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The accounting period covers a 12-month period beginning April 1 and ending March 31 the following year. In this annual report, "fiscal 2005" refers to the 12-month period ended March 31, 2006 (April 1, 2005–March 31, 2006), while "fiscal 2004" refers to the 12-month period ended March 31, 2005 (April 1, 2004-March 31, 2005).

The tonnage unit is metric ton.
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 and registered trademarks of Nippon Steel overseas, the Company may not have registered or currently use these English equivalents in Japan.

Operating Highlights

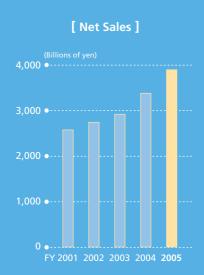
a consolidated basis, net sales reached ¥3,906.3 billion; operating profit totaled ¥576.3 billion; ordinary profit worldwide inventory adjustments and downward pressure on prices on general-purpose steels, and therefore underscores the success of the Company's strategy to concentrate on the market for medium-high grade steels. Reflecting this stellar performance and in line with the Company's dividend policy, dividends for the period were increased by ¥4.00 per share, to ¥9.00 per share. Seeking to fortify its financial structure, the Group brought interest-bearing debt down steadily and increased equity, thereby lowering its debt-to-equity ratio by 0.35 point, to 0.73 times.

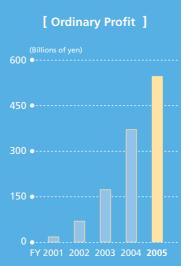
	Millions of yen			Change (%)	Millions of U.S. dollars ⁽¹⁾
	FY2005	FY2004	FY2003	FY2005/FY2004	FY2005
Operating Results (for the year)					
Net sales	¥3,906,301	¥3,389,356	¥2,925,878	15.3%	\$33,253
Operating profit	576,319	429,948	224,475	34.0	4,906
Ordinary profit	547,400	371,446	172,851	47.4	4,659
Net income	343,903	220,601	41,515	55.9	2,927
Financial Position (at year-end)					
Total assets	4,542,766	3,872,110	3,705,917	17.3	38,671
Total shareholders' equity	1,677,889	1,188,409	938,581	41.2	14,283
Interest-bearing debt	1,223,837	1,282,266	1,561,228	(4.6)	10,418
Per share data					
Net income (yen / U.S. dollars)	¥51.07	¥32.73	¥6.15	56.0	\$0.43
Dividends (yen / U.S. dollars)	9.00	5.00	1.50	80.0	0.07
Dividend payout ratio	17.4%	15.3 %	6 24.4%		
Ratios					
Return on sales(2)	14.0%	11.0%	6 5.9%		
Return on assets(3)	13.0	9.8	4.8		
Return on equity ⁽⁴⁾	24.0	20.7	4.8		
Shareholders' equity ⁽⁵⁾	36.9	30.7	25.3		
Debt-to-equity ⁽⁶⁾ (times)	0.73	1.08	1.66		
Reference					
Consolidated crude steel					
production (thousands of tons)	33,955	32,791	32,733		
Price of steel (non-consolidated,					
thousands of yen per ton)	74.3	61.6	52.2		
Export ratio (non-consolidated,					
value basis; %)	30.9	31.6	31.3		

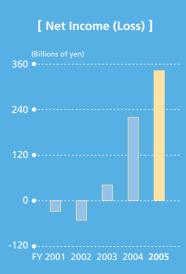
- (2) Return on sales = (Ordinary profit / Net sales) x 100
 (3) Return on assets = (Ordinary profit / Total assets) x 100
 (4) Return on equity = (Net income / Total shareholders' equity) x 100
- (5) Shareholders' equity = (Total shareholders' equity / Total assets) x 100 (6) Debt-to-equity = Interest-bearing debt / Total shareholders' equity

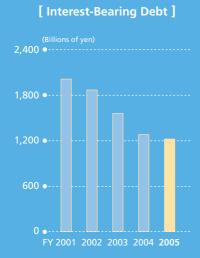
[Dividend Policy] Since fiscal 2004, Nippon Steel has implemented a policy of distributing profits consistent with the consolidated operating results of each fiscal year, taking into account capital investment requirements aimed at raising value, forecasts for future operating results and other relevant factors, while at the same time endeavoring to strengthen the Company's financial structure.

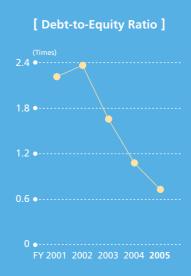
To calculate dividends that are consistent with consolidated operating results, Nippon Steel has set a standard consolidated payout ratio of approximately 20% (non-consolidated: approximately 30%). For the foreseeable future, however, the Company intends to maintain a consolidated payout ratio of 15%–20% (non-consolidated: 20%–30%), slightly below the standard, in order to focus on its most important management task, that is, to improve its financial position.

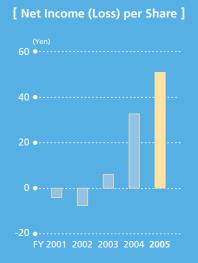












To Our Stakeholders



The Nippon Steel Group broke performance records in fiscal 2005, surpassing the historical highs posted in fiscal 2004.

In steel operations—our core business segment—the market has become even more polarized, with demand for medium-high grade steels up among manufacturers, particularly automakers and shipbuilders, but demand for general-purpose steels increasingly sluggish, because of expanded production capacity in China and other factors.

Our ability to outdo the record-breaking results of fiscal 2004 in this operating environment demonstrates the success of Groupwide rationalization efforts undertaken over the past decade or so—as well as validates our decision to focus on medium-high grade steels.

Through the medium-term consolidated business plan that concluded in fiscal 2005, we made considerable progress in reinforcing our financial position. We also implemented significant investor-oriented changes, including a switch from the stable dividends of the past to dividends that reflect consolidated financial performance.

In April 2006, we embarked on a new medium-term consolidated business plan that will continue through fiscal 2008.

We will strive for sustainable profit growth by reinforcing the competitiveness of our business segments through the enhancement of our technological edge and the reforming of our consolidated management system.

Under the new consolidated management promotion structure implemented from July 2006, Nippon Steel remains dedicated to the steel business while concurrently acting as



a holding company to the other five business segments, which function as independent entities of equal status.

In line with this organizational transformation, we revised our corporate governance structure. We downsized the Board of Directors to expedite decisions geared to market changes and to strengthen overall supervision of operations, and adopted an executive officer system to ensure proper execution of business activities as well as clarify responsibility.

With a view to achieving higher sustainable corporate value, the Group will reach the goals outlined in the new medium-term consolidated business plan and cement its place among the world's best steelmakers.

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

October 2006

Akira Chihaya

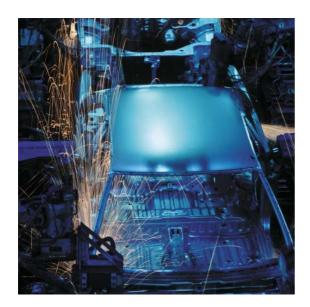
Representative Director and Chairman of the Board of Directors

Akio Mimura

Representative Director and President

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Highly **Functional Steel** for Automotive **Applications**

Automobiles contain more than 100 types of steel, including sheets for the body and specialty steels for the engine and drivetrain.

Sheets for automotive bodies must satisfy a combination of requirements, such as safety, light weight, formability and corrosion resistance. High tensile-strength sheets from Nippon Steel highly satisfy these requirements.

We offer such advanced, high-performance, high tensilestrength sheets as Dual Phase Steel, which presents high strength as well as formability, thanks to nanotechnology. Another notable product in this category is transformationinduced plasticity (TRIP) steel, which becomes harder during press-stamping or in a collision and boasts excellent impact energy absorption.

With a vanguard position in the development of high tensile-strength steel that reduces vehicle weight and enhances vehicle safety, Nippon Steel has captured approximately 50% of the domestic market in this product category.

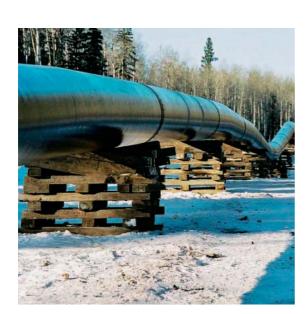
As automakers increase their use of high tensilestrength steel, their requirements for formability become more sophisticated. Japanese automobiles are recognized worldwide for superior quality, and Nippon Steel supports this reputation at the material



Nippon Steel's special bars and wire rods are used widely, in the springs, shafts and bolts of engines and drivetrains and as steel cord for tires. The basic quality level of our special bars and wire rods is extremely high, exemplified by superior uniformity in material composition and minimal surface imperfections, and as such, they are used in key safety components and in parts that are typically difficult to stamp.

We enjoy top share at home and abroad in this product category. We expect to maintain this position because special bars and wire rods are vitally important to production at the overseas plants of Japanese automakers, and steady output of vehicles abroad will spur demand among Japanese customers for our products.

Electrical steel is used in the motors—the "hearts" of hybrid cars, which are expected to be highly efficient for energy-savings as well as compact and powerful. Nippon Steel was involved right from the development stage and engineered an electrical steel that would maintain high motor output through high magnetization while limiting core loss. As hybrid cars become more popular, our contribution to reduced energy consumption will increase considerably.



Highly Functional Steel Supports Worldwide Energy Demand

Energy demand has expanded, paralleling worldwide economic growth. Natural gas, lauded as a clean energy source with good generating efficiency, has garnered particular attention among the various energy sources available today.

Natural gas is carried from the extraction point in its unprocessed, gaseous state through pipelines, then liquefied for ship transport and converted into secondary energy, such as electricity.

Nippon Steel develops and markets highly functional steel materials, including pipes and plates with superior durability and electrical steel with excellent generation and transmission efficiency, to meet requirements at all stages of the supply chain, from extraction to storage and transport and further to conversion into energy.

In recent years, heightened demand for energy has pushed gas field development into geographically remote areas. Such projects need long-distance pipelines, which cause costs to balloon. The key to a successful project is to trim pipeline construction costs, and toward this end, Nippon Steel marked a first in the international steel community with X-120, a thin-walled, ultrahigh-tensile-strength pipe for pipelines that is far stronger than predecessor products. X-120 has been extremely well received for facilitating the high-pressure transport of natural gas and reducing the cost of pipeline construction.

Nippon Steel responds to widening demand for steel used in energy applications by providing highly functional products perfectly suited to all stages of the energy source supply chain.



The boiling point of natural gas is -164°C, and liquefied natural gas (LNG) must therefore be stored and transported at ultralow temperatures. With this in mind, Nippon Steel developed SUPUR-9% Ni steel, which is highly tough even in ultralow temperature environments, for LNGoriented receptacles.

Nippon Steel's serviceability aspect of SUPUR-9% Ni steel is approximately 20% of the world market. As a major provider, we ensure a stable supply of high-quality materials to the LNG industry and in so doing fulfill a key role in natural gas development projects.



Steel Solutions Expand the Potential of Steel

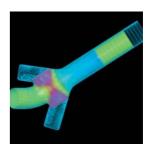


Almost all steel products are welded and fabricated into a marketable commodity by the manufacturing industry.

Our efforts in the steel business thus go beyond the mere production of steel materials. We utilize shaping, welding and analytical technologies to engineer steel materials to the fabricating conditions under which manufacturers operate and the features they want their products to have. We present wide-ranging solutions, such as fabricating methods, forms and structures, to maximize the inherent characteristics of steel and bring designs to life.

Steel solutions represent an optimum response—a bridging function between steelmaker and customers. This is our mission. Our achievements to date put us far ahead of other companies.

Nippon Steel not only provides customers with steel but also the high-level technologies for turning steel in industrial goods. This valueadded approach is the key to attracting and keeping



TRIP high-strength sheets boast flexibility for pressstamping as well as impact resistance for absorbing force, such as that exerted during a collision, thereby protecting vehicle occupants from harm. With the finite-element method of analysis, we confirmed the impact-resistance capability of these sheets. The strain velocity of the steel at impact was one million times that at fabrication.

Pinpointing material properties at the atomic level under high-speed deformation is difficult. Nevertheless, Nippon Steel established a technique to do precisely this and constructed technology to accurately simulate deformation characteristics of steel at the moment of collision. This technology will expedite development of optimum products.

We were quick to realize the importance of welding operations at customer plants in the development of application-specific steel materials and have thus pursued R&D in various fields, including shipbuilding, tank fabrication and automobile production. We draw on research data accumulated over the years to suggest optimum conditions for welding, right down to the most appropriate steel for the job, and are working to expand the scope of applications for high tensile-strength sheets in the automotive industry.

The advanced analytical technology and application techniques we have acquired to date function as the motive force that lifts our products to a higher level of quality.



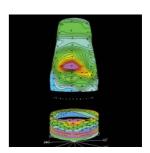
Large-Scale Blast Furnace Operation Technology Fosters Competitiveness

A blast furnace is the symbol of a steelworks, representing the starting point of steelmaking, where the natural resource iron ore is transformed into steel.

Blast furnaces are becoming bigger, necessitating highlevel technology for making pig iron of uniform quality. In Japan, facilities standing more than 100m tall with volume exceeding 4,000m³ are now mainstream, and Nippon Steel has seven of the world's largest blast furnaces in this category. Indeed, we boast one of the highest iron outputs of any steelmaker anywhere.

The reduction reaction inside large-scale blast furnaces is continuous, eliminating oxygen from iron ore under high-pressure and temperatures hotter than 1,500°C around the clock throughout the year. It is vitally important to ensure accurate monitoring of internal conditions and stable, uninterrupted operation of the furnaces.

Nippon Steel's strategy for effectively expanding production hinges on making existing blast furnaces bigger. High-level furnaceoperation technology to boost capacity to the maximum level will help us reach our goal.



We have installed more than 1.000 sensors around our blast furnaces to measure heat and pressure. We have also inserted probes that send back direct visual data on conditions inside the furnaces. In addition, we devised a next-generation system that delivers three-dimensional pictures of the furnace interior, updated at one-second intervals. We plan to install this system into the Nagoya Works' No. 1 blast furnace, which will undergo a refit and be fired up in the spring of 2007.

In addition, through joint efforts between industry and academia, we are working on a system to pinpoint solid particle movement inside furnaces. The unit used in current systems is several hundred thousands, but the new system will raise precision to several hundred millions.

In May 2004, Nippon Steel finished an expansion upgrade of the No. 2 blast furnace at the Oita Works. With a capacity of 5,775m³, this is the world's largest blast furnace.

The operation of this ultralarge blast furnace utilizes advanced blast furnace diagnostic technology and an enhanced control system. It hones our iron source cost competitiveness and reinforces our ability to supply medium-high grade steels to the market.



Integrated Manufacturing Technologies Underpin High Added Value

Customers have various requests regarding steel materials. They may, for example, insist on certain shapes and properties, and they may set limits on surface imperfections. Nippon Steel has the ability to realize the quality customers seek by the manufacturing technology in each process and the integrated manufacturing technology through several processes. These are our strengths.

We enjoy 65% of the domestic market and 25% of the world market for wire rods used as steel cord, a reinforcing material for radial tires. We ship out wire rods of less than 5.5mm diameter, which customers stretch thinner, to 0.2mm diameter. A tiny flaw or inclusion could cause the rod to snap during extrusion, so an extremely high level of quality control is required for wire rods than for other products.

Our inclusion control technology is second to none. Indeed, in less technical terms, the inclusion ratio of wire rods for steel cord is equivalent to a single baseball inside Tokyo Dome, home ground of the Yomiuri Giants baseball team. We use electromagnetic force to regulate the flow of molten steel and float all inclusions to the surface for removal. In addition, we raise the level of purity with proprietary technology that converts even the most minute inclusion into a flexible, harmless substance.

The mechanical properties of steel materials are introduced through structural control achieved by integrating composition control at the steelmaking stage and temperature control at the rolling stage. We also apply proven results from all manufacturing processes to stages before and after targeted processes to fine-tune properties in a short cycle and limit variation in the quality of finished products.

The extrusion variation for Nippon Steel's steel products is vastly superior to that of steel materials made overseas, thereby contributing to higher processing productivity for customers.

Nippon Steel has accumulated cutting-edge knowhow on integrating microlevel quality control and mass production to expertly address customers' sophisticated requirements.





新日本製鐵株式會社 NUPPON STEEL CORPORATION

An Interview with the Presiden

The operating environment for steelmakers today is considerably different than when Nippon Steel appeared on the scene in 1970. Since then, Nippon Steel has enhanced profitability and sharpened its competitive edge. The Company owes its current position to a business model based on providing new steel products geared to customer needs and to cost competitiveness underpinned by sophisticated technologies.

In fiscal 2005, Nippon Steel posted its second straight year of record-breaking profits. By refining its competitive capabilities and maintaining high profit growth in the global market, the Company aims to raise the profile of the Nippon Steel Group as a responsible member of society.



Your three-year consolidated business plan highlighting revitalization of the steel business has just wrapped up. How do you evaluate the success of this plan?

The past three years have seen dramatic improvement in our financial structure, the selection and concentration in business segments, and the implementation of decisions on investment in high-value-added fields that will pave the way for future profit growth in the steel business.

When we embarked on the previous consolidated business plan in April 2002, the Japanese economy was in the midst of a profound restructuring. Domestic demand for steel had dropped 20 million tons, or 30%, from its peak, while reduced demand as well as downward pressure on prices had exacted a considerable toll on our fiscal performance.

It was in this operating environment that we set out to secure stable profits and reinforce our business foundation. We introduced measures to improve steel prices and maintain stable access to fuels and raw materials. At the same time, we channeled efforts inward, spotlighting rigid cost-cutting and profit-boosting strategies at Group companies.

As to the results, I'll let the numbers speak for themselves. Back in 2002, we were hoping for consolidated ordinary profit of ¥250 billion by March 2006. In fact, we surpassed that amount significantly, with a figure exceeding ¥547 billion. Meanwhile, we cut interest-bearing debt by 35% and brought our debt-to-equity ratio down from 2.37 times, at March 31, 2003, to 0.73 times, at March 31, 2006, for a significantly healthier financial position.

Positive changes in our operating environment undoubtedly contributed to this success. Key developments included brisk demand for steel, triggered by increased manufacturing activities in Japan and other parts of East Asia, particularly China, and an improvement in steel prices, which finally outpaced soaring prices for raw materials.

However, I believe what really spurred us ahead were administrative efforts, as laid out in the medium-term consolidated business plan, and strategies to cement a solid presence in growth markets.

Thorough rationalization amid challenging circumstances has been instrumental to our becoming a leaner, more efficient organization. This has been an ongoing pursuit over six previous medium-term consolidated business plans. Specifically, we streamlined personnel, bringing the number of employees to approximately one-third of the level in 1990. We also expanded blast furnace volume. As a result, we stand at the top of the industry in terms of crude steel production per employee.

In 2005, against a backdrop of inventory adjustments and sluggish market conditions that plagued the United States, Europe, China and the rest of East Asia, Nippon Steel achieved an increase in profits and a higher earning ratio. This accomplishment validated the appropriateness of our decision to focus on the medium-high grade steel market, where demand remains brisk and competition is limited, instead of persisting in the general-purpose steel market, where constantly changing conditions frequently impact profits.

The previous medium-term consolidated business plan delivered great results—such great results, in fact, that we now face a new concern: How do we sustain the high level? I attribute our ability to smooth out the cyclical nature of the steel business to the level of trust we have earned in the marketplace.

By actively responding to changes in the market, Nippon Steel has successfully overcome the earnings cycle and will continue to post growth.

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Please summarize the medium-term consolidated business plan (April 2006–March 2009) announced in December 2005.

We launched the new medium-term consolidated business plan in April 2006. Guided by this operating blueprint, we aim to become the No. 1 global supplier and to secure an unshakable position in the international steel industry. Our technological edge will ensure our success.

I am convinced that our future is irrevocably tied to technological capabilities. Technological capabilities help minimize environmental impact. Manufacturing medium-high grade steels, addressing customer requests and maintaining equipment and facilities all hinge on technological capabilities. In fact, technological capabilities carved the path we followed to overcome the challenges in our operating environment over the past few years. The new plan thus emphasizes the broad use of technological capabilities—the source from which keen competitiveness flows.

The two pillars of the new plan are to boost profits through the enhancement of our technological edge and to readdress competitiveness in each business segment by reforming the organization to promote consolidated management. Specifically, we will invest a total of ¥850 billion, or 75% of cash flows from operating activities after taxes, for capital expenditures and for investments and financing, and increase production capacity for medium-high grade steels by 20 million tons. Total investment over the duration of the new plan is more than 30% above the total allocated during the previous medium-term consolidated business plan.

Medium-high grade steels currently account for approximately 70% of total production. We aim to raise this to 75%.

As for numerical targets to be achieved by March 2009, we will work toward consolidated ordinary profit of ¥500 billion or more, bring interest-bearing debt below ¥1 trillion and realize a debt-to-equity ratio of less than 0.5 times. We will further enhance our financial structure with stable profit

growth and a high earning capacity impervious to cyclical fluctuations in the market.

To maintain an overwhelming lead over rivals, in July 2006 the Nippon Steel Group embraced an operating structure more suitable to achieving our stated goals. This entailed a separation of all business segments except the steel business from Nippon Steel, which will become a holding company for the Group while retaining its core operations.

Under the new structure, selection and concentration—a process already initiated during the previous plan—has led to a net streamlining of 24 Group companies, which is an increase of 57 versus a decrease of 81. Group companies' net sales have risen 1.5 times and a net loss of ¥30.0 billion has been replaced by ¥100 billion in net income.

We also identified six business domains of interest: Steel-making and Steel Fabrication—which remains our core business and represents 80% of consolidated net sales—Engineering and Construction, Urban Development, Chemicals, New Materials and System Solutions.

To promote these business segments, we reorganized the management structure, which will enable operating companies in each segment to pursue respective goals while maximizing Group synergy through shared access to R&D results and facilities under the holding company's control.

These subsidiaries—two new and three already existing prior to the reorganization—will be able to implement flexible, responsive management practices tailored to respective business characteristics and customer needs; and, while each company will work independently to achieve profit growth, the overall effect will be to enhance consolidated corporate value.

2008
No. 1
global supplier

2006 >>>

Medium-Term Consolidated Business Plan (April 2006–March 2009)

- 1. Profit growth through the enhancement of technological edge
- 2. Reforming its consolidated management system

Medium-Term Consolidated Business Plan (April 2003–March 2006)

- Substantial improvements of its financial structure
- 2. Completion of selection and concentration of its business segments, and enhancement of overall efficiency
- 3. Investment decision aimed at improving both quality and capacity in high-value-added market segments that will bring future profit growth in its steel business



What is in store for Nippon Steel in fiscal 2006?

Two developments in our operating environment warrant particular attention in fiscal 2006. The first is overcapacity in the Chinese steel industry, especially for general-purpose steel. The second is a movement toward industry realignment on a global scale.

China's steelmakers are rapidly expanding production facilities and capacity. This has led to excess production in China, which was the primary reason for soft conditions, albeit temporarily, in our overseas markets in fiscal 2005.

In the past, repeated periods of excess production and price reductions hindered sustainable growth in the steel business. The industry is thus on a quest for wisdom—essentially, a new approach—that will halt this vicious cycle.

An accurate response is vital, given possible structural reform of China's steel industry, prompted by the government's July 2005 policy on steel industry development, as well as a looming industry shakeup triggered by prevailing market mechanisms. But until this situation is resolved, we must strive to minimize the impact on our earnings by embracing the evolving polarization of the steel market and steadily capitalizing on growing demand for medium-high grade steels.

Nippon Steel will ensure reliable quality and a consistent production response to brisk demand for medium-high grade steels, especially from the domestic manufacturing industry, by maximizing the capacity of facilities, such as Continuous Galvanizing Lines, which begin operation this year, and

availing itself of unused production capacity at Group companies and alliance partners.

Regarding general-purpose steels, we will continue working to raise our cost competitiveness and maintain our market position.

The issue of globally pervasive industry realignment has prompted a question: What qualities should Nippon Steel possess to ensure a recognizable presence in the international steel industry and benefit from burgeoning demand for steel in East Asia?

Even if we emerged as a steelmaker with a production scale exceeding 100 million tons, our direction would be the same as it is now—pursuing our technological edge to become the No. 1 global supplier focusing on medium-high grade steels.

However, in terms of management stability and a sharper competitive edge internationally, it makes good business sense to expand production scale to some extent. And so, while the measures outlined in the medium-term consolidated business plan are aimed at establishing a structure that supports consolidated crude steel on a scale of 40 million tons, we should really be working toward a higher figure.

In considering measures for implementation, we will apply a decision standard hinging on our ultimate objective, which is to be the No. 1 global supplier focusing on medium-high grade steels.





What are your thoughts on stronger corporate governance and Nippon Steel's corporate social responsibility?

To ensure sustainable growth while controlling business risks, Nippon Steel must enhance management transparency and soundness by reinforcing its corporate governance structure and executing active information disclosure.

In view of our transition into a holding company, we downsized the Board of Directors, from 37 to 11 members, to facilitate faster, more flexible decisions dealing with changes in our operating environment. We also introduced an executive management system to ensure proper execution of business activities and clarify responsibility for respective developments in each business segment.

We set an unambiguous goal for profit growth and will approach business activities with a priority on raising corporate value. Growth is only one side of the coin, though; the other is stability. Fair Rules for the Acquisition of Substantial Shareholdings—a takeover defense measure adopted by the Board in March 2006—is related to this desire to ensure both growth and stability. This measure was implemented to prevent depreciation of corporate value through management inaction in the event the appearance of a bidder causes corporate value to erode or adversely impacts the common interests of shareholders.

The idea is to preclude an arbitrary resolution by the Board on the takeover proposal and give final say to shareholders who will vote on whether or not to issue stock acquisition rights as a countermeasure.

