# Nippon Steel Corporation

## Annual Report 2007

Year ended March 31, 2007

The Will of Nippon Steel

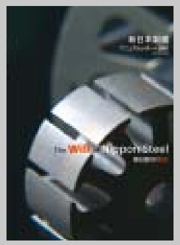
Contents



Notes:
- The accounting period covers a 12-month period beginning April 1 and ending March 31 the following year. In this annual report, "fiscal 2006" refers to the 12-month period ended March 31, 2007 (April 1, 2006–March 31, 2007), while "fiscal 2005" refers to the 12-month period ended March 31, 2006 (April 1, 2005–March 31, 2006).
- Tonnage figures are in 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.

# Nippon Steel

The Nippon Steel Group produces and provides steel to contribute to the advancement of Japan's manufacturing industry and to serve as a consistent source of values for the economy and society. We constantly strive to meet highly sophisticated customer needs. To accomplish this, we aim to build on our competitive edge in technology to be the No. 1 global steelmaker in terms of overall capabilities. We are also firmly committed to raising our corporate value through sustained earnings growth.



On the cover:
This motor core is made of electrical steel produced by Nippon Steel. We are the world's leading producer of this steel in quality as well as quantity. Electrical steel is an essential component of motors and transformers. Our high-performance steel plays an important role in improving the efficiency of these products, which ultimately contributes to meeting today's needs for energy conservation.




# 1 Skill in developing and applying technologies critical to meeting sophisticated customer needs

Steel used in state-of-the-art industrial products must go beyond mere strength, as the needs of customers have advanced to the point where they require steel that combines the conflicting attributes of strength and greater ease of processing.

Nippon Steel is able to meet these needs. One reason is expertise in developing innovative technologies. Equally important is our ability to integrate these technologies into our products at every step, from steelmaking through rolling.

The heavy plate mill at the Oita Works

* CLC technology
Continuous on Line Control Process (CLC) technology is an exclusive Nippon Steel accelerated cooling control technology that raises the strength and toughness of steel by cooling down through the temperature range for transformation with a greater speed than that of air cooling after the rolling stage. CLC produces a finer crystal structure in the steel, which yields steel plates of much higher quality.

## Steel with outstanding strength and toughness

### ■47kgf/mm² higher yield strength steel plates

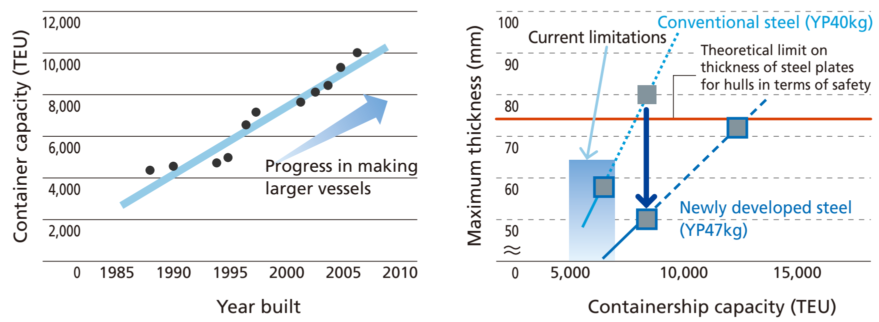
The immense 47kgf/mm² higher yield strength steel plates that we make for large containerships and other commercial ships are both strong (high yield stress) and tough (resistant to fractures). These plates are one of our most highly sophisticated products, which demonstrates our ability to use technology to combine conflicting properties in a single material.

Containerships have become much larger in recent years to boost transportation efficiency. To preserve hull strength as ships became larger, shipbuilders have turned to thicker steel plates. However, thicker plates make ships heavier, reducing their speed and fuel efficiency. Thickness also makes steel less tough. This makes hulls more susceptible to cracking when cruising at sea. Worse still, once cracks appear, they tend to spread. We studied the dilemma of making ship hulls stronger without using thicker steel plates. Naturally, the steel itself must be stronger, but the tradeoff in doing this has inevitably been a decline in toughness. We thus searched for a solution that could produce materials with strength and toughness.

