Deferred tax assets (Note 7)	57,968	40,322	539,790
Other	47,085	128,379	438,448
<b>Total current assets</b>	<b>1,257,212</b>	<b>1,244,500</b>	<b>11,706,977</b>
<b>Fixed assets:</b>			
<b>Tangible fixed assets:</b>			
Buildings and structures (Note 4)	1,491,292	1,492,101	13,886,700
Machinery and equipment (Note 4)	4,698,695	4,646,628	43,753,563
	6,189,988	6,138,729	57,640,264
Less: Accumulated depreciation	(4,904,934)	(4,872,570)	(45,674,029)
	1,285,053	1,266,159	11,966,235
Land (Notes 4 and 6)	328,295	327,557	3,057,037
Construction in progress	60,983	71,981	567,872
	1,674,333	1,665,698	15,591,145
<b>Intangible fixed assets:</b>			
Patents and utility rights	4,420	5,574	41,159
Software	2,817	3,522	26,231
Excess of cost over the underlying net equity of investments in subsidiaries	2,790	8,740	25,981
	10,027	17,837	93,372
<b>Investments and others:</b>			
Investments in securities (Notes 4, 5 and 16)	518,625	461,349	4,829,363
Investments in unconsolidated subsidiaries and affiliates	229,778	199,522	2,139,662
Deferred tax assets (Note 7)	50,803	68,992	473,074
Other (Notes 4 and 5)	142,165	62,672	1,323,822
Less: Allowance for doubtful accounts	(10,834)	(14,656)	(100,892)
	930,537	777,880	8,665,030
<b>Total fixed assets</b>	<b>2,614,898</b>	<b>2,461,416</b>	<b>24,349,548</b>
<b>Total assets</b>	<b>¥3,872,110</b>	<b>¥3,705,917</b>	<b>\$36,056,526</b>

The accompanying notes are an integral part of these statements.



	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term loans and portion of long-term loans due within one year (Note 4)	¥ 381,648	¥ 396,094	\$ 3,553,857
Commercial paper (Note 4)	70,000	31,000	651,829
Bonds due within one year (Note 4)	10,000	50,000	93,118
Convertible bonds due within one year (Note 4)	—	98,729	—
Notes and accounts payable	481,828	418,111	4,486,715
Accrued expenses	268,764	253,762	2,502,692
Advances received	32,863	28,617	306,022
Accrued income taxes and enterprise taxes	132,254	47,282	1,231,536
Other	77,418	68,338	720,906
<b>Total current liabilities</b>	<b>1,454,777</b>	<b>1,391,935</b>	<b>13,546,678</b>
<b>Long-term liabilities:</b>			
Bonds and notes (Note 4)	281,450	346,450	2,620,821
Long-term loans (Note 4)	539,039	637,882	5,019,461
Deferred tax liabilities (Note 7)	91,994	85,001	856,637
Deferred tax liabilities on revaluation of land (Notes 6 and 7)	7,771	7,926	72,370
Accrued pension and severance costs (Note 17)	122,398	112,797	1,139,754
Reserve for repairs to blast furnaces	50,021	50,188	465,790
Allowance for retirement benefits of directors and corporate auditors	6,277	—	58,458
Other	38,454	38,005	358,083
<b>Total long-term liabilities</b>	<b>1,137,407</b>	<b>1,278,252</b>	<b>10,591,376</b>
<b>Total liabilities</b>	<b>2,592,185</b>	<b>2,670,187</b>	<b>24,138,055</b>
<b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES</b>	<b>91,515</b>	<b>97,148</b>	<b>852,175</b>
Commitments and contingent liabilities (Notes 14 and 18)			
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock:</b>			
Authorized—9,917,077,000 shares			
Issued and outstanding—6,806,980,977 shares as of March 31, 2005 and 2004	419,524	419,524	3,906,555
<b>Additional paid-in capital</b>	<b>109,848</b>	<b>105,850</b>	<b>1,022,890</b>
<b>Retained earnings</b> (Note 12)	<b>508,393</b>	<b>298,734</b>	<b>4,734,088</b>
<b>Unrealized gains on revaluation of land</b> (Note 6)	<b>11,943</b>	<b>12,191</b>	<b>111,218</b>
<b>Unrealized gains on available-for-sale securities</b> (Note 16)	<b>170,322</b>	<b>129,833</b>	<b>1,586,017</b>
<b>Foreign currency translation adjustments</b>	<b>(19,794)</b>	<b>(20,500)</b>	<b>(184,323)</b>
Less: Treasury stock, at cost *	(11,829)	(7,051)	(110,152)
<b>Total shareholders' equity</b>	<b>1,188,409</b>	<b>938,581</b>	<b>11,066,295</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥3,872,110</b>	<b>¥3,705,917</b>	<b>\$36,056,526</b>

\* 63,425,189 shares at March 31, 2005 and 51,533,714 shares at March 31, 2004.

# Consolidated Statements of Income

Nippon Steel Corporation and Consolidated Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
<b>Operating revenues:</b>				
Net sales	¥3,389,356	¥2,925,878	¥2,749,306	\$31,561,189
<b>Operating costs and expenses:</b>				
Cost of sales (Notes 8 and 10)	2,693,603	2,443,188	2,351,028	25,082,438
Selling, general and administrative expenses (Notes 8, 9 and 10)	265,805	258,215	255,316	2,475,137
	2,959,408	2,701,403	2,606,344	27,557,575
<b>Operating profit</b>	<b>429,948</b>	<b>224,475</b>	<b>142,961</b>	<b>4,003,614</b>
<b>Non-operating profit and loss:</b>				
Non-operating profit:				
Interest and dividend income	9,336	6,099	5,526	86,936
Equity in net income of unconsolidated subsidiaries and affiliates	22,931	11,854	—	213,538
Miscellaneous	13,942	8,605	12,437	129,826
	46,210	26,559	17,963	430,301
Non-operating loss:				
Interest expense	20,278	23,798	29,186	188,829
Exchange loss on foreign currency transactions	—	10,375	—	—
Loss on disposal of fixed assets	33,468	14,547	16,200	311,651
Equity in net loss of unconsolidated subsidiaries and affiliates	—	—	20,418	—
Miscellaneous	50,964	29,462	26,239	474,575
	104,711	78,183	92,045	975,057
<b>Ordinary profit</b>	<b>371,446</b>	<b>172,851</b>	<b>68,879</b>	<b>3,458,857</b>
<b>Special profit and loss:</b>				
Special profit:				
Gain on sales of tangible fixed assets (Note 11)	4,294	514	7,666	39,988
Gain on sales of investments in securities and investments in subsidiaries and affiliates	5,030	—	26,381	46,840
	9,324	514	34,047	86,829
Special loss:				
Loss on disposal of tangible fixed assets and other assets (Note 11)	—	2,869	12,389	—
Loss on impairment of fixed assets (Note 11)	—	60,055	—	—
Loss on sales of investments in securities	—	3,698	—	—
Loss on valuation of investments in securities (Note 11)	—	2,823	45,433	—
Special retirement allowances for voluntary retirement (Note 17)	—	10,777	9,922	—
Amortization of transition obligation in respect of the new accounting standard for retirement benefits (Note 11)	4,295	4,384	4,669	39,998
Industrial water obligation fee (Note 11)	—	3,649	—	—
Allowance for doubtful accounts	—	—	40,061	—
Loss on accidents at work (Note 11)	3,066	4,377	—	28,555
Loss on integration of the stainless-steel business (Note 11)	—	6,492	—	—
Loss on relinquishment of entrusted portion of the pension fund (Note 17)	—	595	302	—
Loss on business restructuring	—	—	19,185	—
Loss on valuation of real estate for sale	—	—	8,349	—
Loss on restructuring of subsidiary's business structures (Note 11)	3,923	—	—	36,539
	11,285	99,723	140,313	105,093
<b>Income (loss) before income taxes and minority interest</b>	<b>369,485</b>	<b>73,642</b>	<b>(37,386)</b>	<b>3,440,594</b>
<b>Income taxes—current (Note 7)</b>	<b>155,082</b>	<b>56,096</b>	<b>17,968</b>	<b>1,444,101</b>
<b>Income taxes—deferred (Note 7)</b>	<b>(17,869)</b>	<b>(29,500)</b>	<b>(8,712)</b>	<b>(166,398)</b>
<b>Minority interest in net income (loss) of consolidated subsidiaries</b>	<b>11,671</b>	<b>5,531</b>	<b>5,044</b>	<b>108,686</b>
<b>Net income (loss)</b>	<b>¥ 220,601</b>	<b>¥ 41,515</b>	<b>¥ (51,686)</b>	<b>\$ 2,054,205</b>
<b>Per share (stated in yen and in U.S. dollars):</b>				
Net income (loss) (Note 2)	¥32.73	¥6.15	¥(7.69)	\$0.305
Cash dividends applicable to the year	5.00	1.50	1.50	0.047
<b>Weighted average number of shares outstanding (in thousands)</b>	<b>6,734,683</b>	<b>6,725,459</b>	<b>6,735,017</b>	