Regarding corporate responsibility initiatives, in 2004 the Company clarified its guiding principles by formulating Guiding Principles and Employee Action Guidelines. Our corporate philosophy states that "the Nippon Steel Group, focused on steel manufacturing, will contribute to industrial development and the enhancement of people's lives through creating and supplying valuable and attractive products and ideas." In line with this philosophy, we strive to be a company that exists in harmony with society, that is a global technology leader, that is dedicated to voluntary reform and that nurtures the development of its personnel. These guiding principles highlight the qualities that Nippon Steel seeks to process and embodies the Company's commitment to all stakeholders.

When I have an important decision to make, I always base it on our guiding principles.

Nippon Steel will maintain a sustainable contribution to society through various activities that benefit the environment and local communities.

"Trust" itself is the brand of the Nippon Steel Group. We will live up to our Guiding Principles and thereby earn the trust of society by fulfilling our responsibilities regarding compliance, environmental protection and safety.

Medium-Term Consolidated Business Plan

(April 2006-March 2009)

Business Environment

Increasingly intense market competition due to a rise in M&A activities Industry realignment on a global scale

Further polarization of the global steel supply and demand structure

2 Strategies

- 1. Profit growth through enhancement of technological edge
- 2. Reforming of the organization to promote consolidated management

3 Key Financial Targets

Consolidated Finan		(Billions of yen)	
	Targets for FY2008	Actual FY	2005 Results
Net sales	¥4,200	[¥4,000]	¥3,906.3
Operating profit	540 or more	[480]	576.3
(Net sales-to-operating			
profit ratio)	13%	[12%]	15%
Ordinary profit	500 or more	[460]	547.4
(Net sales to ordinary			
profit ratio)	12%	[12%]	14%
Net income	300 or more	[270]	343.9
Net income			
per share (EPS) (yen)	44 or more		51
Return on assets (ROA)	12%		12%
Interest-bearing debt	1,000 or less		1,223.8
Total shareholders' equity	2,000 or more		1,677.8
Debt-equity ratio (times)	0.5 or less		0.73

^{[]:} Projections for fiscal 2005, disregarding the effects of extraordinary factors.

Earnings Targets by Segment

(Billions of yen)

	Targets for FY2008			(Disrega	ol FY2005 arding the a aordinary fa	effects of
	Net sales	Operating profit	Net sales to operating profit (%)	Net sales	Operating profit	Net sales to operating profit (%)
Consolidated total	¥4,200	¥540 or more	13%	¥4,000	¥480	12%
Steelmaking and Steel Fabrication Engineering and Construction Urban Development Chemicals	3,400 350 100 290	480 13 10 26		3,250 336 104 299	425 10 13 19	13% 3% 13% 6%
New Materials System Solutions	60 170	5 15	8% 9%	55 148	3	5% 8%

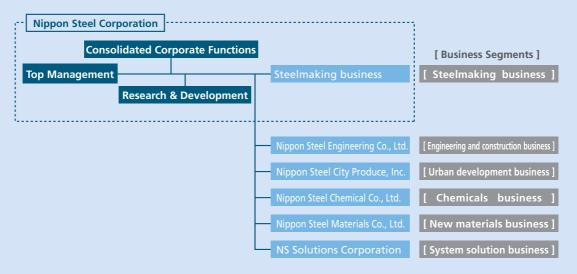
Consolidated Cash Flow Plan

(Billions of yen)

	FY2006–FY2008 (Targets)	FY2003–FY2005 (Actual)
Cash flows from operating activities	¥1,700	1,520
Taxes paid	570	323
Capital expenditure, investments and financing Dividends Reduction in interest-bearing debt	850 (75%) 130 (12%) 150 (13%)	627 (47%) 54 (3%) 648 (49%)
Asset reduction	_	132

Management Structure

- 1. In July 2006, the Company spun off the Engineering and Construction and New Materials businesses to form newly established subsidiaries.
- 2. The Company built a new management organization to promote the six business segments independently and concurrently, thereby enabling them to achieve self-sustaining development.
- 3. The individual business segments share the business strategies of Nippon Steel and are designed to maximize the Group's synergy through joint utilization of the R&D functions, etc., vested in the holding company.



Steelmaking

Strategies for the Nippon Steel shall reinforce its technological and manufacturing strengths through the continued enhancement of its superior "technological edge" with the aim of being the global No. 1 supplier focusing on medium-high grade steels.

Steelmaking and Steel Fabrication

Competitive Advantage

Technological Edge

- 1. Ability to develop new products, processes and equipment technology
- 2. Manufacturing capability and cost competitiveness
- 3. Effective environmental measures (e.g., zero emissions of pollutants, energysaving efforts)

- 1. Positively and consistently meet the demand for steel products with a focus on medium-high grade steels through enhanced capabilities to respond to customer needs
- Reinforce and expand Nippon Steel's technological and manufacturing strengths to meet the steel demand positively and consistently
- 3. Reinforce the business basis to spur further advances
- Implement measures to strengthen our total profitability and financial structure with Group companies
- 5. Strengthen alliance

Breakdown of operating profit improvement plan for Steelmaking business

Response to increased demand and enhancement of value added	up ¥80 billion
• Fluctuations of market and demand	down ¥50 billion
Improvement of technology for utilizing inexpensive low-grade raw materials Further energy-saving efforts Renewals of production facilities, etc.	¥90 billion improvement
Cost of reinforcing manufacturing infrastructure (depreciation cost, etc.) Effect of relining blast furnaces, etc.	down ¥50 billion
Effect of start-up of joint vontures overse. Supply–demand situations for stainless steel, public civil engineering works, etc.	as
	enhancement of value added Fluctuations of market and demand Improvement of technology for utilizing inexpensive low-grade raw materials Further energy-saving efforts Renewals of production facilities, etc. Cost of reinforcing manufacturing infrastructure (depreciation cost, etc.) Effect of relining blast furnaces, etc. Effect of start-up of joint vontures overse Supply-demand situations for stainless

It is assumed that even if raw material price rise, these effects on earnings would be offset by increased steel product prices



Each business segment subsidiary shall strive to increase the profitability and strengthen the financial structure and establish its presence in the respective markets by developing new products and services based on the technological edge and deploying a customer solution marketing

Engineering and Construction—Nippon Steel Engineering Co., Ltd.

Competitive Advantage

Leading-edge technologies and quality customer base in four key business fields

- 1. Steel plants
- 2. Environmental engineering
- 3. Energy, civil engineering and offshore structures
- 4. Building construction and steel structures

Tasks

- 1. Concentrate efforts in key fields
- 2. Refine technologies and promote solution-style marketing
- 3. Undertake thorough project management, with an emphasis on compliance in pubic sector projects

Urban Development—Nippon Steel City Produce, Inc.

Competitive Advantage

- Rich array of proven results in redeveloping idle land, such as the sites of nowclosed plants and company dormitories
- 2. Property development, management and operation expertise accumulated through large-scale redevelopment of idle land
- 3. Innovative solutions qualified by experience dealing with industrial sites

Tasks

- 1. Strive to be a business that creates area value through integrated activities, from development to operation, maintenance and management
- 2. Expand asset value renewal business
- 3. Sell and effectively utilize the real estate property owned by Nippon Steel and its subsidiaries and affiliates

Chemicals—Nippon Steel Chemical Co., Ltd.

Competitive Advantage

Technological superiority in core businesses

- 1. Process technology for separation and refinement, aromatic synthesis and film-making
- 2. Material design technology for aromatic chemicals and functional resins
- 3. Functional design technology for adhesive technology and miniaturization technology

Tasks

- Completely reinforce principal technologies in core businesses (coal-based chemicals and carbon materials, aromatic chemicals and electronic materials)
- 2. Further expand coal-based chemical business, already the largest in Japan
- 3. Focus on electronic material business and maintain world's top share in copper-clad laminate (CCL) business
- * These materials, which are flexible, are used in the printed circuit boards of such products as mobile telephones.

New Materials—Nippon Steel Materials Co., Ltd.

Competitive Advantage

Substantial shares for product groups in niche markets

- 1. Stainless steel foil suspension assemblies for hard disk drives (Share of world market exceeds 90%)
- 2. Spherical fillers for semiconductor sealing materials (No. 2 in the world market)
- 3. Gold bonding wire for semiconductors. (No. 3 in the world market)

Tasks

- 1. Focus on materials and components for the high-growth electronics industry
- 2. Commercialize products in the strategic realm of environment and energy

System Solutions—NS Solutions Corporation

Competitive Advantage

- 1. Broad experience in system integration for manufacturing industry
- 2. Total response, providing business solutions, platform solutions and system management and maintenance services in optimum combination
- 3. Consulting expertise for overall redesign of client systems

Tacks

- 1. Sharpen competitive edge and maintain profitability—already the highest in the industry—and expand business
- 2. Provide SLC (system life cycle) total solutions
- 3. Utilize connection and synergy between manufacturing businesses and system solutions business to improve competitiveness



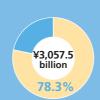
Operations at a Glance

As part of its efforts to reform the organization to promote consolidated management, in July 2007 the Nippon Steel Group spun off its Engineering and New Materials businesses as separate companies and restructured Nippon Steel as a holding company for the Steel business. In the future, we will promote the operations of our six business segments both independently and concurrently, within a structure that encourages autonomous development.

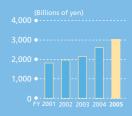
Steelmaking and Steel Fabrication

*In July 2007, the Titanium Division shifted here from the former Chemicals and Nonferrous Metals Segment.

Consolidated Sales by Segment



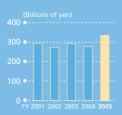
Five-Year Sales Data



Engineering and Construction

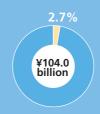


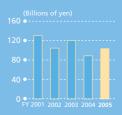
8.6% ¥336.1 billion



Urban Development



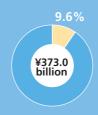


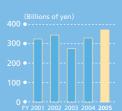


Chemicals



Former Chemicals and



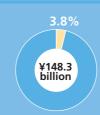


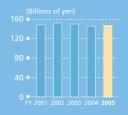
New Materials

*In July 2007, this business becam independent from the former Chemica and Nonferrous Materials Segment.

System Solutions







Note: Sales and operating profit by segment includes intersegment transactions

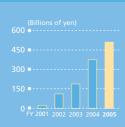
>> Operations at a Glance



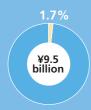
Five-Year Operating Profit Data

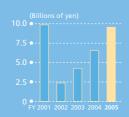
Business Highlights



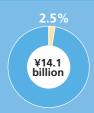


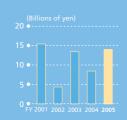
With fuel and raw material prices at unrelentingly high levels, the Steelmaking and Steel Fabrication segment endeavored to absorb rising expenses by achieving maximum cost reduction in operations in fiscal 2005. This segment also worked to capitalize on prevailing opportunities in the steel market, where demand has polarized into medium-high grade and general-purpose camps. Efforts were rewarded as segment sales rose 16.7% from fiscal 2004, to ¥3,057.5 billion, and operating profit climbed 36.3%, to ¥513.9 billion.





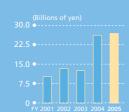
The Engineering and Construction segment maintained order activity at a record-high level, thanks to a recovery in demand, and posted improved profits through successful cost-cutting measures. Segment sales increased 20.1% from fiscal 2004, to ¥336.1 billion, and operating profit advanced 43.9%, to ¥9.5 billion





In fiscal 2005, Top REIT Asset Management Co., Ltd.—jointlestablished by Nippon Steel City Produce, Oji Real Estate Co., Ltd. and the Sumitomo Trust & Banking Co., Ltd.—listed a Japanese real estate investment trust on the Tokyo Stock Exchange. Thi development contributed to a 16.6% increase in Urbai Development segment sales over fiscal 2004, to ¥104.0 billion Operating profit surged 65.9%, to ¥14.1 billion.

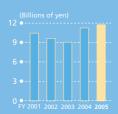




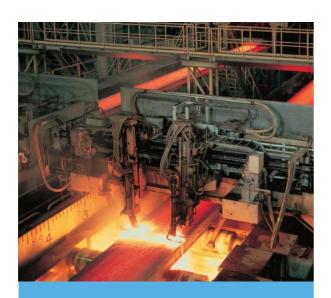
the impact of persistently high prices for raw materials, including crude oil and naphtha, and a soft supply and demand situation for finished products in the Chemicals business, combined with ar unfolding process of selection and concentration, led to segment sales of ¥298.4 billion and operating profit of ¥19.3 billion.

Brisk demand from information technology (IT)-related sectors primary market for the New Materials business—underpinne favorable sales of such products as metal foils for hard disk driv suspensions and fine ceramics for semiconductor manufacturin equipment. As a result, segment sales totaled ¥54.9 billion, an operating profit amounted to ¥2.9 billion.





Despite the worsening profitability of users' IT-related investments brisk corporate results supported firm results. As a consequence System Solutions segment sales rose 1.2%, to ¥148.3 billion, and operating profit increased 4.4% rise, to ¥11.8 billion.

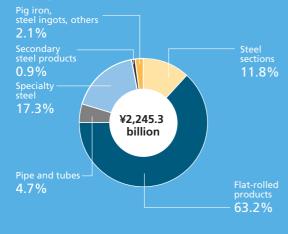


Steelmaking and Steel Fabrication

Segment Profile

The Steelmaking and Steel Fabrication operations at Nippon Steel boast the world's most advanced technologies for medium-high grade steels requiring high processability, corrosion resistance and high-strength welds. These capabilities enable the Company to offer customers a varied assortment of processing and welding solutions.

Sales by Product (Non-Consolidated)



Segment Performan	ce (Consolida	i ted) (Bil	lions of yen)
	FY2003	FY2004	FY2005
Sales	¥2,156.9	¥2,620.7	¥3,057.5
Operating profit	189.7	376.9	513.9

Fiscal Summary

Fiscal 2005 presented opportunities and challenges for the steel industry. On the positive side, demand held steady, spurred by an increase in manufacturing activities in Japan and other parts of East Asia, particularly China. On the negative side, fuel and raw materials remained under tight supply and demand conditions, causing prices to increase. Overall, the operating environment was favorable even though, with worldwide demand for steel on an upswing, the market entered a period of inventory adjustment. The process wrapped up quickly, however, and demand turned upward again.

In East Asia, a primary market for Nippon Steel, the market polarized. A tight supply and demand balance characterized the market for medium-high grade steels, particularly those aimed at automakers, shipbuilders and other manufacturers, while the opposite situation existed in the market for general-purpose steels, largely because of expanded production capacity in China.

Despite reduced exports of general-purpose steels, crude steel production in Japan remained high, at 112.7 million tons, more or less on par with the level recorded in fiscal 2004.

Against this operating backdrop, Nippon Steel directed concerted efforts toward cutting costs as much as possible so as to absorb the heavy cost burden caused by rising fuel and raw material prices. The Company also applied different approaches to the demands of the polarized market.

In the area of medium-high grade steels, the goal was to reinforce Nippon Steel's ability to ensure that supply matches robust demand. We endeavored to eliminate bottlenecks in the production process to improve inteExecutive Team/

Organization

History

>> Steelmaking and Steel Fabrication

Nippon Steel and Sumitomo Metals have agreed to integrate their respective structural steel sheet and road and civil engineering materials businesses to create an efficient production structure and to enhance competitiveness in these business areas.



grated production capacity and took advantage of unfilled production capacity at Group companies and alliance partners to meet required deliveries.

Meanwhile, in the area of general-purpose steels we resorted to production cuts, targeting products for export and steel sheets for the domestic market. This move reflects a corporate priority to maintain or increase prices.

In regard to raw material procurement, Nippon Steel pursues several methods, particularly long-term purchase contracts for iron ore with major suppliers, to ensure stable supply.

As a result, consolidated sales from the Steelmaking and Steel Fabrication operations rose 16.7%, to ¥3,057.5 billion, and operating profit jumped 36.3% year-on-year, to ¥513.9 billion.

Strengthening Domestic Alliances

To cope with fluctuations in steel demand and intensifying competition abroad, Nippon Steel promotes alliances with companies.

Nippon Steel already maintains an alliance with Sumitomo Metal Industries, Ltd. (Sumitomo Metals), and Kobe Steel, Ltd., which has generated extremely positive results. Through this partnership, Nippon Steel and Kobe Steel gain access to steel slabs produced by Sumitomo Metals, and now jointly supply hot-rolled steel coils to Sumitomo Metals. All three companies support efficiencyoriented rationalization measures, including consolidation and restructuring of companies within each corporate group, and promote the exchange of ironmaking technology. These relationships serve to mutually complement production capacity and contribute significantly to greater efficiency in production activities. Once the supply of steel

slabs from Sumitomo Metals commences, we expect to gain access to a larger volume and wider variety of steels for use in medium-high grade steels and other products. To underpin continued progress in the development and execution of cooperative measures, Nippon Steel, Sumitomo Metals and Kobe Steel added to existing share cross-holdings.

Steady steps forward on the measures implemented under this three-company alliance are crucial to sustaining and improving the corporate value of all parties, and in light of a recent spate of corporate buyouts, the three companies signed a memorandum of understanding (MOU) in March 2006—ensuring the process for the three companies to cooperatively study the impacts on the strategic alliance and countermeasures to a buyout of one of the three companies.

Nippon Steel also initiated separate alliances of mutual benefit with Sanyo Special Steel Co., Ltd., and Toyo Kohan Co., Ltd., following a reciprocal purchase of shares, to sharpen the competitive edge of each company. (Effective from June 2006, Sanyo Special Steel is included in Nippon Steel's consolidated accounts as an equity-method affiliate.)

The increased profit effect derived through Nippon Steel's alliance with Sumitomo Metals and Kobe Steel continues to be approximately ¥25 billion annually. We expect the effect of our alliances with other companies will also exceed invested capital.

Group Company Strategy

Nippon Steel strives to reinforce consolidated management and maximize the management resources of the Group. Through a process of selection and concentration



Baosteel-NSC/Arcelor Automotive Steel Sheets, a joint venture established by Nippon Steel, Baoshan Iron & Steel and Arcelor, is the first major supplier of automotive steel sheets in China. The joint venture enhances Nippon Steel's supply structure, positioning it to meet the needs of globally expanding automakers.

in the core steelmaking business, the Company has brought to 81 the number of companies excluded from the scope of consolidation over the past three years. We will maintain this approach to cultivate and further refine core operations.

In December 2005, seeking to hone a sharper competitive edge in logistics, we turned two consolidated subsidiaries—Nippon Steel Logistics Co., Ltd., and Seitetsu Unyu Co., Ltd.—into wholly owned subsidiaries through a share-for-share exchange. The operations of these two subsidiaries are now being integrated and reorganized.

Nippon Steel also formed an agreement with Sumitomo Metals to implement joint operation of production and sales of cast rolls for steel rolling and to integrate the structural steel sheet and road and civil engineering materials businesses.

Overseas Development

With a focus on strategic alliances and joint ventures in North and South America, Southeast Asia and Europe, Nippon Steel has established an alliance network comprising top companies in key regions around the world. The Company also maintains a global supply network matched to the overseas expansion of customers, especially automakers.

Nippon Steel has inked strategic global alliance agreements with Luxembourg-based Arcelor since 2001. Seeking to build a structure more responsive to the needs of automakers keen on localizing production in specific markets abroad, we encourage greater use of features common to the existing products of both companies and have expanded product lineups through the exchange of licenses. Joint efforts in the areas of R&D, procurement

and the environment are also yielding concrete results.

Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd., a joint venture established with Baoshan Iron & Steel Co, Ltd., and Arcelor, to handle production and sales of automotive steel sheets, is steadily expanding output to meet an anticipated increase in demand in China for high-grade automotive steel sheets over the medium to long term. The joint venture supplies high-quality steel sheets to automakers in China, including facilities with investment from Japan.

Nippon Steel concluded a strategic alliance agreement with South Korea's POSCO in 2000, and both companies consented to a five-year extension in August 2005. Among our activities, we have jointly applied for numerous patents, including technology for using inexpensive but low-grade raw materials and actual application of new heat-resistant fine ceramics.

Both companies have also benefited considerably from technical exchanges for steelworks engineers.

With regard to raw material procurement, with the objective of expanding capabilities of procuring good-quality and low-cost iron ores and coking coals on a stable basis, both companies are pursuing joint projects across the globe.

Currently, Nippon Steel holds more than 3% of equity in POSCO, and POSCO over 2% in Nippon Steel. As business entities (other than financial institutions), both companies are each other's largest shareholder.

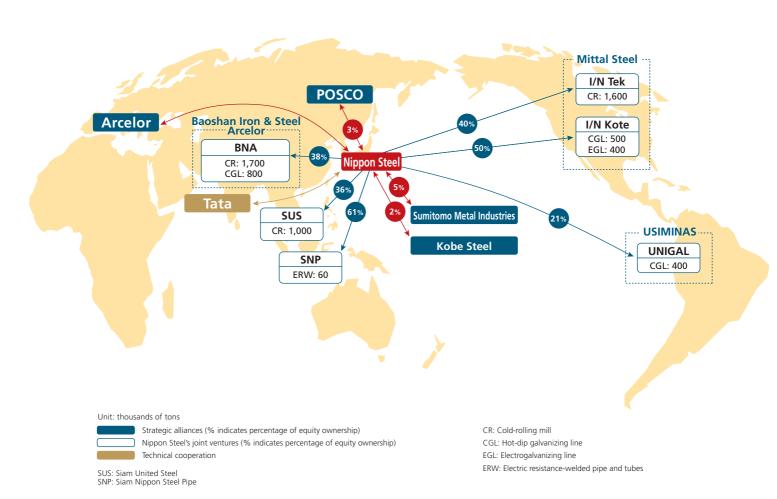
These achievements demonstrate that two companies with different traditions and cultures can produce great results by means of merging each other's varied resources, without recourse to management integration.

>> Steelmaking and Steel Fabrication

Major Steelmaking Joint Ventures Overseas

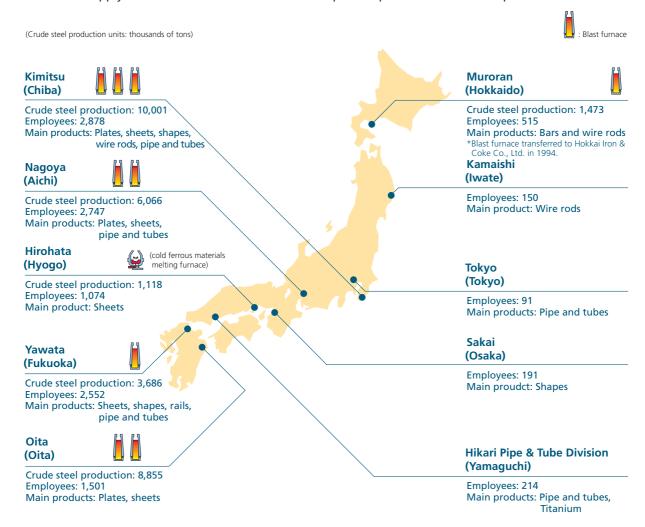
Name	Location	Start of Operations	Business Content
I/N Tek	United States	1990	Commissioned rolling of cold-rolled steel sheets
I/N Kote	United States	1991	Manufacture and sale of coated steel sheets
Guangzhou Pacific Tinplate Co., Ltd. (PATIN)	China	1997	Manufacture and sale of tinplate
Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA)	China	2005	Manufacture and sale of cold-rolled steel sheets and hot-dip galvanized steel sheets
P.T. Fumira	Indonesia	1970	Manufacture and sale of galvanized and prepainted steel sheets
Siam Tinplate Co., Ltd. (STP)	Thailand	1992	Manufacture and sale of tinplate and tin-free steel
Siam Nippon Steel Pipe Co., Ltd. (SNP)	Thailand	1996	Manufacture and sale of machine structural steel pipe
The Siam United Steel (1995) Co., Ltd. (SUSUNIGAL Ltda.	5) Thailand Brazil	1998 2000	Manufacture and sale of cold-rolled steel sheets Manufacture of hot-dip galvanized steel sheets

Global Alliance Network



Overview of Productions and Shipments

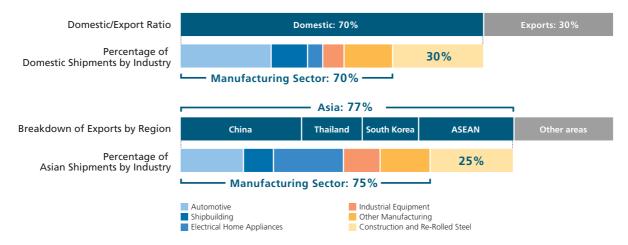
- >> Domestic Steelworks and their Products
- Efficient production by integrated works and concentrated production of specialty steel
- Efficient supply network close to demand area and quick response to customer requests



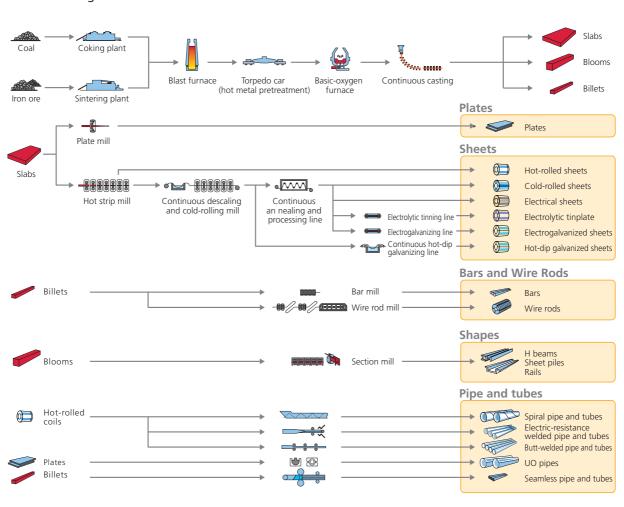


>> Breakdown of Shipments by Demand Sector

- The domestic market consumes approximately 70% of Nippon Steel's steel products.
- Approximately 80% of the Company's exports go to other parts of Asia.
- More than 70% of the Company's medium-high grade steels are supplied to manufacturers at home and abroad.