To accomplish this, we turned to our exclusive Continuous on Line Control Process (CLC) technology* for precise temperature control of materials during the steel rolling process. The result was the 47kgf/mm² plate, which uses a revolutionary type of steel with an unprecedented combination of strength and toughness. With this material, shipbuilders can design containerships that can safely carry 8,000 containers, well above the previous limit of about 5,000. In the future, the new plate will probably allow a single vessel to transport as many as 12,000 containers.

Our 47kgf/mm² plate is the world's strongest steel plate for commercial ships with outstanding toughness. More strength and toughness mean greater safety. Additionally, with thinner steel panels, ships become lighter, their fuel efficiency improves and their cargo capacity increases. Shipbuilders using our steel welcomed this breakthrough as a way to become even more competitive.

**Growing Size of Containerships/Capacity vs. Steel Plate Thickness**



# We Will Collaborate

## Industrial collaboration with customers is a key to value creation for society.



# 2 Search for best solutions yields even higher quality

Nippon Steel is much more than just a supplier of steel as an industrial material. Our core skill is an integrated approach, extending from steel to components to finished products, creating the ideal solution for each customer requirement.

Steel is a basic industrial material. That makes cooperation with our customers, who are directly linked to the end users of products made of steel, essential to devising ideal solutions in the total value chain. With the aim of creating new products faster, we seek to match our expertise with customer needs. At times, this involves disclosing sensitive information to customers. This process, which we call "industrial collaboration," requires relationships based on mutual trust. Our know-how in industrial collaboration expedites launching new products and also explains why we can do much more than supply steel. Working closely with customers enables us to sharpen our competitiveness and play a key role in preserving the competitive edge of Japan's entire manufacturing sector.

A motor core using electrical steel

### Joint development projects reflect the trust customers place in Nippon Steel

#### ■Electrical steel for hybrid cars

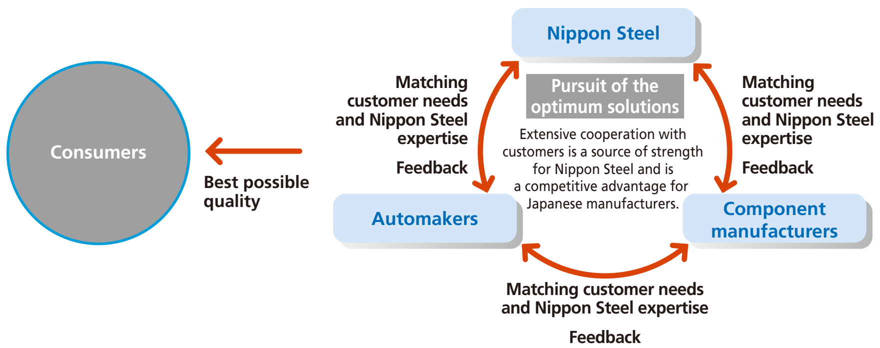
Hybrid cars are one of the most symbolic examples of "industrial collaboration." Manufacturers of steel, components and finished cars work together as a single team to produce eco-friendly vehicles that meet the high expectations of buyers. Our involvement starts at the initial design stage of a new model. In particular, we make a big contribution to cutting energy consumption by supplying electrical steel ideally suited to the requirements of the vehicle's drive motors.

Demand for motors for use in hybrid cars is climbing steadily. Technologies are needed not only to attain greater efficiency but also to achieve smaller size, higher power and better performance in other areas. Electrical steel sheets are the core materials of these motors. The steel must efficiently convert electrical energy into power to move the vehicle. To satisfy the complex needs of our customers, we have developed a high-efficient type of electrical steel. The key feature is a reduction in core loss, which causes energy that should be driving the vehicle to be dissipated in the form of heat. With this electrical steel, it is possible to develop drive motors that are small yet powerful.