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Shareholders' Equity

Nippon Steel Corporation and Consolidated Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Thousands	Millions of yen		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
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
Decrease due to the change in the number of consolidated companies	—	—	—	(5,442)
Cash dividends	—	—	—	(9,991)
Directors' and corporate auditors' bonuses	—	—	—	(92)
Decrease 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
Net income for the year ended March 31, 2005	—	—	—	<b>220,601</b>
Decrease due to the change in the number of consolidated companies	—	—	—	(870)
Cash dividends	—	—	—	(10,141)
Directors' and corporate auditors' bonuses	—	—	—	(37)
Increase due to reversal of unrealized gains on revaluation of land	—	—	—	107
Increase due to disposal of treasury stock	—	—	3,998	—
<b>Balance at March 31, 2005</b>	<b>6,806,981</b>	<b>¥419,524</b>	<b>¥109,848</b>	<b>¥508,393</b>

	Thousands	Thousands of U.S. dollars (Note 3)		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2004	6,806,981	\$3,906,555	\$985,659	\$2,781,768
Net income for the year ended March 31, 2005	—	—	—	<b>2,054,205</b>
Increase due to the change in the number of consolidated companies	—	—	—	(8,102)
Cash dividends	—	—	—	(94,434)
Directors' and corporate auditors' bonuses	—	—	—	(349)
Increase due to reversal of unrealized gains on revaluation of land	—	—	—	1,000
Increase due to disposal of treasury stock	—	—	37,230	—
<b>Balance at March 31, 2005</b>	<b>6,806,981</b>	<b>\$3,906,555</b>	<b>\$1,022,890</b>	<b>\$4,734,088</b>

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Cash Flows

Nippon Steel Corporation and Consolidated Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

Thousands of  
U.S. dollars  
(Note 3)

	Millions of yen			
	2005	2004	2003	2005
<b>Cash flows from operating activities:</b>				
Income (loss) before income taxes and minority interests	¥369,485	¥ 73,642	¥ (37,386)	\$3,440,594
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	180,571	183,510	196,653	1,681,455
Interest and dividend income (accrual basis)	(9,609)	(6,099)	(5,526)	(89,484)
Interest expense (accrual basis)	20,244	23,798	29,186	188,510
Exchange loss (gain) on foreign currency transactions	(1,006)	3,166	7,262	(9,375)
Amortization of excess of cost over the underlying net equity (the underlying net equity over cost) of investments in subsidiaries and affiliates	2,512	1,744	(1,423)	23,399
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	(22,931)	(11,854)	20,418	(213,538)
Loss (gain) on sales of investments in securities	(5,004)	5,828	(27,466)	(46,598)
Loss on valuation of investments in securities	—	2,526	44,460	—
Amortization of transition obligation in respect of the new accounting standard for retirement benefits	4,295	4,384	4,669	39,998
Loss on impairment of fixed assets	—	60,055	—	—
Loss on integration of the stainless-steel business	—	6,492	—	—
Loss on restructuring of subsidiary's business structures	4,143	—	19,185	38,587
Loss on disposal of tangible and intangible fixed assets	17,524	10,713	24,216	163,190
Gain on sales of tangible and intangible fixed assets	(3,769)	—	(7,487)	(35,104)
Changes in allowance for doubtful accounts	6,129	4,237	38,843	57,075
Changes in operating assets and liabilities:				
Changes in notes and accounts receivable	9,181	(40,095)	39,734	85,497
Changes in inventories	(38,722)	6,740	24,274	(360,576)
Changes in notes and accounts payable	38,436	7,661	6,262	357,915
Other	49,501	(35,191)	(7,532)	460,950
Interest and dividend income (cash basis)	10,868	7,699	6,828	101,202
Interest expense (cash basis)	(21,696)	(23,928)	(29,038)	(202,031)
Income taxes (cash basis)	(70,708)	(17,010)	(19,980)	(658,431)
<b>Net cash provided by operating activities</b>	<b>539,445</b>	<b>288,021</b>	<b>334,502</b>	<b>5,023,237</b>
<b>Cash flows from investing activities:</b>				
Acquisition of investments in securities	(28,255)	(3,608)	(42,109)	(263,112)
Proceeds from sales of investments in securities	20,687	50,426	63,511	192,643
Acquisition of cash owned by new subsidiaries, net of payment for purchase of subsidiaries' shares	(1,303)	(46)	(77)	(12,140)
Proceeds from sale of subsidiaries' shares, net of cash owned by those subsidiaries	(65)	1,479	(52)	(609)
Acquisition of tangible and intangible fixed assets	(189,260)	(155,729)	(206,671)	(1,762,370)
Proceeds from sales of tangible and intangible fixed assets	12,699	24,545	23,261	118,257
Payment for loans	(472)	(7,692)	(19,289)	(4,398)
Proceeds from collections of loans	11,065	140,596	32,764	103,044
Other	(90)	1,927	1,575	(845)
<b>Net cash provided (used in) investing activities</b>	<b>(174,995)</b>	<b>51,897</b>	<b>(147,088)</b>	<b>(1,629,532)</b>
<b>Cash flows from financing activities:</b>				
Net decrease in short-term loans	(114,972)	(253,846)	(81,844)	(1,070,604)
Net increase (decrease) in commercial paper	39,000	11,000	(96,000)	363,162
Proceeds from long-term loans	74,409	88,730	138,557	692,889
Payments of long-term loans	(87,119)	(189,834)	(86,183)	(811,247)
Proceeds from issuance of bonds and notes	34,836	56,246	94,568	324,391
Redemption of bonds and notes	(238,729)	(40,112)	(113,100)	(2,223,009)
Payments for purchase of treasury stock	(16,213)	—	(19,374)	(150,973)
Cash dividends	(10,141)	(9,991)	(10,210)	(94,434)
Cash dividends to minority shareholders	(2,218)	(723)	(461)	(20,661)
Proceeds from issuance of common stock to minority shareholders	374	—	12,276	3,485
Other	(628)	6,178	(15,231)	(5,851)
<b>Net cash used in financing activities</b>	<b>(321,402)</b>	<b>(332,353)</b>	<b>(177,003)</b>	<b>(2,992,853)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,032</b>	<b>(1,949)</b>	<b>(7,540)</b>	<b>9,610</b>
<b>Net increase in cash and cash equivalents</b>	<b>44,079</b>	<b>5,615</b>	<b>2,869</b>	<b>410,461</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>80,393</b>	<b>76,603</b>	<b>74,194</b>	<b>748,610</b>
<b>Decrease from the change in the number of companies consolidated</b>	<b>38</b>	<b>(1,825)</b>	<b>(460)</b>	<b>356</b>
<b>Cash and cash equivalents at end of year (Note 11)</b>	<b>¥124,511</b>	<b>¥80,393</b>	<b>¥76,603</b>	<b>\$1,159,428</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Nippon Steel Corporation and Consolidated Subsidiaries

## 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 280 and 285 subsidiaries as of March 31, 2005 and 2004, respectively. The consolidated financial statements include the accounts of Nippon Steel Corporation and 258 of its subsidiaries (in the previous fiscal year: 259) based on the criterion of exercise of control. Non-adoption of the consolidation accounting treatment for unconsolidated subsidiaries would not have any material effect on net income or retained earnings of the consolidated financial statements.

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 40 of 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. The interim accounts of Matsubishi Metal Industry Co., Ltd., which has a fiscal year-end date of September 30, 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 intercompany transactions and balances, as well as unrealized profits within NIPPON STEEL have been eliminated, together with the portion thereof attributable to minority interests being charged to minority interests.

Elimination of investments in consolidated subsidiaries has been done to include 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, the 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 an 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 an equity basis.

Although Nippon Steel Corporation had 22 unconsolidated subsidiaries (in the previous fiscal year: 26) and 144 affiliates (in the previous fiscal year: 146), the equity method has been applied to the investments in 71 significant affiliates (in the previous fiscal year: 73) based on the criterion of exercise of influence, since non-adoption of the equity method for 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, 2005.

### (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, while maintenance, repairs, minor renewals and improvements are charged to income as incurred.

Depreciation is generally computed using the declining-balance method (excluding buildings acquired on April 1, 1998, or later, to 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 receipt of a usage charge through leasing to a third party, the straight-line method of amortization over the useful life of five 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 cost of such work is charged to income on a straight-line basis over the period from the last work to the anticipated date of the next one.

#### **(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 ¥1 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 totaled ¥57,453 million (\$534,998 thousand), ¥39,733 million and ¥59,470 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Nippon Steel Corporation changed the policy recognizing sales and costs of construction contracts ranging from ¥3,000 million to ¥1,000 million from the completion-of-contract method to the percentage-of-completion method this consolidated fiscal year. Compared to the results which would have been obtained applying the same procedure as that used in the previous period, net sales increased ¥4,974 million (\$46,324 thousand), and operating profit, ordinary profit and income before income taxes and minority interests increased ¥928 million (\$8,644 thousand).

#### **(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 five 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.

Nippon Steel Corporation changed its pension plan from a tax qualified pension plan to a defined benefit plan and reclassified prepaid pension costs of ¥87,315 million (\$813,064 thousand) from current assets to fixed assets “others.” Accrued pension costs of ¥76,861 were included in current assets “others” at March 31, 2004.

#### **Additional information (2004)**

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

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

As a result, the amount of ¥495 million was charged as a special loss.



### **(13) Allowance for retirement benefits of directors and corporate auditors**

The allowance for retirement benefits of directors and corporate auditors is computed based on internal rules.

Retirement benefits for directors and corporate auditors were charged to income when those benefits were paid until 2004. From 2005, such benefits are accrued based on the amount stipulated in the internal rules to distribute the costs across the period for which they work. Compared to the results that would have been obtained applying the same standard as that for the previous period, selling, general and administrative expenses increased ¥4,025 million (\$37,486 thousand), and operating profit, ordinary profit and income before income taxes and minority interests decreased by the same amount. The effects on Segment Information are described in Note 15.