>> Steelmaking Flow



Product Review

[Main Products]

Hot-rolled sheets, cold-rolled sheets, surface-treated sheets, precoated sheets, tinplate and electrical sheets

[Uses]

Steel sheets are used in a wide variety of finished products, including automotive bodies, electrical machinery, steel furniture, office equipment, construction materials, containers, motors and transducers.

Sheets



>> Market Trends and Characteristics

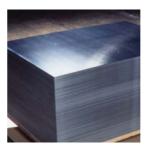
Demand for sheets has expanded significantly in recent years, paralleling increased production of automobiles—fostered by progress in motorization worldwide—and heightened interest in digital appliances and IT-related products. We have noticed particularly outstanding growth in demand for medium-high grade steels, especially from the manufacturing sector, for use in products boasting environmentally friendly features.

>> Product Features and Positioning

In the area of steel sheets, an extensive product lineup and the ability to respond quickly to multifaceted customer needs distinguish Nippon Steel from the competition. The introduction of high-performance steel materials suited to the increasingly sophisticated requirements of the market underpins the Company's vanguard position in the steel industry. A case in point: HITEN, a high tensile-strength sheet that enables automakers to reduce vehicle weight, and SuperDyma, a highly corrosion-resistant, galvanized sheet, have earned high scores from customers.

To enhance our responsiveness to medium-high grade steel demand, we plan to replace and open new hot-dip galvanizing lines at the Kimitsu, Nagoya and Hirohata steelworks in fiscal 2006.

Amid growing environmental awareness in recent years, manufacturers are actively incorporating Nippon Steel's environmentally friendly Eco-Products® into a wide variety of products. For example, our extra-thin tinplate is ideal for making lightweight cans, and our high-efficiency electrical





sheets support energy-saving features in such equipment as household appliances. Laminated steel for cans and precoated sheets, increasingly popular as enclosure materials for household appliances, enable manufacturers to skip the painting process, thereby curbing the environmental impact of production processes.

Nippon Steel understands the onus on manufacturers to comply with environment-related restrictions and addresses this need with a selection of sheets free from lead, hexavalent chromium and other substances banned under environmental compliance guidelines, such as the End-of-Life Vehicles (ELV) and Restriction of Hazardous Substances (RoHS) directives.

A breakdown of order activity reveals a notably high percentage of requests—typically permanent, long-term contracts—from Japanese manufacturers. To supply customers in Japan, we have established a network hinging on domestic steelworks and sales offices and the close proximity of these product gateways to the manufacturing facilities of our customers. Abroad, we meet customer needs with fine-tuned services expedited through overseas offices.

Complementing the fiscal 2004 change in status for Nittetsu Steel Sheet Corporation and Nippon Steel Metal Products Co., Ltd., from consolidated subsidiaries to wholly owned subsidiaries, in fiscal 2006 we plan to integrate the structural steel sheet and road and civil engineering materials businesses of these subsidiaries and those of Sumitomo Metal Sheet Products, Inc.—a member of the Sumitomo Metals Group—to enhance competitiveness in these business areas.

History

>> Steelmaking and Steel Fabrication

[Main Products]

Heavy plates and medium plates

[Uses]

Plates are used in large structures that underpin social infrastructures, including ships and offshore structures, buildings, bridges, rail cars, civil engineering and construction machines, tanks and pressure vessels, and nuclear, thermal and hydroelectric plants.





>> Market Trends and Characteristics

With demand expected to rise, plates will be used more extensively in a broad range of applications, but especially so in shipbuilding and the assembly of construction equipment and energy-related tanks and plants. We anticipate a growing need for plates of certain thickness, strength and toughness, paralleling keen interest in ships of larger capacity—to boost transportation efficiency—and wider demand for oil and other energy-related infrastructure installations.

>> Product Features and Positioning

Plates from Nippon Steel include high-performance products utilizing cutting-edge technology, such as the next-generation accelerated cooling process called CLC- μ —short for Continuous on Line Control—as well as extra-long and extra-wide plates, rolled out with the world's largest rolling equipment. The use of our plates in building projects contributes to the structural safety of the buildings themselves as well as improved productivity and competitiveness of the customers in various demand sectors involved in these building projects.

Nippon Steel boasts the world's widest continuous casting line and will use this facility to steadily address the need for longer, energy-related plates. An emphasis will be placed on the production and supply of highly tough plates suitable for ultralow-temperature environments for liquefied natural gas (LNG) tanks as well as ultrathick plates for energy plants and large machinery.

[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 by the manufacturing industry, especially in the automotive and construction materials sectors, where they undergo additional processing, including heattreatment, extrusion or forging. In the automotive sector, these steel materials become components, such as shafts and gears, and steel cord for tires, while in the construction materials sector they are turned into wires, nails, concrete reinforcing rebar and high tensile-strength cable for suspension bridges.

Bars and Wire Rods



>> Market Trends and Characteristics

The market for bars and wire rods hinges on two industries: automotive and construction. Orders from the automotive industry represent a particularly high percentage of the total, with products applied extensively to key safety components, such as the engine, drivetrain and suspension. Demand for high-grade bars and wire rods is on the rise, spurred by increased localized production by Japanese automakers in overseas markets. In the construction industry, the trend toward strong, highly durable products is gaining momentum, with growing interest in high-grade bars and wire rods.

>> Product Features and Positioning

To respond to brisk demand and the increasingly sophisticated needs of customers, Nippon Steel has implemented appropriate production processes and a meticulous quality-control system, underpinned by superior technological capabilities, that enable the Company to ensure bars and wire rods incorporated into high-end products by secondary manufacturers meet exacting industry standards.

As part of this effort, Nippon Steel has taken various approaches to hone a sharper competitive edge in the bar and wire rod market. For example, we acquired and restarted an idle electric furnace owned by Mitsubishi Steel Mfg. Co., Ltd., and established NS Bar and Wire Co., Ltd., a joint venture with Nakayama Steel Works, Ltd.

[Main Products]

H beams, pipe piles, heavy plates for steel frames, rails for railways, steel sheet piling and such fabricated products as segments

[Uses]

Whether the building environment is deep underground or a tall skyscraper, Nippon Steel offers the construction industry a wide range of building materials, including H beams and sheet piles, as well as fabricated products and construction methods matched to diverse needs.

Construction Materials



>> Market Trends and Characteristics

The construction materials industry is dominated by two key demand groups: civil engineering and construction. A huge recovery in demand from the civil engineering sector is unlikely, given the impact of streamlined spending on public capital works. However, demand from the construction sector is showing favorable improvement, thanks to several factors, including large-scale urban redevelopment products currently under way; greater construction of factories, supported by better conditions for domestic manufacturers and strategies geared to expanded production capacity for IT-oriented household appliances; and aggressive capital investment in distribution warehouses and stores, paralleling sustained economic recovery.

We anticipate stable demand in the future, primarily supported by urban redevelopment and structural upgrades—in both the civil engineering and construction sectors—on constructions erected during the high-growth era of the 1980s and early 1990s.

>> Product Features and Positioning

Against the operating backdrop outlined above, Nippon Steel launched new products that underscore the Company's originality. These include an expanded range of sizes for NITTETSU HYPER BEAM, high-value-added H beams with constant outer dimensions; Hat-Shaped Steel Sheet Piles, which contribute to reduced material and installation costs; and TN-X pipe piles for building foundations, a highly durable, low-cost, bridge-building method that facilitates quick installation.

We will utilize comprehensive capabilities to meet customer needs now and in the future

[Main Products]

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

[Uses]

Steel pipe and tubes are used in diverse applications by energy-related industries (oil and natural gas pipelines, drilling and pumping equipment at gas and oil well sites, and electric plant boilers), the automotive, construction and industrial equipment industries (propeller shafts and equipment cylinders), and building construction and civil engineering industries (distribution and general construction pipes for homes, other buildings and civil engineering installations).

Pipe and Tubes



>> Market Trends and Characteristics

Growing worldwide demand for energy has pushed the mining industry into remote regions with exceedingly harsh environments in search of plentiful yet untapped sources of energy. These locations necessitate the installation of long-distance resource-relaying structures. Steel pipe and tubes are indispensable to mining projects, and evolving trends are sure to precipitate more sophisticated and complex requirements from the market.

>> Product Features and Positioning

Applying comprehensive expertise underpinned by integrated development, manufacturing and marketing systems covering everything from materials to finished pipe and tubes, Nippon Steel marked a first in the international steel industry with the development of a pipe—X-120—for pipelines that is far stronger than predecessor products. X-120 has been extremely well received by the market for facilitating high-pressure transport of natural gas and contributing to reduced pipeline construction costs.

Nippon Steel's pipe and tubes are used widely by automakers in key safety components, which require combined qualities, such as high strength and formability, tailored to each part. We will reinforce pipe and tube development with application and processing technology and strive to expand production points in China and Southeast Asia in preparation for increased local production and procurement by automakers in those regions.

[Main Products]

sheets and bars and wire rods

[Uses]

Plates, cold-rolled sheets, hot-rolled

>> Steelmaking and Steel Fabrication

[Main Products]

Plates, foils, cold-rolled sheets and coils, hot-rolled sheets and coils, welded pipe and tubes, bars and wire rods, and fabricated products

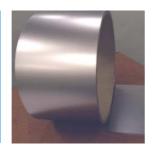
[Uses]

Titanium products are used in chemical plants (reaction vessels, tube-type heat exchangers and plate-type exchangers), power plants (condenser tubes and tube plates), electrolysis (electrodes, electroplating baths and copper foil drums), automobiles (mufflers, suspension springs, engine valves and connecting rods), consumer products (watches, golf clubs, eyeglasses and IT equipment exteriors), and architectural and civil engineering applications (roofs, walls, monuments and corrosion-protection for offshore structures).



Stainless steel is used in a spectrum of applications, including ships, cookware, electrical appliances, food and chemical plants, parts for automotive exhaust systems, and kitchen equipment for homes and commercial venues. As a corrosion-resistant material presenting vast design possibilities and high recyclability, it is no wonder that demand for the material continues to grow worldwide.

Titanium



>> Market Trends and Characteristics

Demand for titanium is extremely vigorous, supported by two major demand sectors—general industrial applications and aviation applications. Although the supply of raw material sponge titanium is expanding, the supply and demand situation still remains overwhelmingly tight. Nippon Steel has made great efforts to expand sales of titanium for general industrial applications and was rewarded with remarkably favorable sales, especially products used for plants and heat-exchangers in China and the Middle East.

>> Product Features and Positioning

Nippon Steel enjoys a technological cost advantage in its titanium business, because steelworks, steelmaking facilities and a wealth of expertise in rolling technology can also be utilized in titanium operations

We turn out mainstay titanium sheets and plates at the world's largest slabbing mill and ensures a stable product supply, from wide, thin-gauge cold-rolled materials to heavy plates—all to the world's top quality standards—but also work steadily to cultivate new markets through the diversification of titanium applications.

Concerted efforts to promote the titanium business have enabled Nippon Steel to secure the top share of the global titanium market for general industrial applications. We will continue to expand this business by providing for demand in conventional sectors as well as by creating interest in new sectors.

Stainless Steel



>> Market Trends and Characteristics

Nippon Steel & Sumikin Stainless Steel Corporation, Japan's largest stainless steel specialty manufacturer, handle stainless steel operations within the Nippon Steel Group. Annual production hovers at one million tons, representing one-third of total domestic production.

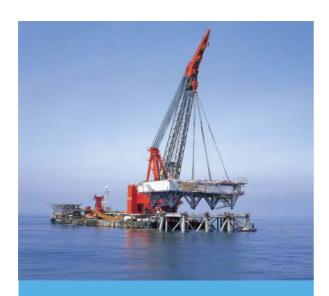
In fiscal 2005, prices for raw materials, such as nickel and chromium, rose and stayed high. Demand for stainless steel was solid, but expanding production capacity in Asia outside of Japan, particularly in China, prompted an adjustment phase in the supply and demand structure that affected market conditions in Japan as well.

>> Product Features and Positioning

To address high raw material costs and changing supply and demand characteristics in the market, Nippon Steel & Sumikin Stainless Steel aggressively pursued development and wider marketing of highly original products, such as super stainless steel, high-performance duplex stainless steel and high-purity ferrite steel, which is free of high-priced nickel and boasts excellent formability and anticorrosion properties.

Nippon Steel & Sumikin Stainless Steel also accurately responds to customer concerns, earning widespread support from customers at home and abroad.

As a leading producer of stainless steel, Nippon Steel & Sumikin Stainless Steel will continue to energetically pursue full-spectrum R&D activities and build marketing and production structures geared to the globalization of manufacturing industries.



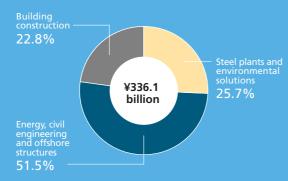
Nippon Steel Engineering Co., Ltd.

In 1974, Nippon Steel established the Engineering Divisions Group, through which its comprehensive engineering technologies could be applied in a diverse array of construction projects, from steel, environmental and energy plants to buildings and large bridges, at home and abroad.

(In July 2006, Nippon Steel Engineering Co., Ltd., was spun off as a separate company.)

http://www.nsc-eng.co.jp/

Sales by Product (Consolidated)



Segment Performance (Consolidated) (Billions of yen)					
	FY2003	FY2004	FY2005		
Order value	¥286.4	¥333.4	¥384.7		
Sales	293.1	279.8	336.1		
Operating profit	4.3	6.6	9.5		

Engineering and Construction



President, Nippon Steel Engineering Co., Ltd. **Makoto Haya**

Business Strategies

Under Nippon Steel's new medium-term consolidated business plan, the Engineering and Construction segment was spun off and reemerged as the independently operating Nippon Steel Engineering. The new company will be growth-oriented, dealing with market conditions on its own, and strive to raise its corporate value as a member of the Nippon Steel Group.

Guided by our basic goal to use comprehensive engineering capabilities in designing total problem-solving solutions, we will seek to go beyond the scope of merely providing products. We also aim to add value to the services we extend while carving out new markets for our expertise.

Our strengths are on-site expertise and technologies, inherited like a genetic code from Nippon Steel. Indeed, our technologies—including those for the production, processing and forming of steel, as well as requisite technologies related to thermal and anticorrosion properties and welding—support our participation in the construction of facilities, such as environmental plants, as well as large bridges, ultrahigh-rise buildings and megastructures.

We inherited Nippon Steel's integrated engineering and construction capabilities and will complement years of accumulated knowledge in building facilities and steel structures with market-oriented technologies and knowhow to offer one-stop engineering solutions to all our customers' high-tech construction needs.

Our vision as a solutions provider trusting in the potential of engineering is to establish an essential presence in this field—a cornerstone of corporate existence that reinforces the foundation of society, promotes the development of industry and the creation of cities, and sustains a comfortable way of life.

Specifically, we will emphasize the following four business areas.

Directory

>> Engineering and Construction

In the energy, civil engineering and offshore structures business, we enjoy a top spot in Southeast Asia, in terms of orders won and proven results. Through application of the unit construction method, we achieve sizable reductions on both cost and schedule fronts, even for plants with complex designs, such as this LNG receiving terminal.



>> Steel Plants

We will satisfy diverse customer needs as a top supplier of steel plants with a wealth of experience and high-level expertise accumulated through the construction of numerous steelworks at home and abroad.

>> Environmental Solutions

We will actively tackle environmental issues and contribute to the realization of a resource-recycling society by offering solutions for safe and reliable treatment and recycling of waste and methods for soil remediation and underground water purification.

>> Energy, Civil Engineering and Offshore Structures We will support the creation of comfortable social and industrial infrastructures through the construction of oil and natural gas development facilities at home and abroad, as well as energy-utilization facilities and far

>> Building Construction

offshore or harbor-based facilities.

Our construction business, which begins with design, is extensive, targeting a wide range of projects, such as factories, office towers, commercial complexes and

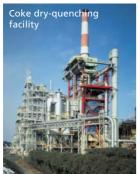
distribution facilities. We will contribute to the safety and vitality of people, communities and the nation through these projects, with dual-pillar support: technological capabilities and products, hinging on steel structures; and planning and proposal skills, enhanced by the vast network of the Nippon Steel Group.

Fiscal Summary

Benefiting from a general uptrend in markets where Nippon Steel demonstrates competitiveness, the Engineering and Construction segment achieved another year of record-breaking orders received.

In the domestic market, we capitalized on brisk demand for steel plants and distribution facilities and pursued a marketing approach highlighting proposal-style solutions for private finance initiative (PFI) waste treatment plants. PFIs use private-sector capital and management and technological know-how to build, maintain and operate public-sector facilities.

Overseas, we continued to focus on orders for energyrelated development projects in Southeast Asia and promoted steel plant projects through our representative offices in China.









Nippon Steel City Produce, Inc.

Nippon Steel City Produce, which handles the urban development business for Nippon Steel, promotes a pursuit dubbed "the property value revitalization business." This business covers the redevelopment of idle land owned by Group companies, such as the Yawata-Higashida site in Kitakyushu and the Otsu site in Himeji, as well as the transformation of low-use urban districts in major cities, and the sale of units in the resulting condominiums complexes.

The company also looks for business opportunities in the unfolding real estate securitization market and marked success in this venture with the March 2006 listing of Top REIT, Inc., on the Tokyo Stock Exchange. Top REIT is a Japanese real estate investment fund managed by Top REIT Asset Management Co., Ltd., an asset management company jointly established by Nippon Steel City Produce, Oji Real Estate Co., Ltd., and The Sumitomo Trust & Banking Co., Ltd.

http://www.nscp-net.com/

Segment Performance (Consolidated) (Billions of yen)					
	FY2003	FY2004	FY2005		
Sales	¥120.8	¥89.2	¥104.0		
Operating profit	13.5	8.5	14.1		

Urban Development



President, Nippon Steel City Produce, Inc. **Akira Shoga**

Business Strategies

As a member of the Nippon Steel Group, Nippon Steel City Produce boasts know-how that no other company in the urban development sector can match. For example, since steelworks are integral components of the towns and cities that grow up around them, we can draw on our experience in steelworks' construction to create living environments. We are also extremely familiar with the ins and outs of redeveloping large tracts of idle land. In addition, we have the practical knowledge to address the administrative matters essential to community-building and property-renewal projects.

Guided by the new medium-term consolidated business plan, we will prioritize efforts utilizing our unique strengths to expand our asset value renewal business and to be a company that creates area value. This focus will help us contribute to regional societies through community-building activities based on trust and experience.

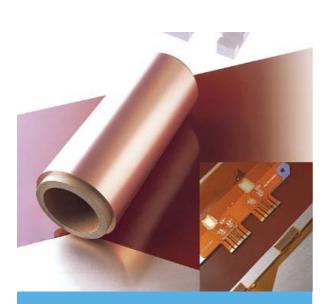
Our ultimate goals are to reinforce profitability and establish a distinctive profile in the industry as a comprehensive property developer.

Fiscal Summary

In the real estate market, demand for condominiums held steady and sales remained favorable, while recovery in corporate profits buoyed demand for office space and pushed the vacancy ratio for rental buildings down.

Seeking to derive concrete results from the positive operating environment, Nippon Steel City Produce energetically promoted its property value revitalization business. These efforts were rewarded with record-breaking performance: Gross sales jumped 19.8%, to ¥9,126.0 million, and ordinary profit soared 87.8%, to ¥1,198.6 million.

>> Urban Development >> Chemicals



Nippon Steel Chemical Co., Ltd.

Nippon Steel Chemical initially focused on the coal chemicals business, which made effective use of the coal tar and coke oven gas by-products of steelmaking processes. Today, the Nippon Steel Chemical Group—the cornerstone of the chemicals segment—undertakes operations that enhance the coal chemicals business with petrochemicals. No other company in the world pursues this kind of specialization.

In recent years, Nippon Steel Chemical has embraced a process of selection and concentration while maximizing aromatic chemical technologies accumulated over many years to strengthen its electronic materials business. Behind the launch of new products is the goal to capture top share worldwide, a strategy validated by ESPANEX, a material for flexible printed circuit boards developed in-house with proprietary technology, that enjoys a overwhelming share—60%—of the global market for two-layer CCLs.

http://www.nscc.co.jp/english/

Segment Performance (Consolidated)	(Billions of yen)
	FY2005
Sales Operating profit	¥298.4 19.3

*Data for years previous to FY2005 is mentioned on page 20, as it

Chemicals



President, Nippon Steel Chemical Co., Ltd. **Yoshio Hyodo**

Business Strategies

Nippon Steel Chemical's specialized profile comprises three businesses: chemicals, coal chemicals and electronic materials. Our activities are guided by two goals—to continuously bring innovative products to market and to have at least three No. 1 products in world markets at all times—and toward this end, we strive to develop products that no other company can match and always endeavor to address the requests of customers.

In our grand plan for 2010, we are aiming for ordinary profit of ¥30 billion, an equity ratio of 50% and return on sales of at least 10%.

Fiscal Summary

Despite the impact of skyrocketing prices for naphtha, crude oil and other raw materials as well as soft demand for chemicals in Asia, Nippon Steel Chemical maintained stable earnings in fiscal 2005. This achievement reflects improved prices for coal chemicals as well as benefits derived from the integration of tar and industrial gas operations with those of Air Water Inc.

The company will strive to enhance earnings by promoting greater application of the selection and concentration approach to successful business restructuring. This will necessitate downsizing in some areas, including the decommission of phenol production facilities, integration of phthalic anhydride production points and withdrawal from the paint business, while opening a new facility for ESPANEX, our mainstay product in the lucrative electronic materials business.



Nippon Steel Materials Co., Ltd.

Nippon Steel's new materials business got a fresh start on July 1, 2006, as Nippon Steel Materials. The new company inherited technologies acquired by Nippon Steel through steelmaking, such as analysis, structural control and welding methods, and continues to extend a diverse range of material solutions to the market.

http://www.nsc.co.jp/nsmat/

Business Content

	Nippon Steel Materia	S Affiliates
	Stainless steel foils Microball bumping servi Chemical mechanical polishing (CMP) pad conditioners	Nippon Micrometal Group ce Gold bonding wire Microsolder ball Micron Group Silica/Alumina spherical particle
		Nippon Steel Composite Group Pitch-based carbon fibe CFRP products
	Metal substrates for catalytic converter	NS Solar Material Polycrystalline silicon
	<u> </u>	
Nippon	Steel Technical Deve	opment Bureau
egment Perf	ormance (Consolida	ated) (Billions of yen
		FY2005
ales		¥54.9

New Materials



President, Nippon Steel Materials Co., Ltd. **Teruaki Ishiyama**

Business Strategies

Nippon Steel Materials has embarked on its way to becoming a maker of unique materials and components with high market shares in niche fields. The company has established an identifiable market presence with a selection of products backed by the sophisticated technologies accumulated by Nippon Steel in its steelmaking operations. These products include semiconductor components and materials, a thriving field; basic industrial components and materials other than those made of traditional steel-related materials; and components and materials for energy- and environment-related applications where social needs are growing.

Like a constellation of small but brightly shining stars, we aim to be a company with globally competitive product groups in the top three spots of respective markets. This goal is possible, as demonstrated by a global share exceeding 90% for stainless steel foils used in hard disk production.

Fiscal Summary

In fiscal 2005, the Nippon Steel Materials Group capitalized on favorable demand not only in the semiconductor business but in other businesses as well, achieving group sales of ¥54.9 billion and ordinary profit of ¥3.2 billion.

Our goal for fiscal 2008 is to boost ordinary profit as high as ¥5 billion. We will achieve this target by allocating capital primarily toward facilities for rolled metal foils, polycrystalline silicon and spherical fillers, by honing business capabilities in the growth market of East Asia, discovering new technologies in cooperation with Nippon Steel's technology division and creating new business through market development.

>> New Materials
>> System Solutions



NS Solutions Corporation

NS Solutions provides integrated solutions encompassing everything from system design and development to operation. We draw on the experience and sophisticated information technology (IT) capabilities acquired by Nippon Steel through its steelmaking operations to extend solutions in three core areas: business solutions for the manufacturing, distribution and service industries, the finance industry, and government agencies and the public sector; platform solutions, combining the most suitable systems through trial operations; and business services, which cover such aspects as operation and maintenance as well as outsourcing.

http://www.ns-sol.co.jp/en/company/

Segment Performand	ce (Consolida	ated) (Billi	ions of yen)
	FY2003	FY2004	FY2005
Sales	¥150.8	¥146.5	¥148.3
Operating profit	9.1	11.3	11.8

System Solutions



President, NS Solutions Corporation **Shigeru Suzuki**

Business Strategies

At NS Solutions, we seek to achieve the industry's highest levels of profitability and business growth. Toward this end, we promote strategies that will differentiate us from our rivals, with a focus on system life cycle (SLC) total solutions, covering planning, configuration, operation and maintenance. The approach of the broadband era has encouraged us to cultivate IT services that the emerging market is likely to need. This effort includes the realization of a next-generation concept in data centers through the establishment of a new data center.

Fiscal Summary

Investment in IT has resumed. After keeping a tight rein on IT budgets, manufacturers started to allocate more funds toward restructuring and redesigning platform systems for mission-critical systems for sales, production and distribution; financial institutions addressed the integration of systems; and corporate customers in general emphasized better information security. These demand opportunities translated into favorable IT industry results.

In April 2005, NS Solutions established NSSCL Service Co., Ltd., dedicated to high-quality operation and maintenance services, and then focused on reinforcing its ability to provide SLC total solutions by consolidating Groupwide management resources.



Research and Development

R&D Structure

In the true spirit of research and engineering, Nippon Steel promotes an integrated structure, linking basic research to applied development and plant engineering. This approach reinforces coordination of activities between the Research and Engineering Center, at the core of our R&D structure, and the R&D laboratories at steelworks across the country that provide support.