When using high-grade steel like this, manufacturers must pay extreme care during the processing and assembly stages. If used under inadequate conditions, additional losses may be generated. We exhaustively study the causes of core loss during processing and assembly. This analysis allows us to supply our customers with optimized processing technologies that boost energy efficiency. Combining the best materials with the best techniques has enabled automakers to make hybrid cars with outstanding performance and to deliver these to consumers.

This process of "industrial collaboration" is at the heart of our ability to build customer relationships rooted in mutual trust. We take great pride in this skill as a steelmaker that does much more than supply materials.

**Case Study of Industrial Collaboration with a Customer**



# We Will Progress

## More growth by precisely targeting customer needs



## 3 Focused on capturing rising demand for medium-high grade steel

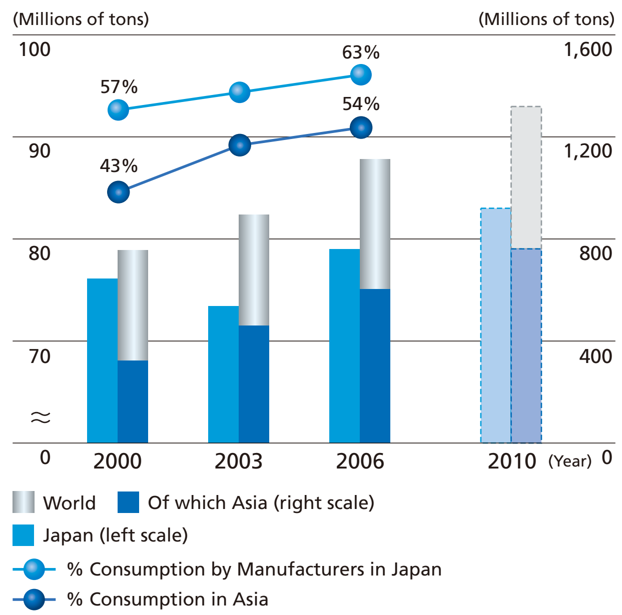
Nippon Steel has a large share of the global market for medium-high grade steel. Our competitive edge in technology for producing steel materials that address the complex challenges confronting our customers and our expertise in manufacturing medium-high grade steel are the two main reasons for this market position. In addition, our customers value the long-term relationships we have formed with them as a highly trustworthy partner. In Asia, which accounts for more than half of global steel demand, strong growth is foreseen in orders for medium-high grade steel. Nippon Steel is the leader in this region's medium-high grade steel market with a share of about 20%. Annual demand for medium-high grade steel is currently estimated to be about 240 million metric tons. The use of this steel is expected to continue climbing, mainly in the automobile, shipbuilding and energy-related industries, and there are only a limited number of suppliers of medium-high grade steel. By capitalizing on this opportunity, chiefly in Asia, we plan to continue raising earnings from our medium-high grade steel operations.

Equipment for producing large-diameter steel pipes for pipelines

### Helping customers to expand globally by raising our capacity and using production facilities of Group companies and alliance partners

Nippon Steel is augmenting its domestic production facilities and harnessing the capacity of Group companies and alliance partners to capture this burgeoning demand for medium-high grade steel and further boost its earnings growth. This approach enables us to increase our capacity efficiently. In response to growing demand from customers around the world, we are also establishing production bases at the appropriate time and place in regions where demand for medium-high grade steel is climbing. Thus establishing a global infrastructure for supplying medium-high grade steel will reinforce our presence in the global steel industry and enable us to realize our aims of boosting our earnings growth and corporate value.

**Steel Consumption in the World, Asia and Japan**




* 2006 figures are estimates as of March 2007.
2010 figures are estimates as of October 2006.
Source: International Iron and Steel Institute

## Nippon Steel will continue to be a trusted and responsible member of society. At the same time, we are committed to further raising our corporate value through steady growth in earnings.