### **(14) 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 the conditions for hedged items, the “exceptional” method is adopted. Using this method, NIPPON STEEL does not account for gains and losses on those interest swaps on a fair value basis, but recognizes swap interest on an accrual basis. For forward exchange contracts whose amounts, currency and period meet the conditions of hedged items, the “assigning” method is adopted. Using this method, NIPPON STEEL does not account for gains and losses on those forward exchange contracts on a fair value basis, but 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 and forward exchange contracts. 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 to reduce its exposure to the risk of interest rate fluctuations and foreign exchange rate. Therefore, NIPPON STEEL's purchase of hedging instruments is limited to the amount of the hedged items.

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

### **(15) Consumption tax**

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

### **(16) Cash and cash equivalents**

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

### **(17) Income taxes**

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

### **(18) 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 early adoption possible 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 ¥60,055 million.

The accumulated impairment loss was deducted from each asset's acquisition cost directly.

### **Changes to presentation (2004)**

#### ***(Consolidated Statements of Income)***

As “exchange loss on foreign currency transactions” represented 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 of ¥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, and 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 ¥107.39 = U.S.\$1, the effective exchange rate prevailing at March 31, 2005. 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, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Bonds and Notes:</b>			
<i><b>Nippon Steel Corporation</b></i>			
3.3% SB due March 2017	¥ 10,000	¥ 10,000	\$ 93,118
3.175% SB due September 2017	10,000	10,000	93,118
2.35% SB due December 2007	—	40,000	—
2.55% SB due December 2009	10,000	10,000	93,118
2.75% SB due February 2008	—	20,000	—
2.60% SB due April 2008	15,000	15,000	139,677
2.27% SB due May 2008	10,000	10,000	93,118
2.23% SB due June 2008	—	30,000	—
2.00% SB due July 2004	—	50,000	—
2.50% SB due July 2008	30,000	30,000	279,355
1.74% SB due December 2005	10,000	10,000	93,118
0.54% SB due November 2007	30,000	30,000	279,355
0.80% SB due November 2009	10,000	10,000	93,118
1.36% SB due November 2012	10,000	10,000	93,118
0.62% SB due February 2009	30,000	30,000	279,355
1.18% SB due February 2013	15,000	15,000	139,677
0.80% SB due June 2013	20,000	20,000	186,237
0.78% SB due June 2009	20,000	—	186,237
1.67% SB due March 2014	15,000	—	139,677
Floating rate SB without call option due December 2007 <sup>*1</sup>	10,000	10,000	93,118
Floating rate PN with call option due April 2023 <sup>*2, 5</sup>	5,000	5,000	46,559
Floating rate SB with call option due June 2015 <sup>*3, 6</sup>	15,000	15,000	139,677
<i><b>Nippon Steel City Produce, Inc.</b></i>			
Floating rate SB without call option due March 2008 <sup>*4</sup>	3,000	3,000	27,935
Floating rate SB without call option due March 2009 <sup>*4</sup>	3,000	3,000	27,935
Floating rate SB without call option due March 2010 <sup>*4</sup>	3,250	3,250	30,263
Floating rate SB without call option due March 2009 <sup>*4</sup>	2,300	2,300	21,417
Floating rate SB without call option due March 2009 <sup>*4</sup>	1,900	1,900	17,692
Floating rate SB without call option due March 2009 <sup>*4</sup>	1,700	1,700	15,830
Floating rate SB without call option due March 2009 <sup>*4</sup>	1,300	1,300	12,105
	291,450	396,450	2,713,939
Less: portion due within one year	(10,000)	(50,000)	(93,118)
	¥281,450	¥346,450	\$2,620,821

#### Convertible bonds:

<i>Nippon Steel Corporation</i>			
1.5% CB due September 2004	¥ —	¥ 98,729	\$ —
	—	98,729	—
Less: portion due within one year	—	(98,729)	—
	¥ —	¥ —	\$ —

#### (Interest rate)

<sup>\*1</sup> The floating rate is generally determined by reference to the interest rate in Tokyo applicable to 10-year yen term swaps with a 0% floor rate.

<sup>\*2</sup> 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%

<sup>\*3</sup> The floating rate is as follows:

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

<sup>\*4</sup> The floating rate is generally determined by reference to the interest rate in Tokyo applicable to 6-month yen term TIBOR.

#### (Call option)

<sup>\*5</sup> Call option is available on the day of interest payment after April 14, 2008.

<sup>\*6</sup> Call option is available on June 4, 2010.

<sup>\*7</sup> In the bonds listed above, 2.35% SB (¥40,000 million (\$372,474 thousand)) due December 2007, 2.75% SB (¥20,000 million (\$186,237 thousand)) due February 2008 and 2.23% SB (¥30,000 million (\$279,355 thousand)) due June 2008 were treated as being redeemed because agreements for assumption of acquittal were signed with a bank, and the liabilities to be met were already transferred to it. The original obligations of Nippon Steel Corporation to redeem the bond to bondholders are annotated as contingent liabilities in Note 12.

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans:			
Short-term loans	<b>¥211,133</b> <sup>*2</sup>	¥ 314,390	<b>\$1,966,040</b>
Loans principally from banks and insurance companies due 2006–2031 for 2005 (2005–2031 for 2004) <sup>*1</sup>	<b>709,555</b> <sup>*3</sup>	719,586	<b>6,607,277</b>
Commercial paper	<b>70,000</b> <sup>*4</sup>	31,000	<b>651,829</b>
	<b>¥990,688</b>	¥1,064,977	<b>\$9,225,148</b>

<sup>\*1</sup> Including a portion due within one year of ¥170,515 million (\$1,587,816 thousand) for 2005 and ¥81,703 million for 2004.

<sup>\*2</sup> Average interest rate at March 31, 2005 is 0.6%.

<sup>\*3</sup> Average interest rate at March 31, 2005 is 2.1%.

<sup>\*4</sup> Average interest rate at March 31, 2005 is 0.1%.

The aggregate annual maturities of long-term debt as of March 31, 2005 were as follows:  
Years ending March 31

	Millions of yen				
	2006	2007	2008	2009	2010
Bonds and notes and convertible bonds	¥ 10,000	¥ 0	¥ 43,000	¥ 95,200	¥43,250
Loans	170,515	185,969	107,630	52,363	51,994
	¥180,515	¥185,969	¥150,630	¥147,563	¥95,244

	Thousands of U.S. dollars				
	2006	2007	2008	2009	2010
Bonds and notes and convertible bonds	\$ 93,119	\$ 0	\$ 400,410	\$ 886,488	\$402,738
Loans	1,587,817	1,731,718	1,002,242	486,670	484,162
	\$1,680,929	\$1,731,716	\$1,402,645	\$1,374,085	\$886,898

NIPPON STEEL's assets pledged as collateral primarily to secure long-term loans, short-term loans and others totaled ¥57,078 million (\$531,502 thousand) at March 31, 2005 and ¥82,966 million at March 31, 2004. These are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(Industrial foundation)			
Buildings and structures	<b>¥16,718</b>	¥21,909	<b>\$155,679</b>
Machinery and equipment	<b>42,517</b>	55,172	<b>395,919</b>
Land	<b>20,146</b>	29,692	<b>187,597</b>
	<b>¥79,382</b>	¥106,774	<b>\$739,195</b>
(Pledged assets)			
Cash and bank deposits	<b>¥ 329</b>	¥ 360	<b>\$ 3,072</b>
Accounts receivable	<b>38</b>	32	<b>359</b>
Buildings and structures	<b>12,136</b>	17,622	<b>113,015</b>
Machinery and equipment	<b>5,458</b>	6,869	<b>50,831</b>
Land	<b>19,243</b>	23,802	<b>179,195</b>
Investments in securities	<b>40</b>	41	<b>373</b>
	<b>¥37,248</b>	¥48,729	<b>\$346,847</b>

In addition, out of the above secured liabilities, ¥297 million (\$2,774 thousand) of long-term advances (credit), etc., are pledged as collateral against ¥1,397 million (\$13,013 thousand) of loans of consolidated subsidiaries, and ¥1,065 million (\$9,922 thousand) of shares of affiliates are pledged as collateral against the loans of those affiliates.