Our R&D capabilities highlight five strengths: 1) comprehensiveness and timely development, facilitated by the integration of R&D and engineering; 2) an R&D network with bases in customer regions; 3) proposal-style solutions fine-tuned to customer needs; 4) the ability to address energy- and environment-related concerns with solutions maximizing steelmaking process technology; and 5) joint research with academic institutions, overseas alliances and even customers.

With these strengths, Nippon Steel creates functional products, primarily in the steel-making business, pioneers production processes and ensures their swift introduction into operations.

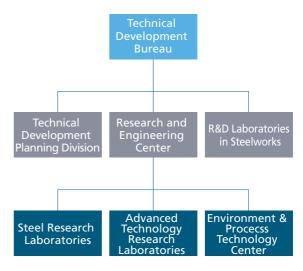
R&D Expenditures					of yen)
	FY2001	FY2002	FY2003	FY2004	FY2005
Consolidated	¥35.1	¥35.8	¥35.3	¥36.3	¥37.8
Non-consolidated	28.7	29.0	27.2	27.3	28.0

R&D Direction

Amid diversifying social needs, characterized by changing consumer preferences and concerns over energy and the environment, Nippon Steel is selectively investing management resources into R&D fields that will enhance the Company's technological edge and thereby contribute to profit growth.

>> Selected Targets

- 1. Improved ability to develop and supply medium-high grade steel products matched to the respective needs of the polarized steel market
- 2. Technology that facilitates the use of low-grade coal, iron ore and other fuels and raw materials, thereby enabling the Company to respond to a downward trend in raw material and fuel guality
- 3. Environment-oriented technology that underpins sustained corporate development



>> Research and Development

Super-PureFlex® is a puretitanium material with radically revised qualities, such as metal composition and grain size. Boxy shapes can be achieved with an ultradeep-draw process, making it possible to use this material in the housing of acoustic products.



Trends in R&D

Nippon Steel develops products differentiated by consumer needs and offers suggestions on new solution technology. The Company also pursues specific themes, such as the capacity to utilize a wider range of raw materials—an ability of increasing importance—and vital responses to the needs of energy- and environment-related markets.

Steel-related R&D has generated various high tensilestrength automotive steel sheets geared to market requests for products that ensure occupant safety and keep vehicle weights down. We also present solutionoriented technologies, such as welding and processing techniques that add value to these products through optimum application. We have enhanced plate production with a next-generation accelerated cooling process, and marked a world's first with the application of wire rods made of low-carbon, lead-free, free-cutting steel, developed as an environment-oriented product.

We also promote new product development in all business areas, including the titanium segment, where materials with excellent deep-drawing formability are used in such applications as the housing of acoustic products.

In R&D on slag, a by-product of steelmaking, we worked with another company to confirm at a test site that slag mixed with corrosive substances can foster ocean greening.

Energy- and environment-related R&D includes gas-to-liquid (GTL) technology for natural gas, and coal and biomass gasification technology. In the area of GTL technology, in fiscal 2005 a synthetic fuel production technique developed in cooperation with another company was recognized by the Japan Petroleum Institute with the Noguchi Memorial Award. In addition, at the request of the New Energy and Industrial Technology Development Organization we decided to locate a demonstration facility for ethanol production from food waste at Kitakyushu Ecotown.

>> Next-Generation Accelerated Cooling Process for Plates

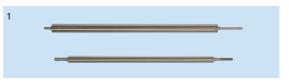
Accelerated cooling is a process that enhances the strength of steel materials through rapid cooling after rolling. Nippon Steel took an existing accelerated cooling process (CLC: Continuous on Line Control process) to a higher level with the realization of CLC- μ and introduced the next-generation process into the plate line at the Kimitsu Works.

CLC- μ enables stable control across a spectrum of cooling speeds, from high to low, thanks to radical changes in such aspects as the type of cooling nozzle used and the water control method applied. The upgraded process cuts variability in steel temperatures after cooling by half, compared with the previous process, and contributes to dramatically improved cooling controllability. As a result, the steel boasts a remarkably better metallographic structure and has greater capacity to accept material properties.

Nippon Steel is pursuing the development and mass production of high-performance products combining CLC-µ with several technologies, such as HTUFF^a steelmaking technology boasting high toughness of welding heat affected zone. The Company is also working to enhance its response to evolving conditions in energy-related markets, where demand is expanding and the natural environments in which steel products are used are increasingly unfriendly.









Products using low-carbon, lead-free, free-cutting steel wire rods:

- 1. Printer shafts
- 2. Automatic transmission component for automobiles

>> SCOPE21 Next-Generation Cokemaking Technology

Coke, an absolutely indispensable raw material in blast furnace steelmaking, is made by heating and carbonizing coal in a coke oven. Most of Japan's coke ovens have been in service for more than 30 years, and the time for redesign is fast approaching. In preparation, Nippon Steel has been working on the development of new cokemaking technology for the 21st century.

Nippon Steel has determined that rapidly heating coal at a high temperature before it goes to the coke oven to be dried and carbonized will improve the quality of the coal, and better coal will shorten processing time in the coke oven. The Company is applying this knowledge in a national project dubbed SCOPE21 (Super Coke Oven for Productivity and Environmental Enhancement toward the 21st Century).

SCOPE21 is a highly competitive, innovative process that has the potential to boost consumption of low-cost non-caking or slightly caking coal over heavy-caking coal from the prevailing 20% to 50%. In addition, the process could raise productivity more than two-fold, because less time will be required to dry and carbonize the coal in the coke oven, and could realize energy savings of approximately 20%.

We have already completed trials at a pilot plant at the Nagoya Works. Construction of our first SCOPE21 coke oven for normal operation is under way at the Oita Works and scheduled to go on line in January 2008.

>> Low-Carbon, Lead-Free, Free-Cutting Steel Wire Rods Nippon Steel developed environment-oriented wire rods made of low-carbon, lead-free, free-cutting steel for office printer shafts and for use in the components of automotive brakes and transmissions. These products have already been put to use, marking a world's first in the application of low-carbon, free-cutting steel devoid of environmentally harmful lead.

Lead enhances the machinability of steel, and because components, such as printer shafts, are fashioned from machined steel wire rods, they typically have lead content. Nippon Steel looked for an alternative to lead, though, opting for sulfides, and refined its manufacturing technique to facilitate even dispersion of fine sulfide particles through the steel to achieve high machinability.

This product will also extend the life of cutting tools because the cutting edge encounters less friction against the steel

The advent of restrictions on environmentally harmful substances with global ramifications—exemplified by Europe's RoHS directive—has stressed the need to address reduced content of such substances in products where such restrictions are in force. Seizing on this worldwide trend, Nippon Steel was quick to develop and bring to market additional environment-friendly steels, such as non-leaded free-cutting steel, lead-free galvanized steel sheets for automotive fuel tanks, and chromate-free galvanized and coated steel sheets for household appliances.

Sustainable Development

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Corporate Governance

The Nippon Steel Group adheres to a guiding principle that states, "With core operations in steelmaking, we will contribute to the development of industry and the improvement of people's daily lives by creating and providing ever-increasing value." As a Group, we also seek to achieve sustainable improvement in corporate value and to stand together as a trusted member of society. In our pursuit of these objectives, appropriate corporate governance is a management structure that receives constant attention.

Management Administration System

In view of Nippon Steel's transition into a holding company, a strategy designed to reinforce the structure for promoting consolidated business under the new medium-term consolidated business plan, the Company downsized its Board of Directors, effective from the General Meeting of Shareholders held on June 28, 2006, to facilitate faster, more flexible decisions dealing with changes in the operating environment. The Company also introduced an executive management system to doubly ensure proper execution of business activities and clarify responsibility for results in each business segment.

Nippon Steel maintains a corporate auditor system. To sustain and reinforce sound management practices through more comprehensive auditor capabilities, including the presence of external auditors, the Board of Auditors welcomed an additional external auditor into its midst, effective from the General Meeting of Shareholders held on June 28, 2006.

As a result, the 11 directors, all of whom are from inside the Company, currently sit on the Board of Directors, and seven auditors, four of whom are from outside the Company, form the Board of Auditors.

Internal Controls and Risk Management System

Nippon Steel maintains internal controls and a risk management structure designed to ensure that its business activities are conducted efficiently and effectively, that its financial reporting is credible and that all efforts comply with prevailing laws and regulations.

Executive decisions on key issues affecting the activities of the Company and the Group are determined by the Board of Directors, which convenes once or twice a month, after such matters have been discussed by the Corporate Policy Committee, a group that includes participation by the chairman, president and executive vice presidents and normally meets once a week. In addition, Nippon Steel has set up 16 Companywide committees, each with its own objective, where details on designated themes are hashed out before the Corporate Policy Committee and the Board of Directors embark on decision-oriented discussions.

The execution of business strategies mandated by the Board of Directors and other executive structures is promptly addressed by the directors responsible for these businesses, executive officers and the general managers of relevant divisions, under the direction of the chairman and the president. Concurrently, to reinforce the system of internal checks, as it pertains to the implementation

process for executive decisions on business activities, the Company takes all possible steps to prevent violation of laws and corporate regulations by stipulating in writing the ordering authority, oversight responsibility and procedures required to implement strategies.

Nippon Steel pursues the following measures to reinforce internal controls and the risk management structure of its management administration system.

- Regularly confirm the status of internal controls and the risk management structure through the Risk Management Committee, chaired by the executive vice president in charge of general administration.
- Enhance risk responsiveness through the Corporate Risk Management Division, established in April 2006 as a structure dedicated to internal controls within the General Administration Division.
- Resolve Basic Policy for the Internal Control System. (Accomplished at the April 2006 Board of Directors' meeting.)
- Formulate Basic Rules for Internal Controls and stipulate in writing key issues specifically related to creation and operation of the internal control system. Regularly verify the status of system operation based on these rules.
- Set up internal reporting structures, namely a Corporate Risk Consulting Room and a Compliance Hotline, run by the Company's attorney as a conduit for communication, to handle risk-related concerns from employees and their families, temporary staff and contracted staff regarding the execution of operations.
- From the perspective of enhancing the Group's ability to respond to a wider range of risks, designate a person responsible for risk management at each company under the Group umbrella, then share information about risk management between Nippon Steel and Group members and develop better measures to deal with risk.
- Should unforeseen circumstances arise that have a significant impact on the business of Nippon Steel or Group members, immediately convene the Crisis Management Team with the president as team leader, the directors responsible for affected businesses, and auditors and legal advisers providing primary support. The team will ensure the Company is able to provide the required initial response, even at an early stage, and take steps to keep damage and other repercussions to a minimum.
- Ensure audits by corporate auditors focus on prevention and visibility to avert untoward incidents and implement interviewstyle audits to ascertain the status of efforts to uphold legal compliance, risk management and internal controls. Auditors will enlist the participation of external auditors possessing extensive insight into corporate activities, enabling them to audit operations appropriately while maintaining neutrality vis-à-vis top management.

The Company and the Group will consistently put these internal control measures into practice and strive to make them more effective.

>> Corporate Governance

Compliance

Legal compliance and socially appropriate execution of operations are the foundation of basic corporate policy, and Nippon Steel ensures all employees fully understand this concept through messages from senior management and regular education programs on legal themes. In regard to the Antimonopoly Law, in particular, the Company engages lawyers specializing in this legislation to provide seminars for all employees and also offers online learning opportunities. In addition, all employees are made aware of the Antimonopoly Law Compliance Manual, which features concrete examples of actions that could be seen as violations of this specific law.

Nippon Steel produced another compliance manual, 30 Don'ts of Business Behavior, with easy-to-understand examples of business-related actions that could be construed as behavior in violation of laws other than the Antimonopoly Law. This manual is made widely available to employees so they can go about their daily office tasks with compliance in mind.

Key Measures Implemented in Fiscal 2005

>> Fair Rules for Acquisition of Substantial Shareholdings At the Board of Directors' meeting held on March 29, 2006, a resolution was passed to adopt Fair Rules for Acquisition of Substantial Shareholdings, which clearly and concisely describes the procedures that a bidder must follow before a takeover action can actually commence.

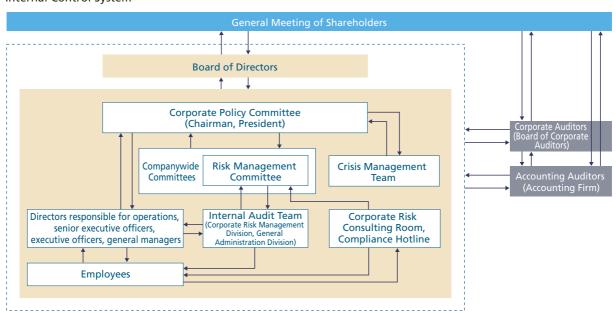
Fair Rules serves two purposes: first, it secures perti-

nent information for the Board of Directors and sufficient time to examine the takeover proposal, including alternatives, so that the Company can supply shareholders with the right information and a reasonable amount of time to study the facts and make an informed decision regarding a takeover proposal; and second, it prevents mass acquisition of stock that would be detrimental to corporate value and the common interests of shareholders.

More specifically, if a bidder seeks to acquire more than 15% equity in the Company, shareholders of record at the time the bid is presented will vote on the issuance of new rights—the defense mechanism—as long as the takeover proposal has satisfied the conditions—required information and examination period—stipulated in Fair Rules.

The issuance of new rights will be restricted to the following cases: 1) the bidder has ignored procedures set forth in Fair Rules; 2) the bidder falls under any one of four categories designated harmful to corporate value, and the takeover bid is thought to carry the threat of clearly eroding the common interests of shareholders (based on the advice of an investment bank or attorney of international stature); and 3) all shareholders agree to the issuance of new shares.

Internal Control System



(→ indicates reports, instructions, audits, appointments and other actions between designated administrative structures.)

Communicating with Stakeholders

Shareholders and Investors

Seeking to present itself as a fair, open and transparent company, Nippon Steel prioritizes investor relation (IR) activities for shareholders and investors.

We disclose annual, semiannual and quarterly performance results and annual and semiannual forecasts. In addition, we undertake a wide assortment of IR activities for institutional investors at home and abroad. In Japan, we hold IR information meetings four times a year to provide local institutional investors and analysts with opportunities to gain greater insight into management policy, the success of business strategies and an up-to-date perspective on our financial position. Visits by corporate executives to institutional investors are arranged in Japan as well as overseas.

In spring 2005, we began organizing information meetings and tours of our steelworks in locations throughout Japan to foster a deeper understanding of our business results, management direction and production facilities among individual investors. So far, several thousand shareholders have taken advantage of our invitations. This effort has been well received (page 45, photo 1).

We update the IR page on our web site, utilize e-mail to ensure timely distribution of news releases and strive to enhance the content of public relations and IR materials, including our annual report. Ongoing and varied IR activities will give more shareholders a better grasp of who we are and what we do, which will encourage them to remain shareholders for a long time to come.

Detailed performance-related information is posted on our web site (http://www.nsc.co.jp/). For English-language information, click on "English" on the home page and then select "Investor."

Customers and Suppliers

To provide reliable products and services that satisfy the requirements of customers, our manufacturing and marketing divisions join together in honing a double-edged strategy hinging on quality assurance, which demands standardizing and then reinforcing business, manufacturing and management formats, and quality control, which requires methods to augment product-specific manufacturing, management, development and improvement processes. Our quality-related systems and activities have earned high marks from customers and third parties, substantiated by the acquisition of certification under ISO 9001 and other internationally recognized standards.

We strive for fairness in our purchasing transactions, based on policies for the head office and each steelworks, strict legal compliance and fiscal rationale. This commitment fosters deeper mutual understanding and stronger bonds of trust with our suppliers and underpins the establishment of long-lasting partnerships.

Employees

Guided by a corporate principle to help employees develop their skills and put these talents to work for the Company, Nippon Steel aspires to create a company that employees can be proud of, a company in which people work hard because they want to not because they have to.

The ability to make things is intricately linked to the ability to cultivate skills, and from this perspective we energetically strive to enhance the overall capabilities of employees. We seek to reinforce skill development, primarily through regular on-the-job training, and maintain programs for "off-the-job" training, which supports the more mainstream effort. We also promote various labor policies that foster a comfortable working environment. These include measures to support next-generation developments and the introduction of a rehiring program for employees who have reached mandatory retirement age.

The health and safety of workers takes priority over all production activities. We endeavor to eliminate causes of danger and harm through risk assessment and established a workers' health and safety management system featuring a format for internal evaluation of activities. By methodically and continuously augmenting these efforts, we will improve the health and safety of workers.

Social Contribution through Support of Culture and Sports

>> Cultural Activities

Since its establishment, Nippon Steel has supported the musical arts, primarily through "Nippon Steel Concerts" and the "Nippon Steel Music Awards." Current efforts to promote cultural activities hinge on the Nippon Steel Arts Foundation, which was established in conjunction with a commemorative project—"Kioi Hall," a concert hall—to celebrate the Company's 20th anniversary.

The foundation has management authority for Kioi Hall and presents classical concerts, usually performed by the resident chamber orchestra, "Kioi Sinfonietta Tokyo," as well as programs featuring traditional Japanese music.

The caliber of performances by Kioi Sinfonietta Tokyo is highly regarded, and in 2005, the ensemble was invited to play as the main orchestra at the Dresden Music Festival, the largest music festival in Germany (photo 2).

The foundation also promotes musical achievement through the Nippon Steel Music Awards, which are given to promising young musicians in the classical genre as well as adults who have contributed to the development of classical music in Japan.

>> Communicating with Stakeholders

>> Sporting Activities

In cooperation with neighboring companies, local governments and communities, Nippon Steel, in the regions of its steelworks, supports "community-oriented sports clubs" by organizing teams and training players and junior teams. The Company also actively participates in various local events and activities.

The Sakai Blazers, originally Nippon Steel Sakai—our in-house volleyball team—became a club team in 2000. The inimitable capabilities inherited from the team's predecessor were undoubtedly a key factor in the Sakai Blazers' upset win at the V-League Championships in 2006. The victory (photo 3) demonstrated another side of our community-oriented sports image.

Programs for Children and Youth

>> Educational Programs in Manufacturing

As a member of the basic materials industry, Nippon Steel undertakes a variety of activities designed to help students and the instructors involved in their education as well as young children—on whose shoulders the future rests—understand the importance of manufacturing and the wonders of steel. These activities include a hands-on steelmaking program based on the *tatara* method, courses for teachers conducted at our steelworks and special classroom lectures

In fiscal 2005, programs featuring *tatara*—a method employed long ago in Japan—were presented at three locations: the Science Museum, run by the Japan Science Foundation; the Municipal Minami Junior High School in Ibaraki City, near Osaka; and the Yawata Works (photo 4).

>> Internship Programs

Nippon Steel instituted an internship program at its steelworks and research labs, primarily as a way to explain corporate activities to students and provide them with onthe-job experience. In fiscal 2005, we welcomed 70 students at steelworks in Japan. The program was well received.

>> New Story About Iron

New Story About Iron, a series of picture books that describe manufacturing and environmental protection in an easy-to-understand storybook format, focuses on operations at Nippon Steel. The long-selling series, which debuted in 2001, is now at volume five (photo 5), with aggregate circulation of approximately 500,000 copies. Distributed at no cost to visitors on tours of our steelworks and at exhibitions, the books are resoundingly popular among a wide range of readers, from children to ordinary citizens and even educators.









- I. Steelworks tour for individua
- 2. Kioi Sinfonietta Tokyo performing at the Dresden Music Festival
- at the Dresden Music Festival

 3. Sakai Blazers—V-League champions
- 4. Tatara steelmaking hands-or
- 5. New Story About Iron educational picture book series



Environmental Activities

Basic Policy

Since its inception, Nippon Steel has made environmental protection the root priority of corporate management and therefore maintains a comprehensive approach in tackling environmental concerns.

Every three years, the Company reviews its mediumterm environment and disaster prevention management plan, in line with a basic policy for environment management that emphasizes three goals: 1) to contribute to the formation of a society committed to environmental protection; 2) to reduce environmental impact at all levels of business activity; and 3) to take a role in international initiatives to protect the environment on a global scale.

Following the signposts of our Environment and Energy Roadmap for 2030, we will take a long-term perspective to environment-related measures.

Medium-Term Environment and Disaster Prevention Management Plan

(Fiscal 2006-Fiscal 2008)

- 1. Promote measures to curb global warming
- 2. Take part in the formation of a recycling-oriented society
- 3. Pursue environment risk management
- 4. Provide environment and energy-related solutions
- Implement environment and disaster prevention management system
- Develop environment relations, i.e., closer ties with stakeholders on environmental issues

Working to Curb Global Warming

>> Energy-Saving Efforts

Between 1973, the year of the first global oil crisis, and 1990, Nippon Steel painstakingly pursued measures, including wider application of continuous processing and enhanced recovery of waste heat, to save energy. These measures were rewarded with a dramatic reduction—more than 20%—in energy consumption.

With the aim of achieving further energy savings, the Group is participating in an industrywide voluntary action program that targets a 10% reduction in energy consumption by 2010, from the 1990 level. To this end, the Group has pursued efforts to boost energy efficiency, notably the installation of advanced energy-saving equipment and the reapplication of waste plastics and used tires as raw materials. As a result, CO_2 emissions in fiscal 2005 were down 9.6%, compared with 1990, despite a 0.2% increase in crude steel production over the same period.

>> Promoting Greater Use of Hydrogen

Nippon Steel has been pursuing research on the production of hydrogen from coke oven gas—a by-product gas from steelmaking. In 2004, to fulfill our role in a national project, we built a research plant at the

Kimitsu Works to make liquefied hydrogen. Verification tests on the supply of hydrogen for fuel cell-powered vehicles have been under way for a year and a half.

We also provided hydrogen from the Nagoya Works to the on-site hydrogen refueling station for special buses serving the Seto site at EXPO 2005 in Aichi. When the exposition closed, the station was relocated to the Chubu International Airport. We have maintained our connection to the station by participating in its reincarnation as JHFC Central Hydrogen Station (page 47, photo 1), which began supplying fuel to hydrogen fuel cell buses serving the airport district in July 2006.

>> R&D in the Area of CO2 Capture and Storage

In 2003, Nippon Steel joined a national project in Nagaoka, Niigata Prefecture, to test a system for forcing CO₂ into the ground. In 2005, we ran tests to capture and storage CO₂ from gas by-products of the steelmaking process at the Kimitsu Works.

Contributing to a Recycling-Oriented Society

>> Toward Zero In-House Emissions

The ironmaking process generates large qualities of various by-products, including slag, a fused material composed primarily of the non-iron content in iron ore that results when the iron is separated from the ore during smelting; dust, mainly iron particles collected by the dust collector; and sludge, a deposit that forms on water-treatment facilities.

We encourage greater application of slag as a raw material for cement, as road-bed material and as a component of fertilizer. Nearly all slag becomes a recycled resource.

Dust and sludge, with their high iron content, can be used where iron is needed as raw material, so we have installed dust-recycling equipment to make the most effective use of this resource.

>> Reusing Waste Products Generated by Society and other Industries as Raw Materials

Not only do we strive to cut down on the amount of final waste disposal from our own operations, we also endeavor to give new life to by-products generated by other industries and consumer products destined for the landfill. Through steelmaking processes and technology, these items become new raw materials.

We have a system in place at five of our steelworks in Japan to handle waste plastics, such as containers and wrapping, from households. In fiscal 2005, we utilized 190,000 tons of waste plastics, or 32% of all the plastic containers and wrapping collected in Japan, in our operations.

The Hirohata Works, which began applying used tires as a raw material in 1998, processes 120,000 tons of used tires annually at its used tire gasification and recycling facility. This represents slightly more than 10% of all the used tires in Japan.

>> Environmental Activities

Executive Team/

Organization

Since February 2006, the Nagoya Works has been involved in automotive shredder residue (ASR) recycling. ASR—the scraps that remain after the dismantling and sorting of used vehicles—is melted down in furnaces using blast furnace technology and the resulting slag and fused metal melt is used as raw materials in other applications, thereby reducing the amount of disposal in landfills. In addition, the energy generated in the melting process is harnessed to heat the steelworks.

Global-Scale Environment and Energy-Saving Measures

>> Energy-Saving Model Project

To date, Nippon Steel has run diagnostics and provided technical guidance to 167 companies in 50 countries to enhance recovery of by-product gas and waste heat and boost energy efficiency. The energy-saving effect derived from six technology transfer projects undertaken with companies in China and India through the model project format promoted by the New Energy and Industrial Technology Development Organization (NEDO) is equivalent to an annual reduction of approximately 200,000 tons of CO₂.

>> CDM Projects

While Nippon Steel is committed to energy-saving pursuits aimed at achieving the CO₂ reduction target in the voluntary action program, the Company also seeks to secure CO₂ emission credits under the Kyoto Protocol's clean development mechanism (CDM), which allows a company to claim credits for efforts to cut greenhouse gas emissions in developing countries.

One such effort is a joint project in Shandong, China, with Mitsubishi Corporation (photo 5). The project—to build a plant for decomposing hydrofluorocarbon HFC23, a by-product of HCFC2, commonly used in refrigerators—will secure emission credits worth 10 million tons of CO2 per year, making it the world's largest CDM project. Nippon Steel will supply plant engineering expertise and key equipment.

The CDM Executive Board, under the United Nations Framework Convention on Climate Change, officially recognized the project in March 2006, granting Certified Emission Reductions approval. Nippon Steel plans to purchase 200,000 tons, or 20%, of annual emission credits.

Nippon Steel is also utilizing its experience in technology transfers to popularize coke dry quenching (CDQ), a cutting-edge, energy-saving technology, through widespread application in CDM projects.