# We Will Continue to Grow

## Our goal is constant growth in corporate value.

### Third consecutive year of record consolidated earnings driven by initiatives to capture rising demand for medium-high grade steel and to reinforce the operational bases of the entire Nippon Steel Group

Global steel consumption posted year-on-year growth of 8% in fiscal 2006, ended March 31, 2007, as the global economy continued to expand. Real global GDP growth was 5.4%, with particularly high rates of expansion in many Asian countries. Looking back over the past 40 years, the annual growth rate in global steel consumption was approximately 5% for the first 10 years. But from 1973 until 2001, annual growth fell to only about 1%. In 2002, the growth rate finally started recovering. In 2006, there was a year-on-year increase of 100 million metric tons in the world's steel output. When growth was slow, the world needed 30 years to boost steel output by 100 million metric tons. But in 2006, we saw output rise by the same amount in a single year. The global steel industry has undeniably entered a new era of growth.

Clearly identifying profit growth as a key management objective, Nippon Steel invests the amounts needed to upgrade its production facilities and advance integrated production capabilities. This approach is aimed at ensuring the upturn in the demand environment translates into improvement in the Company's corporate value. Medium-high grade steel is a particularly attractive market for us. Demand is robust, especially from the automobile, shipbuilding and energy-related industries, and in this market we can harness our competitive edge in high technologies that distinguish us from competitors. To capture this demand, we have made substantial and timely capital expenditures that contributed directly to higher profits. Several of these investments targeted upstream processes. We brought into operation the recently installed No. 6 continuous casting line at the Kimitsu Works and completed relining & expansion to the No. 1 blast furnace and made steady progress on the installation of a basic-oxygen furnace at the Nagoya Works. Other investments improved our product processing capabilities. We installed hot-dip galvanizing lines at our works in Kimitsu, Nagoya and Hirohata in a move to meet rising demand for galvanized steel from automakers. These investments resulted in a year-on-year increase of about 1.9 million metric tons in our medium-high grade steel production and in approximately ¥52 billion of profit growth in fiscal 2006.

Ongoing cost reduction programs and other in-house initiatives are also contributing to profit growth.

The large earnings contribution from Group companies continues to be one of our greatest strengths. In fiscal 2006, Group companies accounted for about ¥210 billion of our consolidated ordinary profit of ¥597.6 billion, with parent (non-consolidated) operations contributing about ¥390 billion. Of the ordinary profit contribution from Group companies, about ¥150 billion was from steelmaking companies and about ¥60 billion was from non-steel Group companies. Both categories achieved profit growth as Group companies significantly improved their financial position.

To reinforce our consolidated management, we continued to take steps during fiscal 2006 aimed at achieving greater selectivity and focus in our allocation of resources. 1) We increased our ownership stakes in strategically important companies, making Nippon Steel Drum Co., Ltd. a wholly owned subsidiary and Sanyo Special Steel Co., Ltd. and Usinas Siderurgicas de Minas Gerais S.A., of Brazil, equity-method affiliates. 2) We built on alliances with steelmakers such as Sumitomo Metal Industries, Ltd. Nippon Steel and Sumitomo Metals merged their subsidiaries that manufacture steel sheets for construction. 3) Additionally, we realigned business activities within the Group. And 4) We exited activities with declining strategic importance. Through the application of a tighter strategic focus, we have added 88 subsidiaries and eliminated 107 since fiscal 2002.

The accomplishments I have just outlined enabled Nippon Steel to report the third consecutive year of record earnings. Furthermore, our performance exceeded the earnings targets for the final year of the three-year medium-term consolidated business plan that we started in fiscal 2006 in the plan's first year.

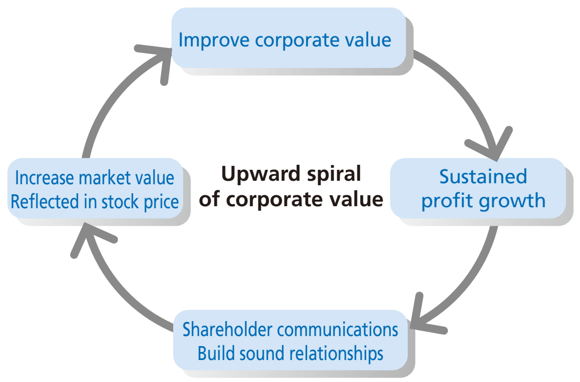
Akio Mimura
Representative Director and President