## 5. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Investment securities	<b>¥246,417</b>	¥199,522	<b>\$2,294,607</b>
Bonds and notes	<b>—</b>	721	<b>—</b>
Investments	<b>16,283</b>	1,126	<b>151,627</b>

## 6. Revaluation of Land

(Year ended March 31, 2005)

Revaluation of land used for business purpose was carried out in accordance with the "Law concerning Revaluation of Land" and related 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 done on March 31, 2002)

- Excess of the carrying amounts of the revalued land over fair value at the end of March 31, 2005: ¥1,094 million

(Revaluation done on March 31, 2000)

- Excess of the carrying amounts of the revalued land over fair value at the end of March 31, 2005: ¥14,222 million

(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 related 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 done on March 31, 2002)

- Excess of the carrying amounts of the revalued land over fair value at the end of March 31, 2004: ¥568 million

(Revaluation done on March 31, 2000)

- Excess of the carrying amounts of the revalued land over fair value at the end of March 31, 2004: ¥12,577 million

## 7. Deferred Tax Accounting

(1) The components of deferred tax assets and liabilities at March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Deferred tax assets</b>			
Reserve for accrued bonuses	¥ 23,647	¥ 18,771	\$ 220,199
Allowance for doubtful accounts	—	12,198	—
Accrued pension and severance costs	26,383	27,001	245,680
Reserve for repairs to blast furnaces	14,750	10,054	137,358
Loss on impairment of fixed assets	15,762	19,169	146,779
Business tax payable	10,281	—	95,735
Depreciation in excess of limit	24,012	25,160	223,598
Tax losses carried forward	14,017	20,467	130,531
Unrealized gain on tangible fixed assets	53,176	49,571	495,170
Revaluation of available-for-sale securities	—	103	—
Other	58,627	34,728	545,935
Subtotal	240,659	217,225	2,240,989
Valuation allowance	(25,351)	(9,410)	(236,066)
Total	215,308	207,815	2,004,923
<b>Deferred tax liabilities</b>			
Special tax purpose reserve	(81,792)	(89,850)	(761,640)
Revaluation of available-for-sale securities	(113,847)	(88,017)	(1,060,131)
Net unrealized gain on assets and liabilities of consolidated subsidiaries acquired after the adoption of the new consolidation standard	(2,891)	(6,015)	(26,923)
Total	(198,531)	(183,883)	(1,848,696)
Net deferred tax assets	¥ 16,777	¥ 23,931	\$ 156,226



Net deferred tax assets of ¥16,777 million (\$156,226 thousand) and ¥23,931 million at March 31, 2005 and 2004, respectively, mentioned above, are different from the amounts of deferred tax assets net of deferred tax liabilities disclosed in the consolidated balance sheets. The differences of ¥0 million (\$1 thousand) and ¥381 million at March 31, 2005 and 2004, 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	2005	2004
Effective tax rate	40.4%	41.7%
Equity in net income of unconsolidated subsidiaries and affiliates	(2.5)	(6.7)
Permanent non-deductible expenses	0.8	4.0
Permanent non-taxable income	(0.4)	(1.3)
Adjustment of deferred tax assets and liabilities due to changes in the tax rate	—	3.9
Other	(1.2)	(5.5)
Actual tax rate	37.1%	36.1%

**8. The Distribution of Provision for Allowance Reserve**

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Provision for accrued pension and severance costs			
Cost of sales	¥24,439	¥27,385	\$227,574
Selling, general and administrative expenses	10,317	11,901	96,074
Non-operating loss	103	1,331	963
Special loss	4,295	4,384	39,998
Provision for allowance for retirement benefits of directors			
Cost of sales	37	—	350
Selling, general and administrative expenses	4,148	—	38,628
Non-operating loss	379	—	3,535
Provision for reserve for repairs to blast furnaces			
Cost of sales	1,657	1,903	15,436
Provision for allowance for doubtful accounts			
Selling, general and administrative expenses	3,542	2,226	32,989
Non-operating loss	1,213	544	11,295

**9. Selling, General and Administrative Expenses**

The main components of selling, general and administrative expenses for the years ended March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Transportation and storage	¥ 54,460	¥53,875	\$ 507,126
Salaries	80,099	76,617	745,877
Depreciation and amortization	3,441	4,233	32,050
Research and development expenses	26,926	25,133	250,732
Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates	2,803	2,781	26,106
Other	98,073	95,573	913,244
	¥265,805	¥258,215	\$2,475,137

## 10. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2005 and 2004, are ¥36,352 million (\$338,506 thousand) and ¥35,349 million, respectively.

## 11. Explanatory Notes on Special Profit and Loss

(Year ended March 31, 2005)

### Special profit

#### (1) Gain on sales of tangible fixed assets

"Gain on sales of tangible fixed assets" represents a gain on sales of industrial sites and welfare sites, etc.

### Special loss

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

"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.

Transition obligation is amortized on a straight-line basis over approximately five years for consolidated subsidiaries.

#### (2) Loss on accidents at work

"Loss on accidents at work" represents costs relating to recovery from accidents; particularly a total blackout which occurred at the Nagoya Works in the year ended March 31, 2005.

#### (3) Loss on restructuring of subsidiary's business structures

"Loss on restructuring of subsidiary's business structure" represents the loss incurred on the integration of phthalic anhydride production sites into Nippon Steel Chemical Co., Ltd.

(Year ended March 31, 2004)

### Special profit

#### (1) Gain on sales of tangible fixed assets

"Gain on sales of tangible fixed assets" represents a gain on sales of industrial sites and welfare sites, etc.

### Special loss

#### (1) Loss on disposal of tangible fixed assets and other assets

"Loss on disposal of tangible fixed assets and other assets" represents a loss on the 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

Each business establishment is categorized as a minimum unit by which impairment of fixed assets is recognized in principle.

##### b. Assessment of recoverable value

Recoverable value is assessed comparing the 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 publicly announced 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 the urban development business, whose fair values have diminished significantly compared to their 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. Details of impairment loss

Buildings	¥16,020 million
Structures	¥4,837 million
Land	¥35,792 million
Others	¥3,404 million

#### (3) Loss on valuation of investments in securities

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

Investments in securities: ¥930 million

Investment in shares of

affiliated companies: ¥1,410 million

Golf club memberships: ¥481 million

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

"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.

Transition obligation is amortized on a straight-line basis over approximately five years for consolidated subsidiaries.

#### (5) Industrial water obligation fee

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

#### (6) Loss on accidents at work

"Loss on accidents at work" 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 integration of the stainless-steel business

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

## 12. Notes on Consolidated Statements of Shareholders' Equity

### (Year ended March 31, 2005)

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, 2005, were approved at the ordinary general meeting of shareholders held on June 28, 2005. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2005, but will be recorded in those for the year ending March 31, 2006.

	Millions of yen	Thousands of U.S. dollars
Appropriations for:		
Cash dividends at ¥5 (\$0.04656) per share	¥33,752	\$314,302
Transfer to special reserve	89,094	829,636

### (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
Appropriations for:	
Cash dividends at ¥1.5 per share	¥10,141
Transfer to special reserve	81,221

## 13. Notes on Consolidated Statements of Cash Flows

Cash and cash equivalents consists of:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and bank deposits	¥127,629	¥81,219	\$1,188,469
Less—Time deposits with original maturity over 3 months	(3,276)	(1,106)	(30,512)
Securities due within 3 months	158	279	1,471
Cash and cash equivalents	¥124,511	¥80,393	\$1,159,428

## 14. Lease Commitments, Contingent Liabilities and Notes and Bills Discounted and Endorsed

### (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, 2005 and 2004, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease rental expenses	¥7,442	¥9,964	\$69,302
Impairment loss on leased assets	—	12	—

The amount of outstanding future lease payments due at March 31, 2005 and 2004, which included the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Future lease payments			
Within one year	¥ 5,812	¥ 7,099	\$ 54,122
Over one year	9,841	12,120	91,640
	¥15,653	¥19,219	\$145,763

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Accumulated impairment loss on leased assets	¥11	¥12	\$109

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, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost	¥47,169	¥59,537	\$439,236
Accumulated depreciation	(31,516)	(40,318)	(293,473)
Accumulated impairment loss	(11)	(12)	(109)
Net book value	¥15,641	¥19,206	\$145,653
Depreciation	¥ 7,442	¥ 9,964	\$ 69,302

## (2) Operating leases

The amount of outstanding future lease payments due at March 31, 2005 and 2004, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Future lease payments			
Within one year	¥1,874	¥2,262	\$17,456
Over one year	4,357	6,095	40,578
	¥6,232	¥8,358	\$58,035

The amount of outstanding future lease income due at March 31, 2005 and 2004, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Future lease income			
Within one year	¥ 536	¥ 495	\$ 4,991
Over one year	5,202	4,893	48,449
	¥5,739	¥5,389	\$53,441

## (3) Contingent liabilities

1)

	Outstanding amounts for the year ended		Substantial amounts	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
	2005	2005	2005	2005
Contingent liabilities for:				
Guarantee of loans				
The Siam United Steel (1995) Co., Ltd.	¥10,619	\$ 98,887	¥10,619	\$ 98,887
I/N Tek	4,399	40,971	4,399	40,971
UNIGAL Ltda.	4,252	39,600	2,339	21,782 <sup>*1</sup>
I/N Kote	3,578	33,323	3,578	33,323
Other	2,353	21,919	1,639	15,264 <sup>*1</sup>
	¥25,204	\$234,702	¥22,576	\$210,229

	Outstanding amounts for the year ended		Substantial amounts	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
	2005	2005	2005	2005
Contingent liabilities for:				
Reserved guarantee of loans				
H.C.M SHIPPING S.A.	¥1,721	\$16,030	¥1,721	\$16,030
Hibikinada Development Co., Ltd.	1,416	13,189	1,416	13,189
Nippon Techno-Carbon Co., Ltd.	1,400	13,036	1,400	13,036
PUISSANT SHIPPING ENTERPRISE S. A.	1,179	10,982	1,179	10,982
Other	2,128	19,821	2,128	19,821
	¥7,846	\$73,061	¥7,846	\$73,060

<sup>\*1</sup> These represent substantial amounts excluding that portion which is re-guaranteed by other parties.