- Hydrogen supply station at EXPO 2005 in Aichi
- Dust recycling facility at Kimitsu Works
 Newly operational waste plastics recycling facility at Oita Works
- 4. Used tire gasification and recycling
- 5. Signing ceremony for CDM projectin China



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

Corporate Planning; Accounting & Finance; Overseas Business Development; Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project; Overseas Offices (CFO)

Naoki Okumura

Director, Technical Development Bureau

Kazuo Nagahiro

Safety and Health in Personnel & Labor Relations; Intellectual Property; Technical Administration & Planning; Technical Cooperation; Raw Materials; Cooperating with Executive Vice President H. Sekizawa on Environmental Management

Hideaki Sekizawa

General Administration; Business Process Innovation; Labor Relations in Personnel and Labor Relations; Environmental Management

Shoji Muneoka

Sales Administration & Planning; Exports; Project Development; Each Steel Products Division; Machinery & Materials; Domestic Sales Offices; Cooperating with Executive Vice President N. Fujiwara on Shanghai-Baoshan Coldrolled & Coated Sheet Products Project, Overseas Offices

Managing Directors, Members of the Board

Hiroshi Shima

Intellectual Property; Technical Administration & Planning; Technical Cooperation; Rendering Assistance to Executive Vice President S. Muneoka on Steel Products

Tetsuo Imakubo

Director, Flat Products Division; Exports

Kiichiroh Masuda

Director, Plate Division; Director, Bar & Wire Rod Division; Sales Administration & Planning

Junii Ota

Corporate Planning; Overseas Business Development

11 directors

Managing Directors

Mitsuo Kitagawa

Raw Materials; Machinery & Materials

Koichi Nakamura

General Superintendent, Kimitsu Works

Katsutoshi Kurikawa

General Manager, Osaka Sales Office

Bun'yuu Futamura

General Superintendent, Nagoya Works

Yuki Iriyama

General Manager, Shanghai-Baoshan Coldrolled & Coated Sheet Products Project; Rendering Assistance to Executive Vice President N. Fujiwara on Overseas Business Development

Itsuo Takahashi

General Superintendent, Oita Works

Keisuke Kuroki

General Manager,

Technical Administration & Planning Division;

Business Process Innovation;

Rendering Assistance to Executive Vice President K. Nagahiro on Personnel & Labor Relations (Safety and Health)

Directors

Yasuo Takeda

General Superintendent, Muroran Works, Bar & Wire Rod Division

Kizoh Hirayama

General Manager,

Personnel & Labor Relations Division

Kohzoh Uchida

General Manager,

General Administration Division; Rendering Assistance to Executive Vice

President H. Sekizawa on Business Process Innovation

Shinichi Taniguchi

Accounting & Finance

Masakazu Iwaki

Deputy General Manager, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project; Rendering Assistance to Director, Flat Products Division on Flat Products

Yasuo Hamamoto

General Superintendent, Yawata Works

Norio Katsuyama

General Superintendent, Hirohata Works

Kosei Shindo

General Manager, Corporate Planning Division

Junji Uchida

Director, Structurals Division; Director, Pipe & Tube Division; Project Development; Titanium

Masaru Kiuchi

General Manager,

Sales Administration & Planning Division; Rendering Assistance to Executive Vice President H. Sekizawa on Business Process Innovation

Shinichi Nakatsu

General Manager,

Business Process Innovation Division

Shigeru Oshita

Director, Steel Research Laboratories, Technical Development Bureau

Toru Obata

General Manager, Raw Materials Division-II

Yasuo Fujii

General Superintendent, Sakai Works, Structurals Division

Kiyoshi Nishioka

General Manager,

Technical Development Planning Division, Technical Development Bureau

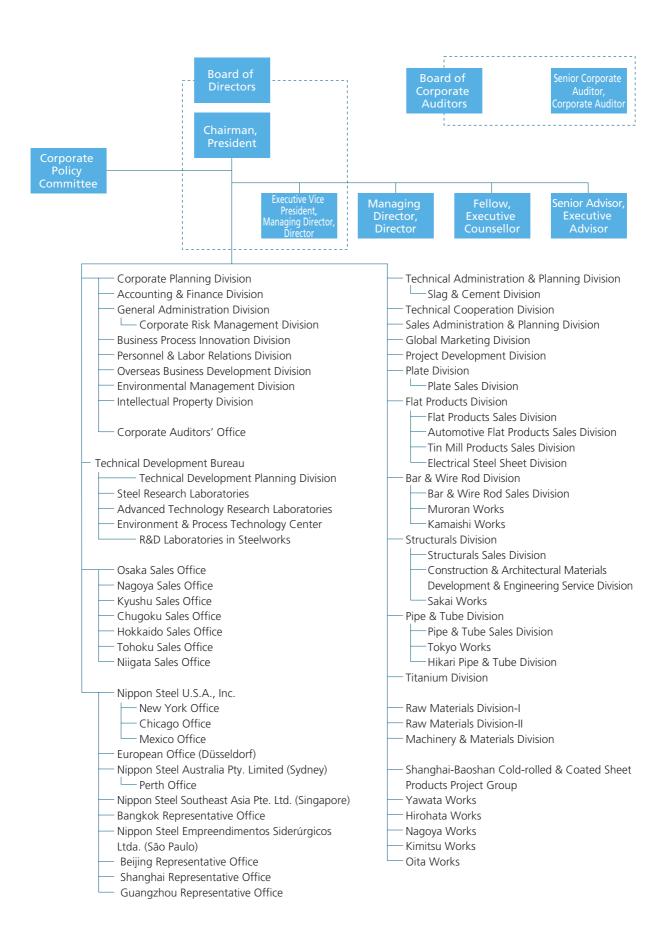
Senior Corporate Auditor

Tetsuo Seki

Corporate Auditors

Shigeru Matsuyama Tsutomu Haeno Hisashi Tanikawa Yoichi Kaya Shigemitsu Miki Shigeo Kifuji

Organization (As of July 2006)



Principal Subsidiaries and Affiliates (As of March 31, 2006)

Company Vo	ting Rights (%)	Paid-in Capital (Millions of yen)	Business Content
Steelmaking and Steel Fal	orication (218 compani	es)
>> Consolidated Subsidiaries			
Nittetsu Steel Sheet Corporation	100.0%	11,019	Makes and markets galvanized sheets, prepainted galvanized sheets, coated sheets and construction materials
Osaka Steel Co., Ltd.	61.2%	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	on 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.	100.0%	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. 100.0%	2,200	Makes and markets welding materials and apparatuses
Seitetsu Unyu Co., Ltd.	100.0%	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., Lt	d. 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
154 other companies			
>> Affiliates Accounted for by	the Equity N	/lethod	
Nichia Steel Works, Ltd.	23.8%	10,410	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 and building construction work; makes and mounts machinery and equipment; makes steel
Geostr Corporation	26.4%	3,352	Makes and markets concrete products for civil engineering and building construction 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 Lim	ted 36.3%	THB9,000 million	Makes and markets cold-rolled sheets
UNIGAL Ltda.	20.7%	R235 million	Makes and markets galvanized sheets
Guangzhou Pacific Tinplate Co., Ltd.	27.3%	US\$36 million	Makes and markets tinplate
Companhia Nipo-Brasileira De Pelotização	25.4%	R43 million	Makes and markets pellets
33 other companies			

Company	Voting Rights (%)	Paid-in Capital (Millions of yen)	Business Content

Engineering and Construction (22 companies)

Urban Development (17 companies)

>> Consolidated Subsidiaries

	Nippon Steel City Produce, Inc.	100.0%	5,750	Buys, sells and rents real estate
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¹⁶ other companies

Chemicals and Nonferrous Materials (28 companies)

>> Consolidated Subsidiaries

Nippon Steel Chemical Co., Ltd. 100.0% 5,00	Makes and markets coke, chemicals and electronic components
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²⁷ other companies

System Solutions (13 companies)

>> Consolidated Subsidiaries

NS Solutions Corporation	72.2%	12,952	Provides engineering and consulting services pertaining to computer systems
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¹² other companies

Services and Other Businesses (22 companies)*

>> Consolidated Subsidiaries

Nittetsu Finance Co., Ltd.	100.0%	1,000	Engages in financing and lending operations
16 other companies			

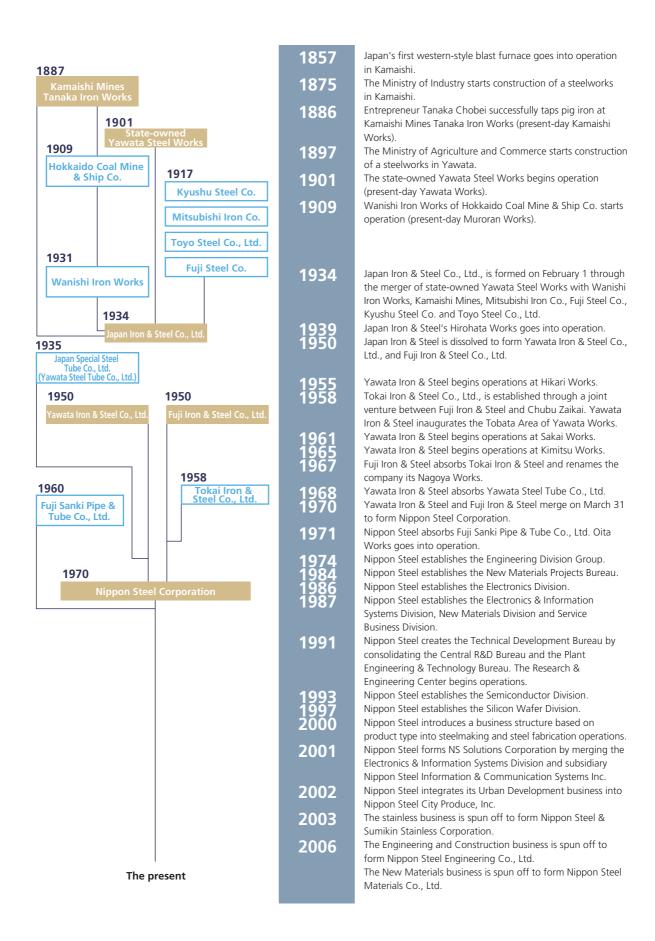
>> Affiliates Accounted for by the Equity Method

	, ,		
Nippon Steel Trading Co., Ltd.	39.1%	8,750 Buys and sells iron and steel, nonferrous metals, and raw materials	machinery
Kyushu Oil Company Limited	36.0%	6,300 Undertakes petroleum refining and the sale of products	oetroleum
Tetra Co., Ltd.	34.7%	2,751 Undertakes civil engineering work and rends block	frames

² other companies

^{*}These are included in steel operations since fiscal 2006.

History (As of July 2006)



An Interview with the President President Review of Business Plan Sustainable Development President Review of President Review of President Review of Business Plan Review of Department Principal Subsidiaries and Affiliates Review of Operations Review of Development Review of Review of Development Review of Development Review of Re

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, 2006 increased ¥516.9 billion from the year ended March 31, 2005 to ¥3,906.3 billion. Operating profit increased ¥146.3 billion, to ¥576.3 billion, Ordinary profit increased ¥175.9 billion, to ¥547.4 billion, while net income increased ¥123.3 billion to ¥343.9 billion.

Segment Information (Steelmaking and Steel Fabrication)

In the steelmaking and steel fabrication sector, the operating environment was marked by soaring costs for raw materials. In the midst of this, strenuous efforts were made to absorb the rise in costs while, at the same time, adequately conducting production and shipping operations in a manner that would meet a clearly bipolar market trend for high-grade and commodity-grade steel products.

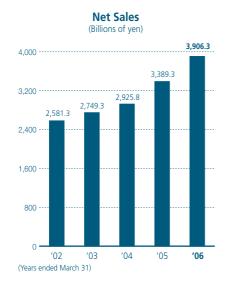
In the field of high-grade steel products, Nippon Steel strived to reinforce its integrated production capacity by eliminating bottlenecks in the production process. These efforts were designed to meet a robust demand for high-grade steel products while at the same time improving supply capabilities by making optimum use of the collective production capacity of Nippon Steel and its group companies and other allied companies. In equipment investments, Nippon Steel decided the installation of a hot-dip galvanizing line at the Hirohata Works and the relining of the No. 1 blast furnace and installation of a basic-oxygen furnace at the Nagoya Works. Further, in the first half of this accounting year 2006, a hot-dip galvanizing facility expected to enhance quality and customer-service capabilities will be put in operation at the Kimitsu Works, with another one soon to start at the Nagoya Works.

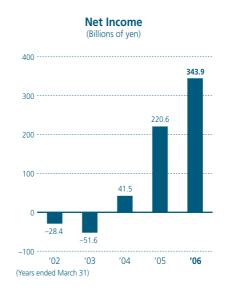
In the procurement of raw materials, efforts have been made to secure medium- and long-term stable supplies of raw materials including entering into agreements between Nippon Steel and major suppliers concerning long-term purchase contracts for iron ore.

In the field of R&D, while continuing to direct its energies to the development of differentiated products and the presentation of new technical solutions to better meet customer needs, Nippon Steel, recognizing the imperative need to strengthen its capabilities in the procurement of resources, environmental preservation and energy conservation, as well as cost competitiveness on a global basis, is now pressing ahead with the task of combining its manufacturing, sales, technology and research segments in such a way to function in synergism.

With the aim of further improving its production capability and demonstrating its comprehensive capability, Nippon Steel has directed that company-wide efforts be made to promote a wide range of measures conducive to efficient equipment maintenance, the recruitment and nurturing of human resources, the energizing of production floors, and the reliable transfer of technical skills.

Sustained emphasis has been placed on strengthening Nippon Steel's alliance with other domestic and foreign steelmakers. Tie-up relations between Nippon Steel, Sumitomo Metal Industries, Ltd., and Kobe Steel, Ltd. have yielded considerable mutual benefits—the joint use of iron- and steelmaking facilities at Sumitomo Metals, the supply of hot-rolled coils to Sumitomo Metals, the technical exchange in the field of ironmaking, and the promotion of rationalizing measures among their group companies including their integrations and restructuring. For the purpose of securing promotion and enhancement of these tie-up measures, these three companies have purchased each other's shares. In order to enjoy growing benefits from tie-up relations and enhance the value of Nippon Steel, secure the common interests of shareholders, they have signed a Memorandum of Understanding that ensures a process by which the three companies will cooperatively study the impact on their strategic alliance and the possibility of counter-





measures in the event that an unsolicited takeover offer is made for one of the three.

Nippon Steel and Sanyo Special Steel Co., Ltd. have begun a study of ways to establish tie-up relations that will improve each other's competitiveness and have agreed to implement a cross purchase of each other's shares. In this regard, Nippon Steel acquired up to 15% of Sanyo Special Steel's voting shares (the level required to make Sanyo Special Steel an affiliate of Nippon Steel accounted for by the equity method).

With respect to alliances with steel companies overseas, it has been agreed between Nippon Steel and Posco (Korea) that the existing strategic alliance arrangement, under which results have been achieved in the fields of R & D, technical exchange, raw materials procurement, etc. After the initial five-year term of their strategic alliance agreement, both companies have agreed to extend the term of the agreement for another five years. The alliance between Nippon Steel and Arcelor of Europe has yielded a steady stream of positive results thanks to joint R&D programs centering on automotive steel sheets. Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (a joint venture established in China by Baoshan Iron & Steel Co., Ltd. of China, Arcelor, and Nippon Steel to manufacture and sell automotive steel sheets) has started commercial operations and is expanding production as scheduled.

By means of the selection and concentration of businesses, Nippon Steel has continued to further strengthen its consolidated management and more effectively utilize the management resources of all group companies. In December 2005, two consolidated subsidiaries, Nippon Steel Logistics Co., Ltd. and Seitetsu Unyu Co., Ltd., became wholly-owned subsidiaries of Nippon Steel through exchange of shares. The operations of these two subsidiaries are being integrated and reorganized to further strengthen competitiveness in the field of logistics.

An agreement was made between Nippon Steel and Sumitomo Metals to jointly operate a business conducted by their respective subsidiaries to manufacture and sell cast rolls for steel rolling (the new company, Nippon Steel & Sumikin Rolls Corporation, is slated for inauguration in April 2006), have also signed a basic agreement concerning the consolidation of the structural sheet steel business and the civil-engineering-related products business. Further, Chukyo Seisen Co., Ltd., a subsidiary of Nippon Steel, and K.K. Chitac, a subsidiary of Marubeniltochu Steel Inc., integrate their wire drawing businesses through a merger of both companies (the new company, Nippon Steel Tokai Steel Wire Co., Ltd.).

Consolidated sales in the steelmaking and steel fabrication sector in fiscal 2005 increased to ¥3,057.5 billion, a gain of ¥436.7 billion over the previous year (¥2,620.7 billion), and consolidated operating profits rose to ¥513.9 billion, a gain of ¥137.0 billion over the previous year (¥376.9 billion).

(Engineering and Construction)

In the engineering and construction sector, demand is following an upward trend towards recovery in those markets where Nippon Steel demonstrates competitiveness. In this environment, the amount of orders received by the company was a record high level and, at the same time, is directing operating efforts towards improved profitability through cost cutting. In the domestic market, stepped-up efforts are being made to promote customer-based solution projects that anticipate changes in both market and customer needs, including the marketing of waste treatment facilities by means of private fund initiative (PFI) approach and the construction of iron- and steelmaking plants and logistics facilities that show robust demand.

Overseas, the company is making sustained efforts to win energy development-related projects in Southeast Asia and to step up the marketing of iron- and steelmaking plants in China by capitalizing on a local subsidiary involved in the steel-plant business.

Consolidated sales in the engineering and construction sector in fiscal 2005 increased to ¥336.1 billion, a gain of ¥56.3 billion over the previous year (¥279.8 billion), and consolidated



operating profits increased to ¥9.5 billion, a gain of ¥2.8 billion over the previous year (¥6.6 billion).

(Urban Development)

In the urban development sector, Top REIT.Inc., established jointly by Nippon Steel City Produce, Inc., Oji Real Estate Co., Ltd., and The Sumitomo Trust & Banking Co., Ltd., was listed on the Tokyo Stock Exchange in March 2006 as an asset management company that promotes real estate investment trusts (J-REIT). Nippon Steel City Produce, Inc., a wholly-owned subsidiary of Nippon Steel, is promoting the "asset value restoration business". This effort includes development projects that utilize idle company-owned land, such as the Yawata-Higashida comprehensive development project in Kitakyuushu and the Otsu area development project in Himeji, the redevelopment of underutilized urban areas, and the sale of condominiums.

Consolidated sales in the urban development sector in fiscal 2005 increased to ± 104.0 billion, a gain of ± 14.7 billion over the previous year (± 89.2 billion), and consolidated operating profits increased to ± 14.1 billion, a gain of ± 5.6 billion over the previous year (± 8.5 billion).

(Chemicals and Nonferrous Materials)

Chemicals operations are spearheaded by Nippon Steel Chemical Co., Ltd. (a wholly-owned Nippon Steel subsidiary) and its group companies. While sales prices in the field of coal chemicals have improved, profits registered a slight decrease from fiscal-2004 levels because of sustained high prices for crude oil, naphtha, and other raw materials, and loosing market for products in the field of chemicals operations. In order to improve profitability, while Nippon Steel Chemical and its group companies are further promoting the selection and concentration of businesses by re-examining operating structures, such as the demolition of phenol production equipment, the concentration of phthalic acid production bases, and a withdrawal from paint operations, Nippon Steel Chemical is starting the commercial operation of new plants to produce adhesive-free copper-clad laminated sheets for flexible circuit boards (ESPANEX).

In new materials operations, supported by robust demand in the IT-related industries, a major market for the company's new material business, steady operating results have been attained in the field of metal foils for hard-disc drive suspensions, bonding wire for semiconductor packaging, microballs, spherical filler powders (sealing materials) and other semiconductor-related materials, and in the field of fine ceramics for semiconductor manufacturing equipment as well. Under such business environment, the production capacity in the field of metal foils will be increased through installment of a new manufacturing line with a view to increasing the business. In January 2006, Nippon Steel transferred to Japan Industrial Partners, Inc. the right to manage Yutaka Electric Mfg. Co., Ltd., a Nippon Steel's subsidiary that manufactures and sells power supply equipment for electronic devices.

In titanium operations, highly favorable operating results have been attained for titanium products used mainly in industrial plants and for heat exchangers used in China and Middle Eastern nations, following the rapid increase of global

demand for aviation and other industries. Strenuous efforts have been made to explore new usage of the products including automotive parts and products for private sectors.

Consolidated sales in the chemicals and nonferrous materials sector as a whole amounted to ¥373.0 billion, a gain of ¥41.9 billion over the previous year (¥331.1 billion), and operating profits amounted to ¥27.0 billion, a gain of ¥0.6 billion over the previous year (¥26.3 billion).

(System Solutions)

In the system solutions sector, while the operating environment continues to be marked by strict customer scrutiny of IT investments, operations remained steady, reflecting favorable operating results of enterprises. NS Solutions Corporation, a consolidated subsidiary of Nippon Steel, has inaugurated NSSLC Service Co., Ltd., a new company that supplies high-quality operating and maintenance services. In this manner, NS Solutions is striving to strengthen it offerings of system life-cycle total solutions—solutions that encompass integrated services ranging from system planning and structuring to system operation and maintenance.

Consolidated sales in the system solutions sector increased to ¥148.3 billion, a gain of ¥1.8 billion over the previous year (¥146.5 billion), and operating profits increased to ¥11.8 billion, a gain of ¥0.4 billion over the previous year (¥11.3 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. In July 2005, by use of the Civil Rahabilitation Law, Nippon Steel transferred to Kamori Kanko Co., Ltd. the entire business of Space World, Inc., a consolidated Nippon Steel subsidiary that operates space-oriented training facilities, exhibition booths, and amusement facilities.

Consolidated sales in the other businesses decreased to ¥69.0 billion, a decline of ¥7.1 billion from the previous year (¥76.2 billion), and operating losses amounted to ¥1.1 billion, a decline of ¥1.5 billion from the previous year (operating profits of ¥0.3 billion).

As a result of the foregoing, consolidated sales in fiscal 2005 came to ¥3,906.3 billion, or a gain of ¥516.9 billion over the previous year (¥3,389.3 billion). Consolidated operating profits were ¥576.3 billion, or a gain of ¥146.3 billion over the previous year (¥429.9 billion); and consolidated ordinary profits were ¥547.4 billion, or a gain of ¥175.9 billion over the previous year (¥371.4 billion). A total special profit of ¥18.2 billion was posted, and as a result consolidated income before income taxes and minority interest and others was ¥565.6 billion, or a gain of ¥196.1 billion over the previous year (¥369.4 billion).

After subtracting ¥223.2 billion as income taxes-current, adding ¥17.0 billion as income taxes-deferred, and subtracting ¥15.5 billion as minority interest in the net income of the consolidated subsidiaries, consolidated net income for fiscal 2005 was ¥343.9 billion (¥220.6 billion in the previous year).

As for non-consolidated operations, while raw material

prices and freight costs soared in the steelmaking and steel fabrication sector, improvements in the sales prices of steel products in both domestic and overseas markets, supported by flourishing demand in both domestic and overseas markets, led to improved operating results. Sales for fiscal 2005 advanced to ¥2,591.3 billion, or an increase of ¥443.5 billion over the previous year (¥2,147.8 billion); operating profits rose to ¥433.9 billion, or an increase of ¥130.0 billion over the previous year (¥303.8 billion); and ordinary profits rose to ¥388.7 billion, or an increase of ¥140.9 billion over the previous year (¥247.8 billion). A total special profit of ¥13.2 billion was posted, and as a result, income before income taxes for fiscal 2005 came to ¥402.0 billion (¥249.9 billion in the previous year) and net income for fiscal 2005 came to ¥244.0 billion (¥145.8 billion in the previous year).

At the board of directors' meeting held on February 14, 2006, Nippon Steel resolved to acquire a maximum of 120 million shares of treasury stocks at a cost of ¥50 billion in conformance with provisions of the Japanese Commercial Code (Article 211-3, Item 1-2). Based on this resolution, the company has acquired 113,277,000 treasury stocks at a cost of ¥49,995,771,000.

Nippon Steel has implemented a policy to distribute profits consistent with the consolidated operating results of each fiscal year, taking into account capital investment requirements aimed at raising corporate value, forecasts of future operating results and other relevant factors, and at the same time further strengthening the company's financial structure. Meanwhile, the company has set the consolidated payout ratio at approximately 20% (non-consolidated payout ratio at approximately 30%) as an indicator for the distribution of profits in conformance with the consolidated operating results. However, because the company's first priority for the time being is to improve the corporate financial structure, a target of approximately 15–20% is in effect for the consolidated payout ratio (non-consolidated payout ratio at approximately 20–30%), which is slightly lower than the above-indicated level. Based on the above profit distribution policy, Nippon Steel intended to pay a term-end dividend of ¥9 per share (consolidated payout ratio: 17.4%; non-consolidated payout ratio: 24.5%) for fiscal 2005, an increase of ¥4 per share over the previous year, the proposal was decided to its annual meeting of shareholders.

Financial Position

Consolidated assets at the end of fiscal 2005 increased by ¥670.6 billion from ¥3,872.1 billion posted at the end of the previous fiscal year to ¥4,542.7 billion. This resulted mainly from an increase in the latent profits in investments in securities (¥448.4 billion) due to the rise of stock prices and increase of net profits of affiliates accounted for by the equity method, and an increase in inventories (¥78.9 billion) due to the rise in raw material prices and other factors.

Consolidated liabilities at the end of fiscal 2005 increased by ¥168.5 billion from ¥2,592.1 billion at the end of the previous fiscal year to ¥2,760.7 billion, mainly resulting from a reduction of interest-bearing debts (¥58.4 billion) despite an increase in deferred tax liabilities due to an increase in latent profit of in-

vestment in securities (¥144.7 billion), an increase in accrued expenses and income taxes (¥53.0 billion).

Shareholders' equity at the end of fiscal 2005 increased by ¥489.4 billion from ¥1,188.4 billion at the end of the previous fiscal year to ¥1,677.8 billion, despite the decrease caused primarily by cash dividends of ¥33.7 billion paid through the appropriation of fiscal 2004's distributable profits and acquisition of treasury stocks. The increase derived mainly from consolidated net income of ¥343.9 billion for fiscal 2005 and an increase of ¥218.8 billion in unrealized gains on available-for-sale securities.