**Our key objectives are growth, stability and an enhanced financial position. Backed by the continued enhancement of our superior technological edge, we aim to be the No. 1 global steelmaker focusing on medium-high grade steel.**

A key to the outlook for the global steel industry is whether or not steel consumption can continue to expand at an annual rate of around 5% to 7%. The BRIC countries, where steel consumption growth outpaces GDP growth, have played a big part in recent expansion of global steel demand. Since economic growth is expected to remain robust in the BRIC countries, steel consumption is also likely to continue to increase rapidly. But we believe trends on the supply side bear close monitoring, especially in China, where both the consumption and production of steel have expanded sharply. Taking into account environmental, energy and other considerations, the Chinese government announced new measures to reduce the number of small and medium-sized steelmakers. If these measures help to reduce China's surplus steel production capacity, this will probably have a positive impact on the global steel market.

In this favorable operating climate, the global steel industry is witnessing many proactive consolidations aimed at creating a stabler industry structure and capturing leadership in the industry. This trend was triggered by the formation in 2006 of ArcelorMittal, the world's largest steel company.

Against the backdrop in the global steel industry, Nippon Steel is taking actions aimed at reinforcing its position in the industry. With that aim, we are working to simultaneously attain growth, stability and an enhanced financial position while building on our competitive edge in technology and manufacturing skills. One of the cornerstones of our strategy is to be the No. 1 global steelmaker focusing on medium-high grade steel. The first step toward this goal must be expanding our actual corporate value. That requires coexisting with society and consistently earning a reputation for trust as well as sustaining profit growth. Concurrently, we need to explain our management policies to shareholders and other investors. This is vital to having a stock price and market value that reflect our true corporate value. Only in this way can we achieve an upward spiral of corporate value.




In accordance with these objectives, we have shifted our management policy to place the highest priority on profit growth, our chief guiding principle. To generate this growth, we are concentrating on the following four initiatives.

**【Make substantial capital expenditures to win growing demand for medium-high grade steel】**

The first initiative is making capital expenditures required to capitalize on opportunities created by growing demand for medium-high grade steel.

We must increase the scale of our operations to be the No. 1 global steelmaker. At present, our non-consolidated crude steel production capacity is about 32 million metric tons a year. With Group companies and cooperation from alliance partners counted, our crude steel production capacity is approximately 35 million metric tons a year. We will raise this to 40 million metric tons. At Nippon Steel, we have a plan to increase output by 3 million metric tons to 35 million metric tons, mainly by relining and expanding blast furnaces at the Nagoya Works and the Oita Works. At the Oita Works, we are relining and enlarging the No. 1 blast furnace to a volume of 5,775$m^3$, which is the same as Oita's No. 2 blast furnace, the largest in the world. With investments in a new coke oven and other facilities, annual crude steel production capacity at the Oita Works will be raised to 10 million metric tons. Additionally, expanding collaborative production agreements with alliance partners will give us about another 2 million metric tons of annual output. Once we finish upgrading the No. 1 blast furnace at the Oita Works in the first half of 2009, we will have an annual capacity for 40 million metric tons of crude steel output. But we will not stop here, and we are considering measures to further boost our annual capacity beyond 40 million metric tons in order to achieve more profit growth.

In expanding our operations, we need to make the careful management of investment costs a priority. One key to sustaining growth is the ability to preserve profitability and a well-shaped financial position during market downturns. Our expenditures also reflect the polarization of the steel market. Our strategy is to make large expenditures that target increasing demand for medium-high grade steel, a market where growth in demand from the automobile, shipbuilding and energy-related industries is expected to be stable and the number of suppliers is relatively small.

**【Deepen and increase ties with partners that share our values in order to enhance corporate value】**

The second initiative involves building more and stronger relationships with partners who share our values.