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



2)

	Outstanding amounts for the year ended Millions of yen	Substantial amounts Millions of yen
	2004	2004
Contingent liabilities for:		
Guarantee of loans		
The Siam United Steel (1995) Co., Ltd.	¥11,638	¥11,638
UNIGAL Ltda.	5,858	4,003 <sup>*1</sup>
I/N Tek	5,793	5,793
I/N Kote	5,045	5,045
Guanghou Pacific Tinplate Co., Ltd.	2,255	2,255
Other	2,777	1,449 <sup>*1</sup>
	¥33,369	¥30,185

	Outstanding amounts for the year ended Millions of yen	Substantial amounts Millions of yen
	2004	2004
Contingent liabilities for:		
Reserved guarantee of loans		
Nippon Techno-Carbon Co., Ltd.	¥ 1,680	¥ 1,680
NISP MARITIME S. A.	1,563	1,563
Hibikinada Development Co., Ltd.	1,561	1,561
T & T MARITIME S. A.	1,361	1,361
PUISSANT SHIPPING ENTERPRISE S. A.	1,306	1,306
Muroran Co-Operative Electric Power Co., Ltd.	1,231	1,231
Makuhari Techno-Garden Co., Ltd.	972	972
H.C.M SHIPPING S.A.	532	532
Other	1,639	1,252 <sup>*2</sup>
	¥11,849	¥11,462

<sup>\*1</sup> These represent substantial amounts excluding that portion which is re-guaranteed by other parties.

<sup>\*2</sup> These represent substantial amounts excluding that portion which is re-guaranteed by business corporations and trading companies other than NIPPON STEEL.

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

3) Contingent liabilities related to the agreements concerning the assumption of liabilities for bonds

Nippon Steel Corporation signed agreements for assumption of liabilities with the bank listed in the chart below and paid the amounts of money needed for redemption of those bonds listed below to transfer the relevant liabilities to the bank. Nippon Steel Corporation's obligations to the bondholders, however, remain until the completion of redemption of those bonds.

	Outstanding amounts for the year ended Millions of yen	Thousands of U.S. dollars
	2005	2005
Accepting parties : SUMITOMO MITSUI BANKING CORPORATION		
Nippon Steel Corporation		
2.35% SB due December 2007	¥40,000	\$372,474
2.75% SB due February 2008	20,000	186,237
2.23% SB due June 2008	30,000	279,355
	¥90,000	\$838,066

\*\*SB" = straight bond

#### (4) Notes and bills discounted and endorsed

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes and bills discounted	¥ 127	¥1,072	\$ 1,186
Notes and bills endorsed	1,041	1,011	9,699
	¥1,169	¥2,083	\$10,885

**(5) Financial assets with the right of free disposition**

NIPPON STEEL possesses pledged financial assets with the right of free disposition whose current market value is ¥2,407 million (\$22,420 thousand ) at the end of this consolidated fiscal year.

**15. Segment Information**

The segment information of NIPPON STEEL for 2005, 2004 and 2003 is as follows:

**(1) Information on 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; technical cooperation
Engineering and construction	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 U.S. dollars
	2005	2004	2003	2005
<b>Sales</b>				
Steelmaking and steel fabrication				
Customers	¥2,592,476	¥2,127,949	¥1,941,907	\$24,140,764
Intersegment	28,256	28,997	38,902	263,117
Total sales	2,620,732	2,156,946	1,980,809	24,403,881
Engineering and construction				
Customers	239,369	246,440	247,456	2,228,975
Intersegment	40,496	46,697	27,447	377,101
Total sales	279,866	293,137	274,903	2,606,076
Urban development				
Customers	83,669	114,241	97,119	779,113
Intersegment	5,606	6,570	8,069	52,208
Total sales	89,275	120,811	105,188	831,322
Chemicals and nonferrous materials				
Customers	282,399	244,579	265,266	2,629,661
Intersegment	48,768	31,217	80,966	454,129
Total sales	331,168	275,797	346,232	3,083,790
System solutions				
Customers	121,641	124,998	125,526	1,132,707
Intersegment	24,889	25,851	27,616	231,771
Total sales	146,531	150,850	153,143	1,364,479
Other businesses				
Customers	69,800	67,669	72,029	649,967
Intersegment	6,444	5,945	7,029	60,012
Total sales	76,244	73,615	79,059	709,980
Elimination of intersegment transactions	(154,463)	(145,280)	(190,031)	(1,438,340)
Consolidated total	¥3,389,356	¥2,925,878	¥2,749,306	\$31,561,189
<b>Operating profit (loss)</b>				
Steelmaking and steel fabrication	¥ 376,926	¥ 189,717	¥ 112,816	\$ 3,509,880
Engineering and construction	6,696	4,359	2,460	62,360
Urban development	8,503	13,526	4,469	79,186
Chemicals and nonferrous materials	26,374	12,667	13,458	245,597
System solutions	11,384	9,182	9,776	106,008
Other businesses	384	(4,310)	(2,155)	3,577
Elimination of intersegment transactions	(321)	(668)	2,135	(2,995)
Consolidated total	¥ 429,948	¥ 224,475	¥ 142,961	\$ 4,003,614

**Identifiable assets**

Steelmaking and steel fabrication	¥3,031,222	¥2,931,098	¥2,813,843	\$28,226,303
Engineering and construction	222,714	206,113	216,367	2,073,882
Urban development	156,841	160,394	186,962	1,460,482
Chemicals and nonferrous materials	277,962	281,847	292,937	2,588,344
System solutions	99,129	93,213	97,482	923,074
Other businesses	244,741	205,796	353,667	2,279,001
Elimination of intersegment transactions	(160,500)	(172,544)	(204,086)	(1,494,561)
Consolidated total	¥3,872,110	¥3,705,917	¥3,757,175	\$36,056,526

**Depreciation of identifiable assets**

Steelmaking and steel fabrication	¥ 153,965	¥ 153,923	¥ 163,644	\$ 1,433,700
Engineering and construction	2,285	2,472	1,914	21,279
Urban development	1,933	2,409	2,509	18,005
Chemicals and nonferrous materials	10,946	11,853	13,416	101,935
System solutions	1,359	1,240	1,282	12,659
Other businesses	9,109	12,051	14,255	84,829
Elimination of intersegment transactions	971	(440)	(369)	9,044
Consolidated total	¥ 180,571	¥ 183,510	¥ 196,653	\$ 1,681,455

**Impairment loss on identifiable assets**

Steelmaking and steel fabrication	¥ —	¥30,977	¥ —	\$ —
Engineering and construction	—	—	—	—
Urban development	—	14,788	—	—
Chemicals and nonferrous materials	—	1,455	—	—
System solutions	—	—	—	—
Other businesses	—	12,833	—	—
Elimination of intersegment transactions	—	—	—	—
Consolidated total	¥ —	¥60,055	¥ —	\$ —

**Capital expenditure on identifiable assets**

Steelmaking and steel fabrication	¥ 172,954	¥ 141,477	¥ 125,765	\$ 1,610,530
Engineering and construction	1,877	1,851	2,180	17,484
Urban development	5,669	1,320	2,533	52,794
Chemicals and nonferrous materials	13,608	9,219	12,066	126,724
System solutions	865	1,437	1,097	8,061
Other businesses	1,128	1,805	22,804	10,504
Elimination of intersegment transactions	(876)	(7,519)	(3,131)	(8,158)
Consolidated total	¥ 195,228	¥ 149,593	¥ 163,318	\$ 1,817,942

**(Year ended March 31, 2005)**

As stated in Note 2, the accounting policy for allowance for retirement benefits of directors and corporate auditors was changed.

Compared to the results that would have been obtained applying the same procedure as the previous consolidated fiscal year, operating profits decreased ¥3,385 million (\$31,524 thousand) in the steel business; ¥190 million (\$1,769 thousand) in the engineering business; ¥75 million (\$705 thousand) in the urban development business; ¥293 million (\$2,735 thousand) in the chemical and nonferrous business; and ¥80 million (\$751 thousand) in other businesses.

**(Year ended March 31, 2004)**

As a result of the change in definition of sales at Nippon Steel Chemical Co., Ltd., in the year ended March 31, 2004, the sales of the "chemicals and nonferrous materials" segment decreased ¥49,923 million (¥14,491 million for "customers" and ¥35,432 million for "intersegment"), and operating costs and expenses decreased ¥49,923 million. This change in definition, however, has no effect on operating profit.

## (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 U.S. dollars
	2005	2004	2005
Overseas sales	¥ 818,340	¥ 658,236	\$ 7,620,271
Consolidated net sales	3,389,356	2,925,878	31,561,189
Overseas sales as a proportion of consolidated net sales	24.1%	22.5%	24.1%

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.