The Statement of Cash Flows

Cash flows from operating activities during fiscal 2005 produced a total income of ¥392.9 billion (income of ¥539.4 billion in the corresponding period of the previous year). This total was obtained by adding ¥183.3 billion in depreciation and amortization and an increase of ¥15.6 billion in notes and accounts payable-trade to ¥565.6 billion in consolidated net income before income taxes and minority interest; subtracting an increase of ¥79.6 billion in inventories and an increase of ¥131.2 billion in notes and accounts receivable-trade; and adding and subtracting payments for income taxes and other items.

Cash flows from investing activities during fiscal 2005 came to a total expenditure of ¥226.8 billion (expenditure of ¥174.9 billion in the corresponding period of the previous year). This resulted from outlays of ¥201.4 billion for the acquisition of tangible and intangible fixed assets, ¥47.1 billion for the acquisition of investments in securities, etc.

A total of ¥136.1 billion after subtracting the increase in cash and bank deposits from the free cash flow (¥166.1 billion) arising from the above were appropriated for the acquisition of treasury stocks (¥50.1 billion) and the repayment of loans and redemption of bonds totaling ¥49.2 billion, the payment of ¥33.7 billion in cash dividends and other items.

In order to procure the capital required for above cash flows, Nippon Steel closely heeded developments in the financial market to secure less expensive capital. In addition, the company committed itself to promoting more efficient use of funds through a consolidated cash management system (CMS) and the liquidation of consolidated asset holdings, thereby strengthening its consolidated financial structure. As a result, the consolidated balance of interest-bearing debts outstanding at the end of fiscal 2005 was reduced to ¥1,223.8 billion, and the ratio of interest-bearing debts to shareholders' equity (debt/equity ratio) improved by 0.35 to 0.73.

Consolidated Balance Sheets

Nippon Steel Corporation and Consolidated Subsidiaries As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
ASSETS			
Current assets:			
Cash and bank deposits (Notes 4 and 13)	¥ 159,923	¥ 127,629	\$ 1,361,401
Marketable securities (Notes 4 and 16)	252	1,011	2,145
Receivables:			
Notes and accounts receivable (Note 4)	585,495	463,298	4,984,211
Less: Allowance for doubtful accounts	(14,116)	(5,696)	(120,170
	571,378	457,602	4,864,041
Inventories	644,859	565,915	5,489,567
Deferred tax assets (Note 7)	78,604	57,968	669,148
Other	49,589	47,085	422,146
Total current assets	1,504,608	1,257,212	12,808,450
Fixed assets:			
Tangible fixed assets:			
Buildings and structures (Note 4)	1,483,883	1,491,292	12,632,020
Machinery and equipment (Note 4)	4,732,314	4,698,695	40,285,302
	6,216,197	6,189,988	52,917,322
Less: Accumulated depreciation	(4,954,679)	(4,904,934)	(42,178,254
	1,261,518	1,285,053	10,739,067
Land (Notes 4 and 6)	320,269	328,295	2,726,396
Construction in progress	72,601	60,983	618,046
	1,654,390	1,674,333	14,083,511
Intangible fixed assets:			
Patents and utility rights	18,006	4,420	153,283
Software	955	2,817	8,131
Excess of cost over the underlying net equity			
of investments in subsidiaries	_	2,790	_
	18,961	10,027	161,415
Investments and others:			
Investments in securities (Notes 4, 5 and 16)	1,196,837	748,403	10,188,454
Deferred tax assets (Note 7)	43,714	50,803	372,137
Other (Notes 4 and 5)	131,607	142,165	1,120,352
Less: Allowance for doubtful accounts	(7,353)	(10,834)	(62,600
2005.7 MOTATICE FOI GOGDERAL ACCOUNTS	1,364,806	930,537	11,618,343
Total fixed assets	3,038,158	2,614,898	25,863,270
Total assets	¥4,542,766	¥3,872,110	\$38,671,720

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
LIABILITIES			
Current liabilities:			
Short-term loans and portion of long-term loans			
due within one year (Note 4)	¥ 398,996	¥ 381,648	\$ 3,396,581
Commercial paper (Note 4)	150,000	70,000	1,276,921
Bonds due within one year (Note 4)	50	10,000	425
Notes and accounts payable	502,768	481,828	4,279,974
Accrued expenses	305,768	268,764	2,602,947
Advances received	31,306	32,863	266,508
Accrued income taxes and enterprise taxes	148,340	132,254	1,262,793
Allowance for losses on construction contracts	721	· <u>—</u>	6,145
Provision for environmental remediation	11,941		101,654
Other	71,478	77,418	608,483
Total current liabilities	1,621,372	1,454,777	13,802,436
Long-term liabilities:	204 500	204 450	2 207 056
Bonds and notes (Note 4)	281,688	281,450	2,397,956
Long-term loans (Note 4)	392,998	539,039	3,345,518
Deferred tax liabilities (Note 7)	236,771	91,994	2,015,594
Deferred tax liabilities on revaluation of land (Notes 6 and 7)	9,806	7,771	83,479
Accrued pension and severance costs (Note 17)	122,265	122,398	1,040,823
Reserve for repairs to blast furnaces	50,921	50,021	433,482
Allowance for retirement benefits of directors and corporate auditors	6,597	6,277	56,161
Excess of the underlying net equity over cost of investments			
in subsidiaries	526		4,479
Other	37,813	38,454	321,898
Total long-term liabilities	1,139,388	1,137,407	9,699,395
Total liabilities	2,760,760	2,592,185	23,501,832
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	104,117	91,515	886,331
Commitments and contingent liabilities (Notes 12 and 16)			
SHAREHOLDERS' EQUITY			
Common stock:			
Authorized—9,917,077,000 shares			
Issued and outstanding—6,806,980,977 shares			
as of March 31, 2006 and 2005	419,524	419,524	3,571,337
Additional paid-in capital	111,671	109,848	950,636
Retained earnings (Note 12)	818,572	508,393	6,968,356
Unrealized gains on revaluation of land (Note 6)	9,980	11,943	84,957
Unrealized gains on available-for-sale securities (Note 16)	389,209	170,322	3,313,266
Foreign currency translation adjustments	(10,868)	(19,794)	(92,523)
Less: Treasury stock, at cost *	(60,200)	(11,829)	(512,476)
Total shareholders' equity	1,677,889	1,188,409	14,283,555
Total liabilities and shareholders' equity	¥4,542,766	¥3,872,110	\$38,671,720
* 166 257 226 shares at March 21, 2006 and 62 425 190 shares at March 21, 2005	+-15-12,100	13,072,110	\$30,07 1,720

^{* 166,357,226} shares at March 31, 2006 and 63,425,189 shares at March 31, 2005.

Consolidated Statements of Income

Nippon Steel Corporation and Consolidated Subsidiaries Years ended March 31, 2006, 2005 and 2004

		Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2004	2006
Operating revenues: Net sales ¥	/2 006 201	V2 200 2E6	V2 02F 070	¢22.252.611
Operating costs and expenses:	3,906,301	¥3,389,356	¥2,925,878	\$33,253,611
	3,063,154	2,693,603	2,443,188	26,076,053
Selling, general and administrative expenses				
(Notes 8, 9 and 10)	266,828	265,805	258,215	2,271,462
	3,329,982	2,959,408	2,701,403	28,347,515
Operating profit	576,319	429,948	224,475	4,906,095
Non-operating profit and loss: Non-operating profit:				
Interest and dividend income	14,512	9,336	6,099	123,542
Equity in net income of unconsolidated subsidiaries	17,512	2,230	0,033	123,342
and affiliates	28,227	22,931	11,854	240,295
Exchange gain on foreign currency transactions	8,523	, <u> </u>	· —	72,560
Miscellaneous	17,421	13,942	8,605	148,310
	68,685	46,210	26,559	584,708
Non-operating loss:				
Interest expense	15,787	20,278	23,798	134,391
Exchange loss on foreign currency transactions	— 25 474	33,468	10,375	
Loss on disposal of fixed assets Miscellaneous	35,471 46,346	50,964	14,547 29,462	301,959 394,537
Miscellatieous	97,604	104,711	78,183	830,887
Ordinary profit	547,400	371,446	172,851	4,659,916
Special profit and loss:	J+7,100	371,440	172,031	4,033,310
Special profit:				
Gain on sales of tangible fixed assets (Note 11)	14,881	4,294	514	126,682
Gain on sales of investments in securities and	2 225	F 020		20.244
investments in subsidiaries and affiliates	3,325 18,207	5,030	<u> </u>	28,311 154,993
Special loss:	10,207	9,324	514	154,335
Loss on disposal of tangible fixed assets and				
other assets (Note 11)	_	_	2,869	_
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	_
Special retirement allowances for voluntary retirement			10 777	
(Note 17)	_	_	10,777	_
Amortization of transition obligation in respect of the new accounting standard for retirement benefits (Note 11)	_	4,295	4,384	_
Industrial water obligation fee (Note 11)	_	+,2 <i>5</i> 5	3,649	_
Loss on accidents at work (Note 11)	_	3,066	4,377	_
Loss on integration of the stainless-steel business (Note 11)	_	, <u> </u>	6,492	_
Loss on relinquishment of entrusted portion of			FOF	
the pension fund (Note 17) Loss on restructuring of subsidiary's business structures	_	_	595	_
(Note 11)	_	3,923		_
(Note 11)		11,285	99,723	
Income (loss) before income taxes and minority interest	565,607	369,485	73,642	4,814,909
Income taxes—current (Note 7)	223,254	155,082	56,096	1,900,524
Income taxes—deferred (Note 7)	(17,061)	(17,869)	(29,500)	(145,238)
Minority interest in net income (loss) of consolidated subsidiaries	15,510	11,671	5,531	132,039
Net income (loss)		¥ 220,601	¥ 41,515	\$ 2,927,584
Per share (stated in yen and in U.S. dollars):				
Net income (loss) (Note 2)	¥51.07	¥32.73	¥6.15	\$0.435
Cash dividends applicable to the year	¥9.00	¥5.00	¥1.50	\$0.077
Weighted average number of shares outstanding (in thousands)	6,731,176	6,734,683	6,725,459	

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, 2006, 2005 and 2004

	Thousands		Millions of yen	
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
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				/F FCO)
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	_	_	_	220,601
Decrease due to the change in the number of				(0=0)
consolidated companies	_	_	_	(870)
Cash dividends	_	_		(10,141)
Directors' and corporate auditors' bonuses	_	_		(37)
Increase due to reversal of unrealized gains on				107
revaluation of land	_	_	2.000	107
Increase due to disposal of treasury stock			3,998	
Balance at March 31, 2005	6,806,981	¥419,524	¥109,848	¥508,393
Net income for the year ended March 31, 2006	_	_	_	343,903
Increase due to the change in the number of				204
consolidated companies	_	_	_	301
Cash dividends	_	_	_	(33,752)
Directors' and corporate auditors' bonuses	_	_	_	(45)
Decrease due to reversal of unrealized gains on				(227)
revaluation of land	_	_	4 822	(227)
Increase due to disposal of treasury stock			1,823	
Balance at March 31, 2006	6,806,981	¥419,524	¥111,671	¥818,572
	Thousands	Thousa	ands of U.S. dollars	(Note 3)
	Number of	Common	Additional	Retained
	shares of common stock	stock	paid-in capital	earnings
Balance at March 31, 2005	6,806,981	\$3,571,337	\$935,117	\$4,327,860
Net income for the year ended March 31, 2006	_	_	_	2,927,584
Increase due to the change in the number of				
consolidated companies	_	_	_	2,562
Cash dividends	_	_	_	(287,332)
Directors' and corporate auditors' bonuses	_	_	_	(383)
Decrease due to reversal of unrealized gains on				

6,806,981

\$3,571,337

The accompanying notes are an integral part of these statements.

Increase due to disposal of treasury stock

revaluation of land

Balance at March 31, 2006

(1,934)

\$6,968,356

15,519

\$950,636

Consolidated Statements of Cash Flows

Nippon Steel Corporation Years ended March 31, 2006, 2005 and 2004

		Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2004	2006
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	¥565,607	¥369,485	¥ 73,642	\$4,814,909
Adjustments to reconcile net income to net cash provided				
by operating activities: Depreciation and amortization	183,365	180,571	183,510	1,560,954
Interest and dividend income (accrual basis)	(14,512)	(9,609)	(6,099)	(123,542)
Interest expense (accrual basis)	15,787	20,244	23,798	134,391
Exchange loss (gain) on foreign currency transactions	(4,504)	(1,006)	3,166	(38,349)
Amortization of excess of cost over the underlying net equity (the underlying net equity over cost) of investments in				
subsidiaries and affiliates	913	2,512	1,744	7,772
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	(28,227)	(22,931)	(11,854)	(240,295)
Loss (gain) on sales of investments in securities	(3,335)	(5,004)	5,828	(28,391)
Loss on valuation of investments in securities	(3,333)	(5,004)	2,526	(20,331)
Amortization of transition obligation in respect of the new			2,320	
accounting standard for retirement benefits		4,295	4,384	_
Loss on impairment of fixed assets	_	_	60,055	_
Loss on integration of the stainless-steel business	_	_	6,492	_
Loss on restrucuring of subsidiary's business structures	_	4,143	_	_
Loss on disposal of tangible and intangible fixed assets	9,866	17,524	10,713	83,989
Gain on sales of tangible and intangible fixed assets	(13,998)	(3,769)	4 2 2 7	(119,167)
Changes in allowance for doubtful accounts	5,302	6,129	4,237	45,135
Changes in operating assets and liabilities: Changes in notes and accounts receivable	(131,251)	9,181	(40,095)	(1,117,316)
Changes in inventories	(79,617)	(38,722)	26,740	(677,769)
Changes in notes and accounts payable	15,650	38,436	7,661	133,230
Other	82,505	49,501	(35,191)	702,349
Interest and dividend income (cash basis)	17,804	10,868	7,699	151,564
Interest expense (cash basis)	(16,596)	(21,696)	(23,928)	(141,284)
Income taxes (cash basis)	(211,760)	(70,708)	(17,010)	(1,802,675)
Net cash provided by operating activities	392,996	539,445	288,021	3,345,506
Cook floors from investigation activities				
Cash flows from investing activities: Acquisition of investments in securities	(48,470)	(28,255)	(3,608)	(412,617)
Proceeds from sales of investments in securities	7,949	20,687	50,426	67,674
Acquisition of cash owned by new subsidiaries, net of payment	775.15	20,007	30,120	07,07 1
for purchase of subsidiaries' shares	1,363	(1,303)	(46)	11,604
Proceeds from sale of subsidiaries' shares, net of cash owned				
by those subsidiaries	1,759	(65)	1,479	14,981
Acquisition of tangible and intangible fixed assets	(201,462)	(189,260)	(155,729)	(1,715,010)
Proceeds from sales of tangible and intangible fixed assets	12,875	12,699	24,545	109,602
Payment for loans	(1,383)	(472)	(7,692)	(11,775)
Proceeds from collections of loans	4,431	11,065	140,596	37,725
Other	(3,958)	(90)	1,927	(33,696)
Net cash provided by (used in) investing activities	(220,894)	(174,995)	51,897	(1,931,511)
Cash flows from financing activities:				
Net increase (decrease) in short-term loans	10,241	(114,972)	(253,846)	87,186
Net increase (decrease) in commercial paper	80,000	39,000	11,000	681,024
Proceeds from long-term loans	60,612	74,409	88,730	515,981
Payments of long-term loans	(190,088)	(87,119)	(189,834)	(1,618,191)
Proceeds from issuance of bonds and notes		34,836	56,246	
Redemption of bonds and notes	(10,000)	(238,729)	(40,112)	(85,128)
Payments for purchase of treasury stock Cash dividends	(50,166) (33,752)	(16,213) (10,141)	(9,991)	(427,057 <u>)</u> (287,332 <u>)</u>
Cash dividends Cash dividends to minority shareholders	(830)	(2,218)	(723)	(7,069)
Proceeds from issuance of common stock to minority shareholders	1,200	374	(, 23)	10,215
Other	(3,326)	(628)	6,178	(28,315)
Net cash used in financing activities	(136,110)	(321,402)	(332,353)	(1,158,686)
			/4>	
Effect of exchange rate changes on cash and cash equivalents	3,845	1,032	(1,949)	32,738
Net increase in cash and cash equivalents	33,837	44,079	5,615	288,048
Cash and cash equivalents at beginning of year Increase (decrease) from the change in the number of companies consolidated	124,511 (1,634)	80,393 38	76,603 (1,825)	1,059,938 (13,910)
Cash and cash equivalents at end of year (Note 11)	(1,634) ¥156,713	¥124,511	¥80,393	\$1,334,076
The accompanying notes are an integral part of these statements		1127,311	100,000	\$1,55 7, 676

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 266 and 280 subsidiaries as of March 31, 2006 and 2005, respectively based on the criterion of exercise of control. The consolidated financial statements include the accounts of Nippon Steel Corporation and 251 of its subsidiaries (in the previous fiscal year: 258 subsidiaries). Non-adoption of the consolidation accounting treatment for the unconsolidated subsidiaries does not have a 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 50 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 had a fiscal year-end date of September 30, prepared on a basis similar to that for year-end closing, were used for consolidation purposes.

For the purposes of preparing the consolidated financial statements, all inter-company transactions and balances, as well as unrealized profits 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 15 unconsolidated subsidiaries (in the previous fiscal year: 22 unconsolidated subsidiaries) and 140 affiliates (in the previous fiscal year: 144 affiliates), the equity method has been applied to the investments in 69 significant affiliates (in the previous fiscal year: 71 affiliates) based on the criterion of exercise of influence, since non-adoption of the equity method for the others has no material effect on net income or retained earnings of the consolidated financial statements.

(3) Appropriation of retained earnings

Consolidated statements of shareholder's equity are based on the appropriations of retained earnings which were approved at the ordinary general meetings of shareholders held in the year ended March 31, 2006, 2005 and 2004.

(4) Foreign currency translation

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

(5) Securities

Securities held by NIPPON STEEL are classified into three categories;

Held-to-maturity debt securities, which NIPPON STEEL intends to hold to maturity, are valued at cost after accounting for premiums or discounts on acquisition, which 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 weighted 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, or (ii) the first-in first-out method or (iii) 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.

Software which are purchased and leased to customers under usage contracts are amortized on a straight-line basis over 5 years.

(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) Allowance for losses on construction contracts

The allowance for losses on construction contracts is provided based on the excess of estimated costs over its contract revenue.

(11) Provision for environmental remediation

The provision for environmental remediation is estimated and recorded to provide for future potential costs, such as costs related to removal and disposal of asbestos used in buildings or machinery and equipment and others.

(12) 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 periods from the last work to the anticipated dates of the next one.

(13) 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 ¥118,749 million (\$1,010,894 thousand), ¥57,453 million and ¥39,733 million for the years ended March 31, 2006, 2005 and 2004, respectively.

Nippon Steel Corporation changed the policy recognizing sales and costs of construction contracts ranging ¥3,000 million to ¥1,000 million from the completion-of-contract method to the percentage-of-completion method from the consolidated fiscal year ended March 31, 2005. Compared to the results which would had been obtained applying the same procedure as that used in the previous period, net sales increased by ¥4,974 million and operating profit, ordinary profit and income before income taxes and minority interests increased by ¥928 million for the year ended March 31, 2005.

(14) 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.

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; 10 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; 10 years, consolidated subsidiaries; approximately 7-15 years), starting from the year following the year in which they occur.

Additional information (2006)

Due to the revision of the estimate of the average number of years of remaining service based on previous data, NIPPON STEEL decided to adopt 10 years instead of 14 years as the period over which prior service costs and unrecognized actuarial differences are amortized. Accordingly, compared to applying the same procedure as that for the previous period, operating profit, ordinary profit and net profit for the current term before tax and other adjustment decreased by ¥5,900 (\$502,255 thousand) million.

Additional information (2005)

Nippon Steel Corporation changed its pension plan from a tax qualified pension plan to a defined benefit plan in January 2005, and reclassified prepaid pension costs of ¥87,315 million from current assets to fixed assets "Others" within "Investment and 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, Labor and Welfare and paid minimum actuarial liability to the government in the year ended March 31, 2004.

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

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

(15) 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.

Additional information (2005)

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 in order to distribute the costs across the period for which they work. Compared to the results that would have been obtained applying the same procedure as that for the previous period, selling general and administrative expenses increased by ¥4,025 million, and operating profit, ordinary profit and income before income taxes and minority interests decreased by the same amount for the years ended March 31, 2005.

The effects on Segment Information are described in Note 15.

(16) 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 forward exchange contracts and interest swaps. The related hedged items are trade accounts receivable and payable, long-term bank loans, and debt securities issued by NIPPON STEEL.

NIPPON STEEL has a policy which aims to utilize these hedging instruments in order to reduce its exposure to the risk of fluctuations in interest rates or foreign exchange rates. 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.

(17) Consumption tax

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

(18) 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 change in value.

(19) 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 on the basis of the expected future tax consequences of temporary differences between the carrying amounts and the tax base of assets and liabilities.

(20) 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 or 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.

Additional information (2004)

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

Changes to presentation (2006)

(Consolidated Statements of Income)

As the "Exchange gain on foreign currency transactions" represented more than 10% of the non-operating profit, it has been presented separately with effect from the year ended March 31, 2006. The exchange gain on foreign currency transactions of ¥1,357 million was included in "other" in non-operating profit for the year ended March 31, 2005.

Changes to presentation (2004)

(Consolidated Statements of Income)

As the "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 ¥117.47 = U.S.\$1, the effective exchange rate prevailing at the latest balance sheet date of March 31, 2006. 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, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	
Bonds and Notes:				
Nippon Steel Corporation				
3.3% SB due March 2017	¥ 10,000	¥ 10,000	\$ 85,128	
3.175% SB due September 2017	10,000	10,000	85,128	
2.55% SB due December 2009	10,000	10,000	85,128	
2.60% SB due April 2008	15,000	15,000	127,692	
2.27% SB due May 2008	10,000	10,000	85,128	
2.50% SB due July 2008	30,000	30,000	255,384	
1.74% SB due December 2005	_	10,000	_	
0.54% SB due November 2007	30,000	30,000	255,384	
0.80% SB due November 2009	10,000	10,000	85,128	
1.36% SB due November 2012	10,000	10,000	85,128	
0.62% SB due February 2009	30,000	30,000	255,384	
1.18% SB due February 2013	15,000	15,000	127,692	
0.80% SB due June 2013	20,000	20,000	170,256	
0.78% SB due June 2009	20,000	20,000	170,256	
1.67% SB due March 2014	15,000	15,000	127,692	
Floating rate SB without call option due December 2007*1	10,000	10,000	85,128	
Floating rate PN with call option due April 2023*2,5	5,000	5,000	42,564	
Floating rate SB with call option due June 2015*3,6	15,000	15,000	127,692	
Nippon Steel City Produce, Inc.				
Floating rate SB without call option due March 2008*4	3,000	3,000	25,538	
Floating rate SB without call option due March 2009*4	3,000	3,000	25,538	
Floating rate SB without call option due March 2010*4	3,250	3,250	27,666	
Floating rate SB without call option due March 2009*4	2,300	2,300	19,579	
Floating rate SB without call option due March 2009*4	1,900	1,900	16,174	
Floating rate SB without call option due March 2009*4	1,700	1,700	14,471	
Floating rate SB without call option due March 2009*4	1,300	1,300	11,066	
Subsidiaries' ordinary bonds*7	288	_	2,451	
	281,738	291,450	2,398,382	
Less: portion due within one year	(50)	(10,000)	(425)	
	¥281,688	¥281,450	\$2,397,956	

(Interest rate)

(Call option)

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

(Other)

^{*1} 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.

*2 The floating rate is as follows:

April 15, 2003 – April 14, 2008 1.40%
April 15, 2008 – April 14, 2013 1.80%
April 15, 2013 – April 14, 2018 2.00%
April 15, 2018 – April 14, 2023 2.30%
*3 The floating rate is as follows:
June 5, 2003 – June 4, 2010 0.70%
June 5, 2010 – June 4, 2015 1.25%

^{*4} The floating rate is generally determined by reference to the interest rate in Tokyo applicable to 6-month yen term TIBOR (Tokyo InterBank Offered Rate).

^{*6} Call option is available on June 4, 2010.

^{*7} Those issued by two domestic subsidiaries, Tokai Steel Industries Co., Ltd., and Tokyo Econ Kentetsu Co., Ltd., are selectively combined.

^{*&}quot;SB" = straight bond "PN" = private note "CB" = convertible bond

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	
Loans:				
Short-term loans	¥215,947* ²	¥211,133	\$1,838,319	
Loans principally from banks and insurance companies				
due 2007–2030 for 2006 (2006–2031 for 2005)*1	576,047 * ³	709,555	4,903,780	
Commercial paper	150,000*4	70,000	1,276,921	
	¥941,994	¥990,688	\$8,019,021	

^{*}¹ Including a portion due within one year of ¥183,049 million (\$1,558,262 thousand) for 2006 and ¥170,515 million for 2005.
*² Average interest rate at March 31, 2006 is 0.8%.
*³ Average interest rate at March 31, 2006 is 2.0%.