We are moving ahead with alliances with both Japanese and overseas steelmakers while respecting the management independence of each partner. The goal is improving the corporate value of Nippon Steel and its partners, and we believe that "soft alliances" are an effective means of raising our corporate value. Through these alliances, we can share some sensitive information, collaborate in some production activities and cooperate in other ways. There are many actual and potential partners. This is because companies are attracted by our highly advanced technologies and well-established reputation for reliability.

We believe forming capital relationships is basically a useful means of making alliances even more beneficial for both parties.

In Japan, we are strengthening our alliances with Sumitomo Metal Industries, Ltd. and Kobe Steel, Ltd. Through the mutual supply of semi-finished products, the integration of subsidiaries and other steps, these alliances produce an annual benefit of more than ¥20 billion for us. Overseas, we have a joint venture in China with Baoshan Iron & Steel Co., Ltd., which manufactures and sells automotive steel sheets. This company became profitable in its second year of operations, one year ahead of schedule. In POSCO, of South Korea, we made an additional equity investment of about ¥55 billion, and this company purchased the same amount of our stock. This, combined with other forms of collaboration, will deepen our strategic alliance with POSCO. For example, both companies supply each other with steel slabs during scheduled blast furnace repairs. We expect that this alliance will produce an annual benefit of about ¥10 billion. In Brazil, Usinas Siderurgicas de Minas Gerais S.A. became an equity-method affiliate. We also signed an agreement that will contribute to profit growth at both companies. With this partnership, we can meet the diversifying needs of steel users in Brazil and elsewhere in the Americas. In India, we have started discussions with Tata Steel for collaboration in meeting the rising demand in India for steel used to make automobiles and other products. Regarding Europe and North America, we are holding talks with ArcelorMittal concerning an existing cross-licensing agreement and other forms of cooperation.

All these activities demonstrate our policy of conducting operations in locations where there is demand for steel. We plan to continue forming and deepening these "soft alliances" on a global scale.

Our relationship with Usinas Siderurgicas de Minas Gerais S.A., of Brazil, dates back about 50 years. In November 2006, the two companies reached a new shareholders' agreement. Working with this partner gives the Nippon Steel Group a channel for meeting the growing demand for medium-high grade steel in the Americas.

**【On the leading edge, build on superior technologies to remain competitive and continue increasing earnings】**

The third initiative is to further refine our portfolio of leading-edge technologies.

We must preserve a clear competitive edge over our rivals. Improving our manufacturing know-how, product and process development capabilities and equipment technologies as well as maintaining a competitive workforce are all crucial.

Nippon Steel has a proven ability to use advanced technologies to create new products, as evidenced by the revolutionary higher yield strength steel plate for large containerships the Company developed as part of a joint project with a shipbuilding company. The plate has both outstanding strength and toughness. Containerships have grown much larger in recent years because increased scale offers greater transportation efficiency, but until now, building larger containerships required thicker steel plates. As the plates became thicker and stronger there was an unavoidable loss of toughness, and this made the plates prone to breakage. We figured out how to make thinner steel plates that have unprecedented degrees of strength and toughness. These plates make ships lighter while raising cargo capacity and meeting safety requirements. All in all, the plates' features perfectly match the demands of shipping companies that are seeking ways to carry more cargo.

This breakthrough shows how we can use technology no competitor can match to create one-of-a-kind products that can drive profit growth.

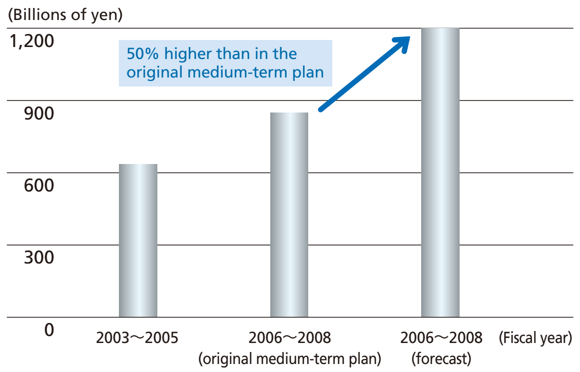
**【Develop non-steel Group companies into among the most competitive players in their respective industries through the pursuit of the greatest possible synergies】**

The fourth initiative calls for capturing synergies with our five non-steel business units and further improving the profitability of Group companies, both with the aim of raising the Group's corporate value.