## 16. Securities

(Year ended March 31, 2005)

Information regarding marketable securities and investments in securities at March 31, 2005, is as follows:

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

	Millions of yen		
	2005		
	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	¥139,474	¥386,746	¥247,272
Bonds and debentures			
Government bonds and municipal bonds, etc.	8	8	8
Other	25,386	61,392	36,006
Subtotal	167,970	448,147	283,278
Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost:			
Corporate shares	2,770	2,413	(356)
Other	330	232	(98)
Subtotal	3,101	2,646	(454)
Total	¥167,970	¥450,794	¥282,823

	Thousands of U.S. dollars		
	2005		
	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	\$1,298,764	\$3,601,328	\$2,302,564
Bonds and debentures			
Government bonds and municipal bonds, etc.	79	82	2
Other	236,392	571,677	335,284
Subtotal	1,535,236	4,173,087	2,637,851
Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost:			
Corporate shares	25,798	22,476	(3,321)
Other	3,079	2,165	(914)
Subtotal	28,878	24,641	(4,236)
Total	\$1,564,114	\$4,197,729	\$2,633,615

### (2) Held-to-maturity debt securities sold in the year ended March 31, 2005

	Millions of yen		
	2005		
	Cost of bonds sold	Amount of sales	Gain (loss) on sales
Kind of bonds			
Other	¥105	¥104	¥(0)



Kind of bonds	Thousands of U.S. dollars		
	2005		
	Cost of bonds sold	Amount of sales	Gain (loss) on sales
Other	\$977	\$972	\$(4)

**(3) Available-for-sale securities sold in the year ended March 31, 2005**

	Millions of yen		
	2005		
	Amount of sales	Gain on sales	Loss on sales
	¥17,801	¥5,606	¥(825)

	Thousands of U.S. dollars		
	2005		
	Amount of sales	Gain on sales	Loss on sales
	\$165,765	\$52,205	\$(7,690)

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

	Millions of yen
	2005
Held-to-maturity debt securities	¥ 5
Available-for-sale securities	
Shares of private companies, etc.	52,032
Money management funds, etc.	158
	Thousands of U.S. dollars
	2005
Held-to-maturity debt securities	\$ 46
Available-for-sale securities	
Shares of private companies, etc.	484,518
Money management funds, etc.	1,471

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

	Millions of yen			
	2005			
	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, etc.	¥64	¥ 82	¥64	¥—
Other	—	6	—	—
Other	22	28	—	—
Total	¥86	¥117	¥64	¥—

	Thousand of U.S. dollars			
	2005			
	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	\$603	\$ 768	\$599	\$—
Other	—	65	—	—
Other	205	263	—	—
Total	\$809	\$1,097	\$599	\$—

(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

**(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, etc.	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

**(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)

**(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

**(5) Details of the maturity dates of available-for-sale debt securities and held-to-maturity debt securities are summarized 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, etc.	¥ 54	¥ 91	¥82	¥—
Debentures	—	700	—	—
Other	103	105	—	—
Other	88	78	—	—
Total	¥246	¥974	¥82	¥—

## 17. 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, 2005 and 2004, are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligations	¥(614,470)	¥(632,108)	\$(5,721,860)
Plan assets	465,396	456,153	4,333,707
Accrued pension and severance costs	122,398	112,797	1,139,754
Prepaid pension cost	(88,809)	(78,420)	(826,978)
Balance	(115,484)	(141,578)	(1,075,376)
Consisting of:			
Unrecognized balance of the transition obligation	(1,481)	(6,904)	(13,800)
Unrecognized actuarial differences	(126,046)	(147,913)	(1,173,728)
Unrecognized balance of prior service costs <sup>*1</sup>	12,043	13,239	112,151
	¥(115,484)	¥(141,578)	\$(1,075,376)

<sup>\*1</sup> Due to the 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, an unrecognized balance of prior service costs arose.

<sup>\*2</sup> 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 years ended March 31, 2005 and 2004, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs <sup>*2, 4</sup>	¥16,603	¥16,259	\$154,608
Interest costs	12,998	13,536	121,038
Expected return on plan assets	(7,760)	(6,880)	(72,268)
Amortization of transition obligation	4,256	4,597	39,639
Amortization of actuarial differences	13,743	19,144	127,977
Amortization of prior service costs <sup>*3</sup>	(691)	(1,635)	(6,441)
Net pension expense	39,149	45,021	364,553
Loss (gain) on relinquishment of entrusted portion of the pension fund <sup>*5</sup>	—	495	—
Other <sup>*6</sup>	324	249	3,022
	¥39,474	¥45,766	\$367,576

<sup>\*1</sup> In addition to the net pension expense above, special benefits for early retirement of ¥12,174 million (\$113,371 thousand) were paid for the year ended March 31, 2005, and ¥11,121 million was paid for the year ended March 31, 2004, ¥10,777 million of which was recorded as a special loss.

<sup>\*2</sup> This amount excludes contributions to welfare pension plans made by employees.

<sup>\*3</sup> This amount represents amortization of prior service costs.

<sup>\*4</sup> 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."

<sup>\*5</sup> 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 was charged as a special loss for the year ended March 31, 2004.

<sup>\*6</sup> 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, 2005	As of March 31, 2004
Method of attributing the projected benefits to periods of service	Mainly straight-line basis	Mainly straight-line basis
Discount rate	1.5%–3.5% (mainly 2.1%)	1.5%–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 costs <sup>*1</sup>	1–15 years (mainly 14 years)	1–14 years (mainly 14 years)
Amortization of unrecognized actuarial differences <sup>*2</sup>	1–15 years (mainly 14 years)	1–15 years (mainly 14 years)
Amortization of transition obligation <sup>*3</sup>	1–15 years	1–15 years

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

<sup>\*2</sup> 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.

<sup>\*3</sup> Amortized in one amount at the year ended March 31, 2001, for Nippon Steel Corporation and certain consolidated subsidiaries, and over five years for the remaining entities.

## 18. Information on Derivatives

NIPPON STEEL utilizes derivative financial instruments, which are comprised principally of foreign exchange forward contracts, interest rate and currency swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. 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 non-performance by counterparties or fluctuations of interest rates and currency prices, it does not anticipate significant losses because all of the counterparties 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.

## 19. Related Party Transactions

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

(Year ended March 31, 2005)

(a) Name of director (b) Title of related parties (c) Equity ownership percentage of Nippon Steel Corporation	Millions of yen				Thousands of U.S. dollars		Notes
	Transactions made during the year ended March 31, 2005		Resulting account balances		Transactions made during the year ended March 31, 2005	Resulting account balances	
	Description of transaction	Amount	Account	Amount	Amount	Amount	
(a) Akira Chihaya [Representative Director and Chairman of Nippon Steel Corporation]	Contribution	¥190	—	—	\$1,769	—	(1)
(b) Chairman of The Nippon Steel Arts Foundation	Acceptance of air-conditioning work for Kioi Hall	3	—	—	35	—	(2)
(c) 0.0%	Acceptance of repair work for Kioi Hall	1	—	—	12	—	(2)
(a) Bunyuu Futamura [Director of Nippon Steel Corporation]	Contribution to the clinics' expenses	¥39	Accrued expenses	¥39	\$366	\$366	(3)
(b) Chairman of the Board of Directors of Tokai Industrial Medical Cure Corps							
(c) 0.0%							
(a) Josei Ito [Corporate Auditor of Nippon Steel Corporation]	Borrowing long-term loans	¥8,000	Long-term loans	¥8,000	\$74,495	\$74,495	(4)(5)
(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, 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 prices.

(3) Nippon Steel Corporation bears the expenses of the related party to the extent considered reasonable for the health care of its personnel.

(4) The interest rate was determined with reference to market interest rates. The repayment term was 10 years, and the original principal will be repaid as a lump-sum at the maturity date. No guarantee was set up by Nippon Steel Corporation.

(5) Mr. Josei Ito, auditor of Nippon Steel Corporation, passed away on April 21 of this year.



(Year ended March 31, 2004)

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

## 20. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2005 and 2004, is as follows:

(Year ended March 31, 2005)

	Millions of yen	Thousands of shares	Yen	Thousands of U.S. dollars
	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥220,456	6,734,683	¥32.73	\$0.30
Effect of dilutive securities				
Convertible bonds	(163)	—		
Diluted EPS				
Net income for computation	220,293	6,734,683	32.71	0.30

(Year ended March 31, 2004)

	Millions of yen	Thousands of shares	Yen	
	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥41,406	6,725,459	¥6.15	
Effect of dilutive securities				
Convertible bonds	—	—		
Diluted EPS				
Net income for computation	—	—	—	

## 21. Subsequent Events

(Year ended March 31, 2005)

Space World, Inc., a consolidated subsidiary of Nippon Steel Corporation, filed an application for the reorganization procedure under the Civil Rehabilitation Law on May 13, 2005, but NIPPON STEEL has already provided for the full amount of the reserve.

(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, Nittetsu Steel Pipe and Nippon Steel Metal Products)
July 30, 2004	Last day of share certificate submission period (Each company of Nittetsu Steel Sheet, 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 the subsidiaries without the approval of its shareholders, pursuant to the provisions of Clause 1 of Article 358 of the Japanese Commercial Code.  
(2) Each procedure in the share exchanges between Nippon Steel Corporation and subsidiaries may be performed individually.

#### (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 subsidiary 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) No additional money is to be transferred for the share exchange.