The aggregate annual maturities of long-term debt as of March 31, 2006 were as follows:

Total

rears ending iviarch 3 i					
3			Millions of yen		
	2007	2008	2009	2010	2011
Bonds and notes and convertible bonds	¥ 50	¥ 43,050	¥ 95,324	¥43,274	¥ 24
Loans	183,049	104,023	60,394	54,469	33,944
Total	¥183,099	¥147,073	¥155,718	¥97,743	¥33,968
		Th	nousands of U.S. dol	lars	
	2007	2008	2009	2010	2011
Bonds and notes and convertible bonds	\$ 426	\$ 366,477	\$ 811,475	\$368,383	\$ 204
Loans	1,558,262	885,530	514,126	463,687	288,962

NIPPON STEEL's assets pledged as collateral primarily to secure long-term loans, short-term loans and others totaled ¥39,769 million (\$338,550 thousand) at March 31, 2006 and ¥57,078 million at March 31, 2005. These are summarized as follows:

\$1,252,007

\$1,325,602

\$832,070

\$289,167

\$1,558,687

	Millions of yen		Thousands of U.S. dollars 2006	
	2006 2005			
(Industrial foundation)				
Buildings and structures	¥15,472	¥16,718	\$131,715	
Machinery and equipment	39,562	42,517	336,787	
Land	20,189	20,146	171,867	
	¥75,224	¥79,382	\$640,370	
(Pledged assets)				
Cash and bank deposits	¥ 284	¥ 329	\$ 2,422	
Accounts receivable	30	38	258	
Buildings and structures	18,293	12,136	155,728	
Machinery and equipment	5,579	5,458	47,500	
Land	9,367	19,243	79,747	
Investments in securities	54	40	460	
	¥33,610	¥37,248	\$286,118	

In addition, out of the above secured liabilities, ¥262 million (\$2,237 thousand) of long-term advances (credit), etc., are pledged as collateral against ¥1,296 million (\$11,036 thousand) of loans of consolidated subsidiaries, and ¥1,069 million (\$9,101 thousand) of shares of affiliates are pledged as collateral against the loans of those affiliates.

^{*4} Average interest rate at March 31, 2006 is 0.1%.

5. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates are as follows:

	Million	Millions of yen		
	2006	2005	2006	
Investment securities	¥263,552	¥246,417	\$2,243,575	
Investments	16,477	16,283	140,271	

6. Revaluation of Land

(Year ended March 31, 2006)

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 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, 2006: ¥2,890 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, 2006: ¥14,868 million

(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 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 share-holders' 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

7. Deferred Tax Accounting

(1) The components of deferred tax assets and liabilities at March 31, 2006, 2005 and 2004, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Deferred tax assets				
Reserve for accrued bonuses	¥ 25,053	¥ 23,647	¥ 18,771	\$ 213,275
Allowance for doubtful accounts	_		12,198	_
Accrued pension and severance costs	24,227	26,383	27,001	206,242
Reserve for repairs to blast furnaces	19,853	14,750	10,054	169,012
Loss on impairment of fixed assets	14,478	15,762	19,169	123,253
Business tax payable	11,683	10,281	_	99,458
Depreciation in excess of limit	28,255	24,012	25,160	240,536
Tax losses carried forward	15,087	14,017	20,467	128,433
Unrealized gain on tangible fixed assets	50,340	53,176	49,571	428,540
Other	54,161	58,627	34,728	461,067
Subtotal	243,141	240,659	217,225	2,069,820
Valuation allowance	(16,208)	(25,351)	(9,410)	(137,977)
Total	226,933	215,308	207,815	1,931,842
Deferred tax liabilities				
Special tax purpose reserve	(78,442)	(81,792)	(89,850)	(667,769)
Revaluation of available-for-sale securities	(260,060)	(113,847)	(88,017)	(2,213,846)
Net unrealized gain on assets and liabilities of consolidated subsidiaries acquired after the adoption of				
the new consolidation standard	(2,892)	(2,891)	(6,015)	(24,620)
Total	(341,395)	(198,531)	(183,883)	(2,906,236)
Net deferred tax assets	¥(114,462)	¥ 16,777	¥ 23,931	\$ (974,393)

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

(Year ended March 31)	2006	2005	2004
Effective tax rate	40.4%	40.4%	41.7%
Equity in net income of unconsolidated subsidiaries and affiliates	(2.0)	(2.5)	(6.7)
Permanent non-deductible expenses	0.5	0.8	4.0
Permanent non-taxable income	(0.5)	(0.4)	(1.3)
Adjustment of deferred tax assets and liabilities due to changes in the tax rate	_	_	3.9
Other	(1.9)	(1.2)	(5.5)
Actual tax rate	36.5%	37.1%	36.1%

8. The Distribution of Provision for Allowance Reserve

The main distribution of provision for allowance reserve for the years ended March 31, 2006, 2005 and 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Provision for accrued pension and severance costs				
Cost of sales	¥27,615	¥24,439	¥27,385	\$235,085
Selling, general and administrative expenses	10,609	10,317	11,901	90,320
Non-operating loss	_	103	1,331	_
Special loss	_	4,295	4,384	_
Provision for allowance for retirement benefits of directors				
Selling, general and administrative expenses	2,024	4,148		17,236
Provision for reserve for repairs to blast furnaces				
Cost of sales	1,916	1,657	1,903	16,315
Provision for allowance for doubtful accounts				
Selling, general and administrative expenses	10,871	3,542	2,226	92,546
Non-operating loss	453	1,213	544	3,859
Provision for environmental remediation				
Cost of sales	6,631	_	_	56,449
Non-operating loss	4,987	_	_	42,459

9. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004, are as follows:

	Millions of yen			Thousands of U.S. dollars	
	2006	2005	2004	2006	
Transportation and storage	¥ 41,416	¥ 54,460	¥53,875	\$ 352,572	
Salaries	80,781	80,099	76,617	687,680	
Depreciation and amortization	3,253	3,441	4,233	27,698	
Research and development expenses	29,103	26,926	25,133	247,754	
Amortization of excess of cost over the underlying					
net equity of investments in subsidiaries and affiliates	3,016	2,803	2,781	25,678	
Other	109,256	98,073	95,573	930,077	
	¥266,828	¥265,805	¥258,215	\$2,271,462	

10. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2006, 2005 and 2004, are ¥37,881 million (\$322,482 thousand), ¥36,352 million, and ¥35,349 million, respectively.

11. Explanatory Notes on Special Profit and Loss

(Year ended March 31, 2006) 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 staff quarters and facilities, etc.

(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 staff quarters and facilities, 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.

The transition obligation is amortized on a straight-line basis over approximately 5 years for consolidated subsidiaries.

(2) Loss on accidents at works

"Loss on accidents at works" 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 staff quarters and facilities, 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 of business establishments 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 by comparing the net sale value and value in use. Net sale value was mainly adopted for idle immovable estates and value in use was mainly adopted for other assets. Net sale values were assessed according to fair values based on publicly announced prices. To calculate values in use, 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 provide a low level of 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 are as follows:

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.

The transition obligation is amortized on a straight-line basis over approximately 5 years for consolidated subsidiaries.

(5) Industrial water obligation fee

"Industrial water obligation fee" represents compensation expenses for a reduction in the volume of industrial water consumed from the volume originally committed 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 works

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

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

"Loss on the 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, 2006)

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, 2006 were approved at the ordinary general meeting of shareholders held on June 28, 2006. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2006, but will be recorded in those for the year ending March 31, 2007.

	Millions of yen	Thousands of U.S. dollars
Appropriations for:		
Cash dividends at ¥9		
(\$0.07661) per share	¥59,834	\$509,362
Transfer to special reserve	7,770	66,148

(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
Appropriations for:	
Cash dividends at ¥5 per share	¥33,752
Transfer to special reserve	89,094

(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.

yen
¥10,141
81,221

13. Notes on Consolidated Statements of Cash Flows

Cash and cash equivalents consists of:

	Millions of yen			Thousands of U.S. dollars	
	2006	2005	2004	2006	
Cash and bank deposits	¥159,923	¥127,629	¥81,219	\$1,361,401	
Less—Time deposits with original maturity over 3 months	(3,210)	(3,276)	(1,106)	(27,333)	
Securities due within 3 months	1	158	279	8	
Cash and cash equivalents	¥156,713	¥124,511	¥80,393	\$1,334,076	

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 are to be transferred to lessees, are accounted for using a method similar to that of operating leases.

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2006 and 2005, are summarized as follows:

	Millions o	Millions of yen	
	2006	2005	2006
enses	¥5,221	¥7,442	\$44,452

The amount of outstanding future lease payments due at March 31, 2006 and 2005, which included the portion of interest thereon, is summarized as follows:

	Millions	Millions of yen	
	2006	2005	2006
Future lease payments			
Within one year	¥ 4,031	¥ 5,812	\$34,318
Over one year	7,468	9,841	63,576
	¥11,499	¥15,653	\$97,894

	Millions	of yen	Thousands of U.S. dollars
	2006	2005	2006
* Accumulated impairment loss on leased assets	¥—	¥11	\$

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, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	
Acquisition cost	¥34,848	¥47,169	\$296,658	
Accumulated depreciation	(23,348)	(31,516)	(198,763)	
Accumulated impairment loss	_	(11)	_	
Net book value	¥11,499	¥15,641	\$ 97,894	
Depreciation	¥ 5,221	¥ 7,442	\$ 44,452	

(2) Operating leases

The amount of outstanding future lease payments due at March 31, 2006 and 2005, is summarized as follows:

	Millions	Millions of yen	
	2006	2005	2006
Future lease payments			
Within one year	¥2,266	¥1,874	\$19,292
Over one year	3,320	4,357	28,267
	¥5,586	¥6,232	\$47,560

The amount of outstanding future lease income due at March 31, 2006 and 2005, is summarized as follows:

	Millions	Millions of yen	
	2006	2005	2006
Future lease income			
Within one year	¥ 707	¥ 536	\$ 6,022
Over one year	7,303	5,202	62,171
	¥8,010	¥5,739	\$68,194

(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
	2006			
Contingent liabilities for:				
Guarantee of loans				
The Siam United Steel (1995) Co., Ltd.	¥12,683	\$107,973	¥12,683	\$107,973
UNIGAL Ltda.	3,709	31,574	2,034	17,320*1
Frontier Energy Niigata Co., Ltd.	3,390	28,865	3,390	28,865
I/N Tek	3,023	25,735	3,023	25,735
I/N Kote	2,059	17,531	2,059	17,531
Other	1,211	10,310	563	4,797*1
	¥26,077	\$221,991	¥23,755	\$202,223

	Outstanding amounts for the year ended		Substantia	l amounts	
	Millions of yen	Millions of yen 2006 Thousands of U.S. dollars 2006		Millions of yen	Thousands of U.S. dollars
	2006		2006	2006	
Contingent liabilities for:					
Reserved guarantee of loans					
Yutaka Electric Mfg. Co., Ltd.	¥1,700	\$14,471	¥1,700	\$14,471	
H.C.M SHIPPING S.A.	1,666	14,187	1,666	14,187	
Hibikinada Development Co., Ltd.	1,237	10,534	1,237	10,534	
Nippon Techno-Carbon Co., Ltd.	1,200	10,215	1,200	10,215	
PUISSANT SHIPPING ENTERPRISE S. A.	1,063	9,055	1,063	9,055	
Other	1,253	10,671	1,253	10,671	
	¥8,121	\$69,135	¥8,121	\$69,135	

^{*1} These represent substantial amounts excluding that portion which is re-guaranteed by other parties.

2)

	Outstanding amounts for the year ended	Substantial amounts Millions of yen 2005	
	Millions of yen		
	2005		
Contingent liabilities for:			
Guarantee of loans			
The Siam United Steel (1995) Co., Ltd.	¥10,619	¥10,619	
I/N Tek	4,399	4,399	
UNIGAL Ltda.	4,252	2,339*1	
I/N Kote	3,578	3,578	
Other	2,353	1,639*1	
	¥25,204	¥22,576	
	Outstanding amounts for the year ended	Substantial amounts	

	Outstanding amounts for the year ended	Substantial amounts	
	Millions of yen	Millions of yen	
	2005	2005	
Contingent liabilities for:			
Reserved guarantee of loans			
H.C.M SHIPPING S.A.	¥1,721	¥1,721	
Hibikinada Development Co., Ltd.	1,416	1,416	
Nippon Techno-Carbon Co., Ltd.	1,400	1,400	
PUISSANT SHIPPING ENTERPRISE S. A.	1,179	1,179	
Other	2,128	2,128	
	¥7,846	¥7,846	

^{*1} 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.

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 bond holders, however, remain until the completion of redemption of those bonds.

Outstanding amounts for the year ended		
Millions of yen 2006 2005		
¥40,000	\$340,512	
20,000	170,256	
30,000	255,384	
¥90,000	\$766,153	

⁽⁴⁾ Notes and bills discounted and endorsed

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	
Notes and bills discounted	¥ 104	¥ 127	\$ 890	
Notes and bills endorsed	1,123	1,041	9,564	
	¥1,228	¥1,169	\$10,455	

^{*}These bills have a recourse clause which is in fact the contingent liability.

15. Segment Information

The segment information of NIPPON STEEL for 2006, 2005 and 2004 is as follows:

(1) Information on business segments
NIPPON STEEL operates in the following seven business segments.

Major products and businesses
Bars; plates and sheets; pipes and tubes; specialty steels; fabricated and processed steels; pig iron and ingots; slag products; transportation; technical cooperation
Plant and machinery; civil engineering and marine construction; building construction
Urban development; real estate; rental of buildings
Coal chemicals; titanium products; aluminum products; ceramic coated products
Engineering and consulting on computer systems
Electricity supply
Finance and insurance; energy; others

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Sales				
Steelmaking and steel fabrication				
Customers	¥3,025,896	¥2,592,476	¥2,127,949	\$25,758,884
Intersegment	31,614	28,256	28,997	269,127
Total sales	3,057,510	2,620,732	2,156,946	26,028,012
Engineering and construction				
Customers	297,791	239,369	246,440	2,535,043
Intersegment	38,387	40,496	46,697	326,785
Total sales	336,179	279,866	293,137	2,861,829
Urban development				
Customers	98,149	83,669	114,241	835,527
Intersegment	5,895	5,606	6,570	50,187
Total sales	104,045	89,275	120,811	885,715
Chemicals and nonferrous materials				
Customers	298,309	282,399	244,579	2,539,449
Intersegment	74,763	48,768	31,217	636,448
Total sales	373,072	331,168	275,797	3,175,897
System solutions				
Customers	122,049	121,641	124,998	1,038,985
Intersegment	26,290	24,889	25,851	223,804
Total sales	148,339	146,531	150,850	1,262,790
Other businesses				
Customers	64,105	69,800	67,669	545,719
Intersegment	4,952	6,444	5,945	42,157
Total sales	69,057	76,244	73,615	587,877
Elimination of intersegment transactions	(181,903)	(154,463)	(145,280)	(1,548,511
Consolidated total	¥3,906,301	¥3,389,356	¥2,925,878	\$33,253,611

Operating profit (loss)				
Steelmaking and steel fabrication	¥ 513,977	¥ 376,926	¥ 189,717	\$ 4,375,392
Engineering and construction	9,517	6,696	4,359	81,018
Urban development	14,155	8,503	13,526	120,501
Chemicals and nonferrous materials	27,037	26,374	12,667	230,161
System solutions	11,806	11,384	9,182	100,502
Other businesses	(1,185)	384	(4,310)	(10,088)
Elimination of intersegment transactions	1,010	(321)	(668)	8,606
Consolidated total	¥ 576,319	¥ 429,948	¥ 224,475	\$ 4,906,095
Identifiable assets				
Steelmaking and steel fabrication	¥3,669,594	¥3,031,222	¥2,931,098	\$31,238,568
Engineering and construction	249.944	222,714	206,113	2,127,727
Urban development	152,152	156,841	160,394	1,295,245
Chemicals and nonferrous materials	275,432	277,962	281,847	2,344,703
System solutions	104,442	99,129	93,213	889,100
Other businesses	275,163	244,741	205,796	2,342,413
Elimination of intersegment transactions	(183,962)	(160,500)	(172,544)	(1,566,038)
Consolidated total	¥4,542,766	¥3,872,110	¥3,705,917	\$38,671,720
Consolidated total	¥4,342,700	\$ 3,072,110	ŧ3,703,917	\$30,071,720
Depreciation of identifiable assets				
Steelmaking and steel fabrication	¥ 160,204	¥ 153,965	¥ 153,923	\$ 1,363,793
Engineering and construction	1,954	2,285	2,472	16,640
Urban development	1,876	1,933	2,409	15,973
Chemicals and nonferrous materials	10,802	10,946	11,853	91,961
System solutions	1,360	1,359	1,240	11,585
Other businesses	7,509	9,109	12,051	63,927
Elimination of intersegment transactions	(343)	971	(440)	(2,926)
Consolidated total	¥ 183,365	¥ 180,571	¥ 183,510	\$ 1,560,954
00.150.164.164.164.1			,	+ 1,000,001
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	\$ <u> </u>
Capital expenditure on identifiable assets	V 405.041	V 472.054	\/ 444 477	6 4 504 005
Steelmaking and steel fabrication	¥ 185,814	¥ 172,954	¥ 141,477	\$ 1,581,807
Engineering and construction	1,949	1,877	1,851	16,599
Urban development	796	5,669	1,320	6,782
Chemicals and nonferrous materials	13,199	13,608	9,219	112,363
System solutions	1,653	865	1,437	14,079
Other businesses	899	1,128	1,805	7,661
Elimination of intersegment transactions	(341)	(876)	(7,519)	(2,908)
Consolidated total	¥ 203,973	¥ 195,228	¥ 149,593	\$ 1,736,385

(Year ended March 31, 2006)

As stated in Note 2, NIPPON STEEL decided to adopt 10 years instead of 14 years as the period over which prior service costs and unrecognized actuarial differences are amortized.

In consequence, compared to the case of applying the same procedure as that for the previous period, operating expenses increased: by ¥5,320 million (\$45,289 thousands) in the steel business, by ¥500 million (\$4,257 thousands) in the engineering business, by ¥23 million (\$197 thousands) in the urban development business, by ¥34 million (\$292 thousands) in the chemical and non-ferrous business, and by ¥22 million (\$193

thousands) in the system solutions business, with corresponding decreases in operating profit.

(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 by ¥3,385 million in the steel business, by ¥190 million in the engineering business, by

¥75 million in the urban development business, by ¥293 million in the chemical and non-ferrous business and by ¥80 million in the 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 by ¥49,923 million (¥14,491 million for "customers", and ¥35,432 million for "intersegment"), and operating costs and expenses decreased by ¥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
	2006	2005	2004	2006
Overseas sales	¥ 977,391	¥ 818,340	¥ 658,236	\$ 8,320,348
Consolidated net sales	3,906,301	3,389,356	2,925,878	33,253,611
Overseas sales as a proportion of consolidated net sales	25.0%	24.1%	22.5%	25.0%

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, 2006)

Information regarding marketable securities and investments in securities at March 31, 2006, is as follows;

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

	2006	
	Carrying	Unrealized
Cost	amount	gain (loss)
¥212,740	¥796,253	¥583,513
6	6	0
25,489	86,954	61,464
238,236	883,213	644,977
		(222)
		(36)
1,261	1,003	(258)
¥239,498	¥884,216	¥644,718
Cost		Unrealized gain (loss)
	amount	ga (1033)
1.811.020	\$6,778,359	\$4,967,338
1,011,020	40/110/555	\$ 1,507,550
51	51	0
216,989	740,223	523,233
2,028,062	7,518,634	5,490,572
9,169	7,273	(1,896)
1,573	1,265	(307)
10,742	8,538	(2,204)
52,038,804	\$7,527,172	\$5,488,368
	6 25,489 238,236 1,077 184 1,261 ¥239,498 Cost 1,811,020 51 216,989 2,028,062 9,169 1,573 10,742	6 6 6 25,489 86,954 238,236 883,213 1,077 854 184 148 1,261 1,003 ¥239,498 ¥884,216 Thousands of dollars 2006 Carrying amount 1,811,020 \$6,778,359 51 51 216,989 740,223 2,028,062 7,518,634 9,169 7,273 1,573 1,265 10,742 8,538

(2) Held-to-maturity debt securities sold in the year ended March 31, 2006

		Millions of yen	
		2006	
Kind of bonds	Cost of bonds sold	Amout of sales	Gain (loss) on sales
Other	¥1	¥1	¥0
	Th	nousands of U.S. dolla	ars
		2006	
	Cost of	Amout	Gain (loss)
Kind of bonds	bonds sold	of sales	on sales
Other	\$8	\$8	\$0
(3) Available-for-sale securities sold in the year ended Ma	arch 31, 2006		
		Millions of yen	
		2006	
	Amout of sales	Gain on sales	Loss on sales
	¥3,028	¥2,322	¥(45
	TI	nousands of U.S. dolla	ars
		2006	
	Amout of sales	Gain on sales	Loss on sales
	\$25,782	\$19,768	\$(391
(4) Securities without any available market quotation are	summarized as follows:		
(1) Securities mandatury available market quotation are	sammanized as renoves.		Millions of yen
			2006
Available-for-sale securities			
Shares of private companies, etc.			¥49,290
			Thousands of U.S. dollars
			2006
Available-for-sale securities Shares of private companies, etc.			2006 \$419,602

(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			
	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.	¥ 25	¥ 75	¥37	¥—
Other	_	5	_	_
Other	200	24	_	_
Total	¥225	¥104	¥37	¥—
		Thousand o	of U.S. dollars	
	2006			
	Due within	Due in	Due in	Due after
	1 year	1 to 5 years	5 to 10 years	10 years

	2000			
	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	\$ 220	\$641	\$320	\$ —
Other	_	42	_	_
Other	1,702	206	_	_
Total	\$1,922	\$890	\$320	\$ —

(6) Financial assets with the right of free disposition

Nippon Steel possesses pledged financial assets (mainly securities) with the right of free disposition whose current market value is ¥3,902 million (\$33,225 thousand) at the end of this consolidated fiscal year.

(Year ended March 31, 2005)

Shares of private companies, etc. Money management funds, etc.

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	
	G+	Carrying	Unrealized
A 9.11 C 1 22 1 2 2 1 1 1 1 1 1 1 1 1 1 1 1	Cost	amount	gain (loss)
Available-for-sale securities whose carrying amounts on the balance in average of the related party	ce sheet		
are in excess of the related cost:	V420 474	V206 746	V2.47.273
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			
	164,869	448,147	283,278
Available-for-sale securities whose carrying amounts on the balance	ce 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
		Millions of yen	
		2005	
	Cost of	Amout	Gain (loss)
Kind of bonds	bonds sold	of sales	on sales
Other	¥105	¥104	¥((
(3) Available-for-sale securities sold in the year ended Marc	h 31. 2005		
,,		Millions of yen	
		2005	
	Amout of sales	Gain on sales	Loss on sales
	¥17,801	¥5,606	¥(825
(4) Securities without any available market quotation are su	ummarized as follows:		Millions of yer
			2005
Held-to-maturity debt securities			¥
Available-for-sale securities			

(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	¥—			

52,032

158

(6) Financial assets with the right of free disposition

Nippon Steel possesses pledged financial assets (mainly securities) with the right of free disposition whose current market value is ¥2,407 million at the end of this consolidated fiscal year.

17. Retirement Benefits

NIPPON STEEL operates four defined benefit retirement plans which consist of a welfare employee pension fund plan, a taxqualified 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, 2006, 2005 and 2004, are analyzed as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Projected benefit obligations	¥(598,192)	¥(614,470)	¥(632,108)	\$(5,092,299)
Plan assets	560,728	465,396	456,153	4,773,380
Accrued pension and severance costs	122,265	122,398	112,797	1,040,823
Prepaid pension cost	(73,996)	(88,809)	(78,420)	(629,922)
Balance	10,805	(115,484)	(141,578)	91,982
Consisting of:				
Unrecognized balance of the transition obligation	(1,060)	(1,481)	(6,904)	(9,028)
Unrecognized actuarial differences	(9,548)	(126,046)	(147,913)	(81,285)
Unrecognized balance of prior service costs*1	21,414	12,043	13,239	182,296
	¥ 10,805	¥(115,484)	¥(141,578)	\$ 91,982

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

The net pension expense relating to retirement benefits for the years ended March 31, 2006, 2005 and 2004, is as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service costs*2,4	¥16,572	¥16,603	¥16,259	\$141,082
Interest costs	12,654	12,998	13,536	107,728
Expected return on plan assets	(7,806)	(7,760)	(6,880)	(66,451)
Amortization of transition obligation	529	4,256	4,597	4,510
Amortization of actuarial differences	19,640	13,743	19,144	167,197
Amortization of prior service costs*3	(3,111)	(691)	(1,635)	(26,490)
Net pension expense	38,480	39,149	45,021	327,577
Loss (gain) on relinquishment of entrusted portion of				
the pension fund*5	_	_	495	_
Other*6	353	324	249	3,012
	¥38,834	¥39,474	¥45,766	\$330,589

^{*1} In addition to the net pension expense above, special benefits for early retirement of ¥10,445 million (\$88,924 thousand), ¥12,174 million were paid for the year ended March 31, 2006, 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

Corporation and certain consolidated subsidiaries, an unrecognized balance of prior service costs arose.

*2 The projected benefit obligations for certain consolidated subsidiaries are determined by the simplified method permitted by the new standard.

This amount excludes contributions to welfare pension plans made by employees. *3 This amount represents amortization of prior service costs.

^{*4} All pension expenses except amortization of the transition obligation of consolidated subsidiaries, for which the simplified method permitted by the new standard is applied, are included in "service costs".

*5 In conjunction with relinquishment of the substitutional portion of the welfare pension plan, a one-time amortization of the actuarial difference of the plan

assets of ¥495 million was charged as a special loss for the year ended March 31, 2004.