### 2. Purchase of treasury stock

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

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

- Category of purchased shares  
Nippon Steel Corporation's common stock
- Number of purchased shares  
72,564,000 shares
- Amount of purchased shares  
¥15,999,945,000
- Process of purchase  
Purchased from the Tokyo Stock Market

## Report of Independent Auditors

To the Shareholders and Board of Directors of  
Nippon Steel Corporation

We have audited the accompanying consolidated balance sheets of Nippon Steel Corporation and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

As discussed in Note 21 to the consolidated financial statements, Nippon Steel Corporation entered into an agreement 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(18) 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 28, 2005

## Non-Consolidated Balance Sheets (Reference—Unaudited)

Nippon Steel Corporation  
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits	¥ 73,150	¥ 17,188	\$ 681,165
Receivables:			
Notes receivable	5,176	3,817	48,204
Accounts receivable—trade	171,909	197,569	1,600,792
Accounts receivable	58,178	48,175	541,753
Less: Allowance for doubtful accounts	(5,742)	(2,682)	(53,468)
	229,522	246,880	2,137,281
Inventories	349,481	338,101	3,254,319
Deferred tax assets	31,700	19,600	295,185
Other	44,151	122,498	411,128
<b>Total current assets</b>	<b>728,005</b>	<b>744,269</b>	<b>6,779,080</b>
<b>Fixed assets:</b>			
<b>Tangible fixed assets:</b>			
Buildings and structures	1,070,372	1,076,779	9,967,150
Machinery and equipment	3,715,269	3,717,995	34,596,045
	4,785,641	4,794,775	44,563,196
Less: Accumulated depreciation	(3,902,162)	(3,926,412)	(36,336,367)
	883,479	868,362	8,226,828
Land	201,940	201,257	1,880,442
Construction in progress	52,092	61,595	485,075
	1,137,512	1,131,215	10,592,346
<b>Intangible fixed assets:</b>			
Patents and utility rights	1,214	1,457	11,313
Software	279	429	2,606
	1,494	1,887	13,919
<b>Investments and others:</b>			
Investments in securities	465,932	404,960	4,338,693
Investments in subsidiaries and affiliates	378,494	343,115	3,524,484
Other	110,748	31,034	1,031,272
Less: Allowance for doubtful accounts	(2,196)	(4,127)	(20,452)
	952,978	774,982	8,873,997
<b>Total fixed assets</b>	<b>2,091,985</b>	<b>1,908,084</b>	<b>19,480,264</b>
<b>Total assets</b>	<b>¥2,819,991</b>	<b>¥2,652,353</b>	<b>\$26,259,345</b>



	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term loans and long-term loans due within one year	¥ 155,279	¥ 106,776	\$1,445,944
Bonds and notes due within one year	10,000	50,000	93,118
Convertible bonds due within one year	—	98,729	—
Commercial paper	70,000	31,000	651,829
Payables:			
Notes payable	2,959	2,777	27,554
Accounts payable—trade	180,444	161,920	1,680,274
Accounts payable	77,014	63,836	717,151
	260,418	228,534	2,424,979
Accrued income taxes and enterprise taxes	100,499	35,810	935,838
Accrued expenses	252,401	230,106	2,350,330
Advances received	22,911	21,003	213,347
Other	7,422	8,125	69,118
<b>Total current liabilities</b>	<b>878,934</b>	<b>810,085</b>	<b>8,184,507</b>
<b>Long-term liabilities:</b>			
Bonds and notes	265,000	330,000	2,467,641
Convertible bonds	—	—	—
Long-term loans	409,090	459,367	3,809,388
Deferred tax liabilities	85,400	57,300	795,232
Accrued pension and severance costs	62,985	60,806	586,507
Allowance for retirement benefits of directors and corporate auditors	3,022	—	28,141
Reserve for repairs to blast furnaces	48,398	48,147	450,679
Allowance for loss on guarantees	40,792	38,292	379,853
Other	7,182	3,253	66,882
<b>Total long-term liabilities</b>	<b>921,870</b>	<b>997,168</b>	<b>8,584,326</b>
<b>Total liabilities</b>	<b>1,800,805</b>	<b>1,807,254</b>	<b>16,768,834</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock:</b>			
Authorized—9,917,077,000 shares			
Issued and outstanding—6,806,980,977 shares			
as of March 31, 2005 and 2004	419,524	419,524	3,906,555
<b>Additional paid-in capital</b>	<b>109,811</b>	<b>105,820</b>	<b>1,022,552</b>
<b>Special tax-purpose reserve</b>	<b>90,268</b>	<b>98,321</b>	<b>840,571</b>
<b>Voluntary reserves</b>	<b>75,000</b>	<b>—</b>	<b>698,389</b>
<b>Retained earnings</b>	<b>179,691</b>	<b>110,955</b>	<b>1,673,261</b>
<b>Unrealized gains on available-for-sale securities</b>	<b>155,471</b>	<b>116,644</b>	<b>1,447,729</b>
<b>Less: Treasury stock, at cost</b>	<b>(10,583)</b>	<b>(6,167)</b>	<b>(98,548)</b>
<b>Total shareholders' equity</b>	<b>1,019,186</b>	<b>845,099</b>	<b>9,490,511</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥2,819,991</b>	<b>¥2,652,353</b>	<b>\$26,259,346</b>

## Non-Consolidated Statements of Income (Reference—Unaudited)

Nippon Steel Corporation  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Operating revenues:</b>			
Net sales	¥2,147,863	¥1,861,829	\$20,000,590
<b>Operating costs and expenses:</b>			
Cost of sales	1,671,098	1,535,676	15,561,027
Selling, general and administrative expenses	172,877	163,185	1,609,813
	1,843,976	1,698,862	17,170,840
<b>Operating profit</b>	<b>303,886</b>	<b>162,966</b>	<b>2,829,750</b>
<b>Non-operating profit and loss:</b>			
Non-operating profit:			
Interest and dividend income	10,812	8,541	100,688
Miscellaneous	8,495	6,675	79,104
	19,307	15,216	179,792
Non-operating loss:			
Interest expenses	14,739	17,776	137,253
Miscellaneous	60,628	42,728	564,565
	75,368	60,504	701,819
<b>Ordinary profit</b>	<b>247,826</b>	<b>117,678</b>	<b>2,307,723</b>
<b>Special profit and loss:</b>			
Special profit:			
Gain on sales of tangible fixed assets	2,494	—	23,226
Gain on sales of investments in securities and investments in subsidiaries and affiliates	2,670	5,714	24,863
	5,164	5,714	48,089
Special loss:			
Loss on disposal of tangible fixed assets and other assets	—	820	—
Loss on impairment of fixed assets	—	34,283	—
Loss on valuation of investments in securities	—	2,204	—
Special retirement allowances for voluntary retirement	—	7,933	—
Industrial water obligation fee	—	3,649	—
Loss on accidents at work	3,066	4,377	28,555
Loss on integration of the stainless-steel business	—	6,492	—
Provision for allowance for loss on guarantees	—	12,346	—
	3,066	72,109	28,555
<b>Income before income taxes and minority interests</b>	<b>249,924</b>	<b>51,284</b>	<b>2,327,257</b>
<b>Income taxes—current</b>	<b>114,300</b>	<b>37,500</b>	<b>1,064,344</b>
<b>Income taxes—deferred</b>	<b>(10,200)</b>	<b>(17,400)</b>	<b>(94,980)</b>
<b>Net income</b>	<b>¥ 145,824</b>	<b>¥ 31,184</b>	<b>\$ 1,357,893</b>
<b>Per share (stated in yen and in U.S. dollars):</b>			
Net income	¥21.63	¥4.62	\$0.201
Cash dividends applicable to the year	¥ 5.00	¥1.50	\$0.047
<b>Weighted average number of shares outstanding (in thousands)</b>	<b>6,741,112</b>	<b>6,736,038</b>	

# Non-Consolidated Statements of Shareholders' Equity (Reference—Unaudited)

Nippon Steel Corporation  
Years ended March 31, 2005, 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
Net income for the year ended							
March 31, 2005		—	—	—	—	—	145,824
Year-end cash dividends		—	—	—	—	—	(10,141)
Transfer to legal reserve		—	—	—	—	—	—
Transfer to special tax-purpose reserve		—	—	—	(14,274)	—	14,274
Transfer to voluntary reserve		—	—	—	81,221	—	(81,221)
Effect of share exchange, etc.		—	3,991	—	—	—	—
<b>Balance at March 31, 2005</b>	<b>6,806,981</b>	<b>¥419,524</b>	<b>¥109,811</b>	<b>¥ —</b>	<b>¥165,268</b>	<b>¥ —</b>	<b>¥179,691</b>

	Thousands	Thousands of U.S. dollars					
	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, 2004	6,806,981	\$3,906,555	\$985,382	\$—	\$915,557	\$—	\$1,033,205
Net income for the year ended							
March 31, 2005		—	—	—	—	—	1,357,893
Year-end cash dividends		—	—	—	—	—	(94,434)
Transfer to legal reserve		—	—	—	—	—	—
Transfer to special tax-purpose reserve		—	—	—	(132,918)	—	132,918
Transfer to voluntary reserve		—	—	—	756,321	—	(756,321)
Effect of share exchange, etc.		—	37,169	—	—	—	—
<b>Balance at March 31, 2005</b>	<b>6,806,981</b>	<b>\$3,906,555</b>	<b>\$1,022,551</b>	<b>\$—</b>	<b>\$1,538,960</b>	<b>\$—</b>	<b>\$1,673,261</b>

# 11-Year Summary

Nippon Steel Corporation

## CONSOLIDATED

As of or for the years ended March 31	Thousands of		Millions of yen	
	Millions of yen	U.S. dollars	2004	2003
	<b>2005</b>			
Net sales	3,389,356	31,561,189	2,925,878	2,749,306
Operating profit (loss)	429,948	4,003,614	224,475	142,961
Ordinary profit (loss)	371,446	3,458,857	172,851	68,879
Income (loss) before income taxes and minority interest	369,485	3,440,594	73,642	(37,386)
Net income (loss)	220,601	2,054,205	41,515	(51,686)
Net income (loss) per share (yen/U.S. dollars)	¥32.73	\$0.305	¥6.15	(¥7.69)
Total shareholders' equity	1,188,409	11,066,295	938,581	789,443
Total assets	3,872,110	36,056,526	3,705,917	3,757,175
Capital expenditure	195,228	1,817,942	149,593	163,318
Depreciation	180,571	1,681,455	183,510	196,653
Research and development costs	36,352	338,506	35,349	35,866
Interest-bearing debt	1,282,266	11,940,274	1,561,228	1,871,875