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

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

As of March 31, 2006	As of March 31, 2005	As of March 31, 2004
Mainly straight-line basis	Mainly straight-line basis	Mainly straight-line basis
1.5%-2.5% (mainly 2.1%)	1.5%-3.5% (mainly 2.1%)	1.5%-3.1% (mainly 2.1%)
0.0%-4.0% (mainly 2.1%)	0.0%-4.0% (mainly 2.1%)	0.0%-4.0% (mainly 2.1%)
1-15 years (mainly 10 years)	1–15 years (mainly 14 years)	1–14 years (mainly 14 years)
1-15 years (mainly 10 years)	1–15 years (mainly 14 years)	1–15 years (mainly 14 years)
1–15 years	1–15 years	1–15 years
	Mainly straight-line basis 1.5%–2.5% (mainly 2.1%) 0.0%–4.0% (mainly 2.1%) 1–15 years (mainly 10 years) 1–15 years (mainly 10 years)	Mainly straight-line basis 1.5%–2.5% (mainly 2.1%) 0.0%–4.0% (mainly 2.1%) 1–15 years (mainly 10 years) Mainly straight-line basis 1.5%–3.5% (mainly 2.1%) 0.0%–4.0% (mainly 2.1%) 1–15 years (mainly 14 years) 1–15 years (mainly 14 years)

- *1 Amortized on a straight-line basis over a period of time within the average remaining service period for the employees in service.
 *2 Amortized on a straight-line basis over a period of time within the average remaining service period for the employees in service starting from the next year.
 *3 Amortized in 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. (As of March 31, 2005 and 2004)

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, 2006)

	Millions of yen			Thousands of U.S. dollars			
(a) Name of director (b) Title of related parties	Transactions made during the year ended March 31, 2006		Resulting bala		Transactions made during the year ended	Resulting account	
(c) Equity ownership percentage of Nippon Steel Corporation	Description of transaction	Amount	Account	Amount	March 31, 2006 Amount	balances Amount	Notes
(a) Akira Chihaya [Representative Director and Chairman of Nippon Steel Corporation] (b) Chairman of The Nippon Steel Arts Foundation (c) 0.0%	Contribution	¥184	_	_	\$1,566	_	(1)
 (a) Akira Chihaya [Representative Director and Chairman of Nippon Steel Corporation] (b) Chairman of The Japanese Society of Steel Construction (c) 0.0% 	Contract investigation concerning steel utilizing technologies	¥30	_	_	\$255	_	(2)
(a) Bunyuu Futamura [Director of Nippon Steel Corporation] (b) Chairman of the Board of Directors of Tokai Industrial Medical Cure Corps (c) 0.0%	Contribution to the clinics' expenses	¥48	Accrued expenses	¥4	\$416	\$40	(3)

(a) Shigemitsu Miki [Corporate Auditor of Nippon Steel Corporation]	Short-term loans	¥24,597	Short-term loans	¥24,597	\$209,390	\$209,390	(4)
(b) Representative Director and Chairman of the Board of Directors of The Bank of Tokyo–Mitsubishi UFJ, Ltd.	Interest payment of short-term loans	¥35	Accrued expenses	¥7	\$299	\$61	(4)
(c) 0.0%	Commercial paper	¥204,000	Short-term loans	¥74,000	\$1,736,614	\$629,948	(2)
	Interest payment of commercial paper	¥19	_	_	\$168	_	(2)
	Guarantee of obligation for loans borrowed by the joint venture	¥15	_	_	\$133	_	(5)

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. No guarantee was set up by Nippon Steel Corporation.
- (5) This is guarantee of obligation for loans that the joint venture has borrowed as the equipment fund and working-capital from The Bank of Tokyo–Mitsubishi UFJ, Ltd.

(Year ended March 31, 2005)

(Teal ended March 31, 2003)	Millions of yen				
(a) Name of director (b) Title of related parties	Transactions made during the year Resulting account ended March 31, 2005 balances				_
(c) Equity ownership percentage of Nippon Steel Corporation	Description of transaction	Amount	Account	Amount	Notes
(a) Akira Chihaya [Representative Director and Chairman of Nippon Steel Corporation]	Contribution	¥190	_	_	(1)
(b) Chairman of The Nippon Steel Arts Foundation (c) 0.0%	Acceptance of air conditioning work for Kioi Hall Acceptance of repair work	3	_	_	(2)
	for Kioi Hall	1	_	_	(2)
(a) Bunyuu Futamura [Director of Nippon Steel Corporation]	Contribution to the clinics' expenses	¥39	Accrued expenses	¥39	(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] (b) Representative Director and Chairman of the Board of Directors of Nippon Life Insurance Company	Borrowing long-term loans	¥8,000	Long-term loans	¥8,000	(4)(5)
(c) 0.0%					

- (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)

	Millions of yen				
(a) Name of director (b) Title of related parties	Transactions made during the ended March 31, 2004	Resulting account balances		_	
(c) Equity ownership percentage of Nippon Steel Corporation	Description of transaction	Amount	Account	Amount	Notes
(a) Akira Chihaya [Representative Director and President of Nippon Steel Corporation](b) Chairman of	Contribution	¥196	_	_	(1)
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	Borrowing long-term		Long-term		
[Corporate Auditor of Nippon Steel Corporation] (b) Representative Director and Chairman of the Board of Directors of Nippon Life Insurance Company (c) 0.0%	loans	¥2,000	loans	¥2,000	(3)

- (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, 2006, 2005 and 2004, is as follows:

(Year ended March 31, 2006)

	Millions of yen	Thousands of shares	Yen	Thousands of U.S. dollars
	Net income	Weighted average shares	EP	'S
Basic EPS				
Net income available to common shareholders	¥343,814	6,731,176	¥51.07	\$0.43
Effect of dilutive securities				
Convertible bonds	(193)	_		
Diluted EPS				
Net income for computation	343,620	6,731,176	51.04	0.43
(Year ended March 31, 2005)				
	Millions of yen	Thousands of shares	Yen	
	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥220,456	6,734,683	¥32.73	
Effect of dilutive securities				
Convertible bonds	(163)	_		
Diluted EPS				
Net income for computation	220,293	6,734,683	32.71	

(Year ended March 31, 2004)

	Millions of yen	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, however, NIPPON STEEL has already provided for the full amount of potential future costs in relation to this reorganization.

(Year ended March 31, 2004)

1. Share exchange

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

(1) Share exchange schedule

June 25, 2004 Shareholders' meeting to approve the share exchange agreement

(Each company of Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe and Nippon Steel Metal Products)

Steel Metal Products)
July 30, 2004 Last day of share certificate submission period

(Each company of Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe and Nippon Steel Metal Products)

July 31, 2004 Effective date of the share exchange

Notes:

- (1) Nippon Steel Corporation will perform the share exchanges with each of the subsidiaries without the approval of its shareholders, pursuant to the provisions of Clause 1 of Article 358 of the Commercial Code of Japan.
- (2) Each procedure in the share exchanges between Nippon Steel Corporation and subsidiaries may be performed individually.

(2) Share exchange ratio

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

If there are any material changes in any of the conditions upon which the share exchange ratio shown above was determined, Nippon Steel Corporation and each subsidiaries may decide to amend the ratio.

Notes

- (1) Allotment of shares:
 - For each share of each subsidiary, except for the shares which Nippon Steel Corporation possesses, the share exchange ratio shown above of Nippon Steel Corporation shall be allotted.
- (2) Number of shares to be issued upon the share exchange: No additional shares will be issued by Nippon Steel Corporation. 62,979,951 shares of treasury stock of Nippon Steel Corporation will be used.
- (3) 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 Commercial Code of Japan, Nippon Steel Corporation purchased treasury stock on the stock market based on the approval of shareholders' meeting held on June 26, 2003 up to a ceiling of 500 million shares amounting to ¥60 billion.

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

- a. Category of purchased shares
 - Nippon Steel Corporation's common stock
- b. Number of purchased shares
 - 72,564,000 shares
- c. Amount of purchased shares
 - ¥15,999,945,000
- d. 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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(20) 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

Ohno ayana Pricevaterhause Coopers

Tokyo, Japan June 28, 2006

Non-Consolidated Balance Sheets (Reference—Unaudited)

Nippon Steel Corporation As of March 31, 2006 and 2005

	Million	Millions of yen	
	2006	2005	2006
ASSETS			
Current assets:			
Cash and bank deposits	¥ 90,655	¥ 73,150	\$ 771,732
Receivables:			
Notes receivable	10,689	5,176	90,994
Accounts receivable—trade	284,651	171,909	2,423,187
Accounts receivable	74,981	58,178	638,302
Less: Allowance for doubtful accounts	(16,626)	(5,742)	(141,534)
	353,696	229,522	3,010,950
Inventories	404,922	349,481	3,447,025
Deferred tax assets	50,500	31,700	429,896
Other	39,570	44,151	336,855
Total current assets	939,344	728,005	7,996,461
Fixed assets:			
Tangible fixed assets:	1.066.225	1 070 272	0.077.426
Buildings and structures	1,066,325	1,070,372	9,077,426
Machinery and equipment	3,752,692	3,715,269	31,945,968
Lance Annual Late of Annual Station	4,819,018	4,785,641	41,023,395
Less: Accumulated depreciation	(3,934,452)	(3,902,162)	(33,493,255
Lead	884,565	883,479	7,530,139
Land	195,486	201,940	1,664,139
Construction in progress	64,839	52,092	551,967
	1,144,891	1,137,512	9,746,246
Intangible fixed assets:			
Patents and utility rights	998	1,214	8,500
Software	304	279	2,595
	1,303	1,494	11,095
Investments and others:			
Investments in securities	883,413	465,932	7,520,335
Investments in subsidiaries and affiliates	381,349	378,494	3,246,356
Other	100,377	110,748	854,493
Less: Allowance for doubtful accounts	(4,121)	(2,196)	(35,084)
	1,361,019	952,978	11,586,101
Total fixed assets	2,507,214	2,091,985	21,343,442
Total assets	¥3,446,558	¥2,819,991	\$29,339,904

	Million	Thousands of U.S. dollars	
	2006	2005	2006
LIABILITIES			
Current liabilities:			
Short-term loans and long-term loans due within one year	¥ 263,264	¥ 155,279	\$2,241,118
Bonds and notes due within one year	_	10,000	_
Commercial paper	150,000	70,000	1,276,921
Payables:		7,777	
Notes payable	2,731	2,959	23,253
Accounts payable—trade	196,139	180,444	1,669,694
Accounts payable	88,678	77,014	754,902
	287,549	260,418	2,447,850
Accrued income taxes and enterprise taxes	113,511	100,499	966,303
Accrued expenses	286,404	252,401	2,438,104
Advances received	19,163	22,911	163,132
Allowance for bonus of directors and corporate auditors	410	200	3,490
Allowance for losses on construction contracts	286	_	2,437
Provision for environmental remediation	11,638		99,080
Other	11,018	7,222	93,797
Total current liabilities	1,143,245	878,934	9,732,236
Total current habilities	1,143,243	070,554	3,732,230
Long-term liabilities:			
Bonds and notes	265,000	265,000	2,255,895
Convertible bonds			
Long-term loans	281,851	409,090	2,399,351
Deferred tax liabilities	237,300	85,400	2,020,090
Accrued pension and severance costs	65,197	62,985	555,016
Allowance for retirement benefits of directors and corporate auditors	2,780	3,022	23,669
Reserve for repairs to blast furnaces	49,011	48,398	417,222
Allowance for loss on guarantees		40,792	
Other	10,185	7,182	86,710
Total long-term liabilities	911,326	921,870	7,757,955
Total liabilities	2,054,572	1,800,805	17,490,191
	2,001,012	1,000,000	1771307131
SHAREHOLDERS' EQUITY			
Common stock:			
Authorized—9,917,077,000 shares			
Issued and outstanding—6,806,980,977 shares			
as of March 31, 2006 and 2005	419,524	419,524	3,571,337
Additional paid-in capital	111,556	109,811	949,655
Special tax-purpose reserve	86,953	90,268	740,218
Voluntary reserves	160,000	75,000	1,362,049
Retained earnings	308,288	179,691	2,624,400
Unrealized gains on available-for-sale securities	364,252	155,471	3,100,814
Less: Treasury stock, at cost	(58,589)	(10,583)	(498,763)
Total shareholders' equity	1,391,985	1,019,186	11,849,713
Total liabilities and shareholders' equity	¥3,446,558		\$29,339,904
iotal liabilities and shareholders equity	Ŧ ɔ, 440,ɔɔō	¥2,819,991	∌∠ ಶ,೨೨೮,೮04

Non-Consolidated Statements of Income (Reference—Unaudited)

Nippon Steel Corporation Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	
Operating revenues:				
Net sales	¥2,591,388	¥2,147,863	\$22,060,001	
Operating costs and expenses:				
Cost of sales	1,971,069	1,671,098	16,779,340	
Selling, general and administrative expenses	186,386	172,877	1,586,670	
	2,157,455	1,843,976	18,366,010	
Operating profit	433,933	303,886	3,693,990	
Non appeting profit and loss.				
Non-operating profit and loss: Non-operating profit:				
Interest and dividend income	17 722	10 012	150 966	
Miscellaneous	17,722 16,756	10,812	150,866	
IVIISCEIIdHEOUS		8,495	142,648	
	34,479	19,307	293,514	
Non-operating loss:				
Interest expenses	11,497	14,739	97,873	
Miscellaneous	68,174	60,628	580,355	
	79,671	75,368	678,228	
Ordinary profit	388,740	247,826	3,309,277	
Special profit and loss:				
Special profit:				
Gain on sales of tangible fixed assets	10,295	2,494	87,644	
Gain on sales of investments in securities and investments in	10,233	2,494	87,044	
subsidiaries and affiliates	2,997	2,670	25,520	
	13,293	5,164	113,165	
	•	,	•	
Special loss:				
Loss on accidents at work		3,066		
		3,066		
Income (loss) before income taxes and minority interests	402,034	249,924	3,422,442	
Income taxes—current	166,600	114,300	1,418,234	
Income taxes—deferred	(8,600)	(10,200)	(73,210)	
Net income (loss)	¥ 244,034	¥ 145,824	\$ 2,077,418	
Per share (stated in yen and in U.S. dollars):				
Net income (loss)	¥36.21	¥21.63	\$0.308	
Cash dividends applicable to the year	¥ 9.00	¥5.00	\$0.077	
Weighted average number of shares outstanding (in thousands)	6,738,560	6,741,112		

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

Nippon Steel Corporation Years ended March 31, 2006, 2005 and 2004

	Thousands	Millions of yen					
	Number of shares of common stock	Common	Additional paid-in capital	Legal reserve	Special tax-purpose reserve	Voluntary reserve	Retained earnings
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				(3,332)
Balance at March 31, 2004	6,806,981	419,524	105,820		98,321		110,955
Net income for the year ended	0,000,901	413,324	103,820		30,321		110,933
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		_		_
Balance at March 31, 2005	6,806,981	419,524	109,811	_	165,268	_	179,691
Net income for the year ended							
March 31, 2006		_	_	_	_	_	244,034
Year-end cash dividends		_	_	_	_	_	(33,752)
Transfer to legal reserve		_	_	_	_	_	_
Transfer to special tax-purpose							
reserve		_	_	_	(7,410)	_	7,410
Transfer to voluntary reserve		_	_	_	89,094	_	(89,094)
Effect of share exchange, etc.		_	1,744		_		
Balance at March 31, 2006	6,806,981	¥419,524	¥111,556	¥ —	¥246,953	¥ —	¥308,288
	Thousands			Thousands of	f U.S. dollars		
	Number of	Cararaan	Additional	Logol	Special	Valuatoni	Detained
	shares of common stock	Common stock	paid-in capital	Legal reserve	tax-purpose reserve	Voluntary reserve	Retained earnings
Balance at March 31, 2005	6,806,981	\$3,571,337	\$934,808	\$—	\$1,406,903	\$—	\$1,529,680
Net income for the year ended							
March 31, 2006		_	_	_	_	_	2,077,418
Year-end cash dividends		_	_	_	_	_	(287,332)
Transfer to legal reserve		_	_	_	_	_	_
Transfer to special tax-purpose							
reserve		_	_	_	(63,080)	_	63,080
Transfer to voluntary reserve		_	_	_	758,446	_	(758,446)
Effect of share exchange, etc.		_	14,847	_	_	_	
Balance at March 31, 2006	6,806,981	\$3,571,337	\$949,655	\$ —	\$2,102,268	\$ —	\$2,624,400

11-Year Summary

Nippon Steel Corporation

CONSOLIDATED

	Millions of yen	Thousands of U.S. dollars	Millio	ns of yen	
As of or for the years ended March 31	200	06	2005	2004	
Net sales	3,906,301	33,253,611	3,389,356	2,925,878	
Operating profit (loss)	576,319	4,906,095	429,948	224,475	
Ordinary profit (loss)	547,400	4,659,916	371,446	172,851	
Income (loss) before income taxes and minority interest Net income (loss)	565,607 343,903	4,814,909 2,927,584	369,485 220,601	73,642 41,515	
Net income (loss) Net income (loss) per share (yen/U.S. dollars)	¥51.07	\$0.434	¥32.73	41,515 ¥6.15	
Shareholders' equity	1,677,889	14,283,555	1,188,409	938,581	
Total assets	4,542,766	38,671,720	3,872,110	3,705,917	
Capital expenditure	203,973	1,736,385	195,228	149,593	
Depreciation	183,365	1,560,954	180,571	183,510	
Research and development costs Interest-bearing debt	37,881 1,223,837	322,482 10,418,294	36,352 1,282,266	35,349 1,561,228	
Sales and operating profit (loss) by industry segment *1					
Sales	Millions of yen	Thousands of U.S. dollars	Millions	of ven	
For the years ended March 31	200	06	2005	2004	
Steelmaking and steel fabrication	3,057,510	26,028,012	2,620,732	2,156,946	
Engineering and construction	336,179	2,861,829	279,866	293,137	
Urban development	104,045	885,715	89,275	120,811	
Chemicals and nonferrous materials	373,072	3,175,897	331,168	275,797	
System solutions Other businesses	148,339 69,057	1,262,790 587,877	146,531 76,244	150,850 73,615	
Elimination of intersegment transactions	(181,903)	(1,548,511)	(154,463)	(145,280)	
Consolidated total	3,906,301	33,253,611	3,389,356	2,925,878	
Operating profit (loss)		Thousands of			
	Millions of yen	U.S. dollars	Millions		
For the years ended March 31	200		2005	2004	
Steelmaking and steel fabrication	513,977	4,375,392	376,926	189,717	
Engineering and construction Urban development	9,517 14,155	81,018 120,501	6,696 8,503	4,359 13,526	
Chemicals and nonferrous materials	27,037	230,161	26,374	12,667	
System solutions	11,806	100,502	11,384	9,182	
Other businesses	(1,185)	(10,088)	384	(4,310)	
Elimination of intersegment transactions	1,010	8,606	(321)	(668)	
Consolidated total	576,319	4,906,095	429,948	224,475	
NON-CONSOLIDATED					
	Millions of yen	Thousands of U.S. dollars	Millions	of yen	
As of or for the years ended March 31	200	06	2005	2004	
Net sales	2,591,388	22,060,001	2,147,863	1,861,829	
Ordinary profit (loss)	388,740	3,309,277	247,826	117,678	
Net income (loss) Net income (loss) per share (yen/U.S. dollars)	244,034 ¥36.21	2,077,418 \$0.308	145,824 ¥21.63	31,184 ¥4.62	
Cash dividends per share (yen/U.S. dollars)	¥9.00	\$0.077	¥5.00	¥1.50	
Shareholders' equity	1,391,985	11,849,713	1,019,186	845,099	
Total assets	3,446,558	29,339,904	2,819,991	2,652,353	
Capital expenditure	165,000	1,404,613	140,000	120,000	
Depreciation Page 2014 and development and a	130,619	1,111,942	129,903	134,314	
Research and development costs Interest-bearing debt	28,003 960,115	238,391 8,173,286	27,349 909,370	27,290 1,075,872	
Shares	2006		2005	2004	
Shares outstanding at year-end (in thousands)	6,806,981		6,806,981	6,806,981	
Common stock price range (high/low: yen)	479 / 242		294 / 203	253 / 127	
Production and Shipments	Thousands of tons	5	Thousand		
For the years ended March 31	2006		2005	2004	
Crude steel output Steel products shipments* ²	31,200 29,595		29,879 29,514	30,146 29,388	
Employees	Persons		Pers	ons	
As of March 31	2006		2005	2004	
Number of employees*3	15,212		15,081	15,138	

Thousands of

^{*}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".

 			Millio	ons of yen			
2003	2002	2001	2000	1999	1998	1997	1996
2,749,306	2,581,399	2,750,418	2,680,611	2,759,409	3,076,531	3,061,288	2,954,869
142,961 68,879	73,044 16,746	162,644 111,374	120,296 64,687	92,396 15,282	181,640 86,537	142,090 80,753	193,429 101,593
(37,386)	(25,079)	49,403	2,171	14,096	39,234	(25,148)	56,961
(51,686)	(28,402)	26,494	11,173	11,478	5,945	3,450	54,538
(¥7.69) 789,443	(¥4.17) 907,150	¥3.89 979,695	¥1.64 889,220	¥1.68 878,849	¥0.86 878,702	¥0.50 891,134	¥7.91 903,359
3,757,175	4,030,596	4,232,011	4,172,459	4,489,753	4,670,669	4,509,536	4,527,304
163,318	195,801	157,348	226,954	234,833	232,490	241,377	234,921
196,653	197,336	206,987	214,186	221,359	241,003	232,543	237,994
35,866 1,871,875	35,183 2,016,175	39,364 2,101,686	40,575 2,277,938	2,549,064	 2,640,750	 2,484,261	2,439,526
1,071,073	2,010,173	2,101,000	2,217,330	2,3 13,00 1	2,010,730	2,101,201	2,133,320
			Millio	ons of yen			
2003	2002	2001	2000	1999	1998	1997	1996
1,980,809	1,828,206	1,962,019	1,877,582	1,743,018	2,040,444	2,015,666	1,993,867
274,903	294,323	280,929	300,054	419,841	426,852	490,165	430,667
105,188	130,808	141,979	164,428	146,406	126,218		440.251
346,232 153,143	326,164 149,398	359,123 143,670	338,631 136,198	415,285 160,954	451,573 151,111	440,289 156,261	418,352 187,445
79.059	61,251	59,440	56,491	222,908	239,616	314.403	292,945
(190,031)	(208,754)	(196,745)	(192,776)	(349,005)	(359,284)	(355,498)	(368,408
2,749,306	2,581,399	2,750,418	2,680,611	2,759,409	3,076,531	3,061,288	2,954,869
			Millio	ons of yen			
2003	2002	2001	2000	1999	1998	1997	1996
112,816	23,482	115,536	73,257	65,397	168,659	109,639	115,135
2,460	9,913	7,287	12,209	11,972	10,610	35,510	28,158
4,469 13,458	15,576 10,379	16,320 11,574	20,787 8,378	16,975 5,263	15,766 8,140	11,806	10,590
9,776	10,504	9,770	5,311	(19,333)	(26,491)	(26,504)	13,748
(2,155)	1,457	772	(911)	11,000	9,782	17,796	16,066
2,135 142,961	1,731 73,044	1,384 162,644	1,262 120,296	1,120 92,396	(4,826) 181,640	(6,159) 142,090	9,729
142,901	73,044	102,044	120,290	92,390	101,040	142,090	193,423
			Millio	ons of yen			
2003	2002	2001	2000	1999	1998	1997	1996
1,789,706	1,681,406	1,848,710	1,810,842	1,918,538	2,205,019	2,184,805	2,099,750
48,359	31,729	78,776	42,606	50,238	103,954	84,711	64,698
(20,447)	(28,129)	18,355	266	522	35,393	19,906	24,741
(¥3.02) ¥1.50	(¥4.13) ¥1.50	¥2.69 ¥1.50	¥0.03 ¥1.50	¥0.07 ¥1.50	¥5.13 ¥2.50	¥2.88 ¥2.50	¥3.59 ¥2.50
713,772	793,557	866,757	773,981	783,925	861,828	843,659	840,976
2,588,698	2,738,973	2,884,547	2,793,067	3,051,391	3,150,110	3,145,249	3,145,269
85,000	175,000	135,000	180,000	135,000	100,000	100,000	120,000
148,106 29,091	144,363 28,705	150,904 35,598	153,327 35,727	139,441 41,900	148,111 47,500	149,319 51,100	154,28° 55.700
1,188,209	1,240,474	1,205,352	1,273,687	1,464,531	1,457,895	1,509,132	1,446,531
2003	2003	2002	2001	2000	1999	1998	1997
6,806,981	6,806,981	6,806,981	6,806,981	6,806,981	6,889,904	6,889,904	6,889,903
217 / 119	230 / 145	270 / 165	314 / 215	272 / 177	392 / 146	388 / 283	375 / 271
2003	2002	2001	2000	ands of tons 1999	1998	1997	1996
29,902	26,140	27,837	25,620	23,201	26,619	25,706	26,173
29,171	26,312	26,789	25,633	24,026	26,580	25,871	25,684
				ersons	40	40	
 2003	2002	2001	2000	1999	1998	1997	1996
16,481	17,370	18,918	19,816	21,414	22,560	24,527	27,583

Note:
Tonnage figures are in metric tons; all dollar (\$) figures are in US currency and translated from the Japanese yen at the rate of \$1=¥117.47 at the latest balance sheet date.

^{*2} Including sub-products
*3 Excluding employees seconded to subsidiaries and other organizations. The number of such employees at March 31, 2006 and 2005, was 4,668 and 5,351, respectively.

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An Interview with the Medium-Term Consolidated Executive Team/ Subsidiaries and Review of Operations Sustainable History Financial Data Development Organization President **Business Plan** Affiliates

Investor Information (As of March 31, 2006)

>> Nippon Steel Corporation **Head Office**

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

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 483,054

>> Ten Major Shareholders

Japan Trustee Services Bank, Ltd.	7.1%
The Master Trust Bank of Japan, Ltd.	5.4%
State Street Bank & Trust Company	4.9%
Nippon Life Insurance Co.	3.0%
Trust & Custody Services Bank, Ltd.	2.9%
Mizuho Corporate Bank, Ltd.	2.7%
Meiji Yasuda Life Insurance Co.	2.1%
Bank of Tokyo–Mitsubishi UFJ, Ltd.	2.0%
Sumitomo Metal Industries, Ltd.	1.8%
Investors Bank & Trust Company	1.6%

>> Listings

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

>> Transfer Agent

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