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

### Sales

For the years ended March 31	Thousands of		Millions of yen	
	Millions of yen	U.S. dollars	2004	2003
	<b>2005</b>			
Steelmaking and steel fabrication	2,620,732	24,403,881	2,156,946	1,980,809
Engineering and construction	279,866	2,606,076	293,137	274,903
Urban development	89,275	831,322	120,811	105,188
Chemicals and nonferrous materials	331,168	3,083,790	275,797	346,232
System solutions	146,531	1,364,479	150,850	153,143
Other businesses	76,244	709,980	73,615	79,059
Elimination of intersegment transactions	(154,463)	(1,438,340)	(145,280)	(190,031)
Consolidated total	3,389,356	31,561,189	2,925,878	2,749,306

### Operating profit (loss)

For the years ended March 31	Thousands of		Millions of yen	
	Millions of yen	U.S. dollars	2004	2003
	<b>2005</b>			
Steelmaking and steel fabrication	376,926	3,509,880	189,717	112,816
Engineering and construction	6,696	62,360	4,359	2,460
Urban development	8,503	79,186	13,526	4,469
Chemicals and nonferrous materials	26,374	245,597	12,667	13,458
System solutions	11,384	106,008	9,182	9,776
Other businesses	384	3,577	(4,310)	(2,155)
Elimination of intersegment transactions	(321)	(2,995)	(668)	2,135
Consolidated total	429,948	4,003,614	224,475	142,961

## NON-CONSOLIDATED

As of or for the years ended March 31	Thousands of		Millions of yen	
	Millions of yen	U.S. dollars	2004	2003
	<b>2005</b>			
Net sales	2,147,863	20,000,590	1,861,829	1,789,706
Ordinary profit (loss)	247,826	2,307,723	117,678	48,359
Net income (loss)	145,824	1,357,893	31,184	(20,447)
Net income (loss) per share (yen/U.S. dollars)	¥21.63	\$0.201	¥4.62	(¥3.02)
Cash dividends per share (yen/U.S. dollars)	¥5.00	\$0.047	¥1.50	¥1.50
Total shareholders' equity	1,019,186	9,490,511	845,099	713,772
Total assets	2,819,991	26,259,346	2,652,353	2,588,698
Capital expenditure	140,000	1,303,659	120,000	85,000
Depreciation	129,903	1,209,638	134,314	148,106
Research and development costs	27,349	254,675	27,290	29,091
Interest-bearing debt	909,370	8,467,922	1,075,872	1,188,209

### Shares

	2005	2004	2003
Shares outstanding at year-end (in thousands)	6,806,981	6,806,981	6,806,981
Common stock price range (high/low: yen)	294 / 203	253 / 127	217 / 119

### Production and Shipments

For the years ended March 31	Thousands of tons	Thousands of tons	
	2005	2004	2003
Crude steel output	29,879	30,146	29,902
Steel products output*2	28,533	28,396	28,222
Steel products shipments*2	29,514	29,388	29,171

### Employees

As of March 31	2005	2004	2003
Number of employees*3	15,081	15,138	16,481

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

- Transfer of some companies 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 engaged in "Transportation" to "Steelmaking and steel fabrication" and the accompanying abolition of "Transportation."
- Transfer of some companies engaged in "Engineering and construction" to "Steelmaking and steel fabrication," and "Services and others."
- Transfer of some companies 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."



Millions of yen							
2002	2001	2000	1999	1998	1997	1996	1995
2,581,399	2,750,418	2,680,611	2,759,409	3,076,531	3,061,288	2,954,869	2,881,097
73,044	162,644	120,296	92,396	181,640	142,090	193,429	92,269
16,746	111,374	64,687	15,282	86,537	80,753	101,593	(12,193)
(25,079)	49,403	2,171	14,096	39,234	(25,148)	56,961	(17,863)
(28,402)	26,494	11,173	11,478	5,945	3,450	54,538	(3,971)
(¥4.17)	¥3.89	¥1.64	¥1.68	¥0.86	¥0.50	¥7.91	(¥0.57)
907,150	979,695	889,220	878,849	878,702	891,134	903,359	868,186
4,030,596	4,232,011	4,172,459	4,489,753	4,670,669	4,509,536	4,527,304	4,547,466
195,801	157,348	226,954	234,833	232,490	241,377	234,921	—
197,336	206,987	214,186	221,359	241,003	232,543	237,994	—
35,183	39,364	40,575	—	—	—	—	—
2,016,175	2,101,686	2,277,938	2,549,064	2,640,750	2,484,261	2,439,526	2,385,821

Millions of yen							
2002	2001	2000	1999	1998	1997	1996	1995
1,828,206	1,962,019	1,877,582	1,743,018	2,040,444	2,015,666	1,993,867	1,998,367
294,323	280,929	300,054	419,841	426,852	490,165	430,667	458,475
130,808	141,979	164,428	146,406	126,218	—	—	—
326,164	359,123	338,631	415,285	451,573	440,289	418,352	363,187
149,398	143,670	136,198	160,954	151,111	156,261	187,445	—
61,251	59,440	56,491	222,908	239,616	314,403	292,945	423,396
(208,754)	(196,745)	(192,776)	(349,005)	(359,284)	(355,498)	(368,408)	(362,329)
2,581,399	2,750,418	2,680,611	2,759,409	3,076,531	3,061,288	2,954,869	2,881,097

Millions of yen							
2002	2001	2000	1999	1998	1997	1996	1995
23,482	115,536	73,257	65,397	168,659	109,639	115,135	63,013
9,913	7,287	12,209	11,972	10,610	35,510	28,158	33,992
15,576	16,320	20,787	16,975	15,766	—	—	—
10,379	11,574	8,378	5,263	8,140	11,806	10,590	(5,119)
10,504	9,770	5,311	(19,333)	(26,491)	(26,504)	13,748	—
1,457	772	(911)	11,000	9,782	17,796	16,066	2,624
1,731	1,384	1,262	1,120	(4,826)	(6,159)	9,729	(2,240)
73,044	162,644	120,296	92,396	181,640	142,090	193,429	92,269

Millions of yen							
2002	2001	2000	1999	1998	1997	1996	1995
1,681,406	1,848,710	1,810,842	1,918,538	2,205,019	2,184,805	2,099,750	2,090,580
31,729	78,776	42,606	50,238	103,954	84,711	64,698	11,214
(28,129)	18,355	266	522	35,393	19,906	24,741	9,438
(¥4.13)	¥2.69	¥0.03	¥0.07	¥5.13	¥2.88	¥3.59	¥1.36
¥1.50	¥1.50	¥1.50	¥1.50	¥2.50	¥2.50	¥2.50	¥2.50
793,557	866,757	773,981	783,925	861,828	843,659	840,976	833,459
2,738,973	2,884,547	2,793,067	3,051,391	3,150,110	3,145,249	3,145,269	3,229,979
175,000	135,000	180,000	135,000	100,000	100,000	120,000	130,000
144,363	150,904	153,327	139,441	148,111	149,319	154,281	141,664
8,705	35,598	35,727	41,900	47,500	51,100	55,700	67,400
1,240,474	1,205,352	1,273,687	1,464,531	1,457,895	1,509,132	1,446,531	1,544,065
2002	2001	2000	1999	1998	1997	1996	1995
6,806,981	6,806,981	6,806,981	6,806,981	6,889,904	6,889,904	6,889,903	6,889,903
230 / 145	270 / 165	314 / 215	272 / 177	392 / 146	388 / 283	375 / 271	403 / 293

Thousands of tons							
2002	2001	2000	1999	1998	1997	1996	1995
26,140	27,837	25,620	23,201	26,619	25,706	26,173	26,565
25,487	26,226	24,566	22,751	25,378	24,747	25,620	25,314
26,312	26,789	25,633	24,026	26,580	25,871	25,684	25,374

2002	2001	2000	1999	1998	1997	1996	1995
17,370	18,918	19,816	21,414	22,560	24,527	27,583	31,072

\*2 Including sub-products

\*3 Excluding employees seconded to subsidiaries and other organizations. The number of such employees at March 31, 2005 and 2004, was 5,351 and 6,311, respectively.

Note:

Tonnage figures are in metric tons; all dollar (\$) figures are in U.S. currency and translated from the Japanese yen at the rate of U.S.\$1=¥107.39 at the latest balance sheet date.

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Phone: 81-3-3242-4111  
URL: <http://www.nsc.co.jp/>

### 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

### Number of Shareholders

470,611

### Ten Major Shareholders

Japan Trustee Services Bank, Ltd.	9.0%
The Master Trust Bank of Japan, Ltd.	5.9%
State Street Bank & Trust Company	5.1%
Nippon Life Insurance Co.	3.3%
Trust & Custody Services Bank, Ltd.	2.9%
Mizuho Corporate Bank, Ltd.	2.7%
Meiji Yasuda Life Insurance Co.	2.1%
The Chase Manhattan Bank N.A. London	1.8%
Investors Bank & Trust Company	1.4%
The Tokio Marine and Fire Insurance Co., Ltd.	1.4%

### Listings

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

### Transfer Agent

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**Nippon Steel Corporation**