Nippon Steel Engineering Co., Ltd. and Nippon Steel Materials Co., Ltd., which were spun-off from Nippon Steel last year, are both performing well. The value of orders received and other indicators of business activities are at all-time highs. A key feature of the non-steel operations of Nippon Steel is a highly skilled workforce to compete in markets based on knowledge. Examples include engineering, urban development and system solutions. Furthermore, we manufacture such products as electronic materials for growing markets outside the steel industry. Every non-steel Group company is generating more synergies with steel operations by using our R&D organization and other Group resources. Additionally, these companies are building on their strengths in an effort to join the ranks among the most competitive players in their respective markets.

We are making large investments for capital expenditures and equity alliances that can underpin our future growth. During the three-year medium-term consolidated business plan ending in March 2009, we originally planned to make capital expenditures and investments totaling ¥850 billion. We now expect this figure to rise to ¥1,200 billion. The reason is our shift to a policy that emphasizes profit growth. Although this means a slower reduction in interest-bearing debt, we expect to enhance our financial position by increasing retained earnings. By the end of the business plan, we hold the original debt-to-equity ratio target of under 0.5 times. For accomplishing this goal, faster profit growth is a key. The outlook is good; we are aiming for our fourth consecutive year of record earnings in fiscal 2007.

**Growth in Capital Expenditures and Investments**




## Committed to remaining a highly trustworthy corporate group

We are well aware that no company can improve its corporate value without earning the trust of all stakeholders.

Over the years, Nippon Steel has always placed great importance on building stable, long-term relationships with customers based on the spirit of partnership. Our objective is quite simple. We aim to be "the best in the total value chain," covering each step from materials to components to finished products. For designing and technology development, we will share some key information with customers. Consistently supplying the best solutions in the total value chain requires "industrial collaboration" for technology sharing and R&D. This form of collaboration is one of the greatest strengths of Japan's manufacturing sector. We play a central role in this collaboration through the supply of high-quality steel. We are proud of our contributions to the advancement of manufacturing activities in Japan and the growth of the Japanese economy through the years. These contributions are at the core of our very existence, representing a form of value that we must protect and enhance. As our customers expand their operations outside Japan, "industrial collaboration" is becoming a borderless process. Our role is the global provision of products that use technology accumulated over many years to deliver solutions to the complex business challenges facing our customers.

Of course, we also exist for the purpose of providing benefits to shareholders, communities, employees and all other stakeholders through our business activities. Since its inception in 1970, the Nippon Steel Group has been devoted to creating and supplying various forms of value. We have played a part in industrial progress and in helping people lead more fulfilling lives. While improving corporate value by increasing earnings is one of our highest priorities, at the same time, we retain an intent focus on measures that allow us to share our management philosophy with as many stakeholders as possible.

We have a firm commitment to compliance and environmental programs. Observing laws and regulations is one of the most fundamental requirements for the sustainability of any company. This is why we have a highly effective governance framework. We are constantly taking steps to enhance the transparency and soundness of our management, and our proactive disclosure program is aimed at fulfilling our obligation for accountability to our stakeholders for our business activities. Environmental programs are also an integral part of our operations. For example, we have created our own plan for cutting $CO_2$ emissions. Other initiatives include energy conservation programs for production processes, active use of the Clean Development Mechanism to meet emission targets and increased investments in environmental facilities.

We will continue to take measures to create and supply values and remain a trusted and responsible member of society. At the same time, the Nippon Steel Group is dedicated to progress through growth, stability and an enhanced financial position, with the ultimate objective of raising corporate value.

Akio Mimura
Representative Director and President

**Corporate Philosophy**

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.

**Management Principles**

1. To continue to be a trusted and responsible member of society
2. To continuously challenge ourselves to develop and improve world-leading technologies
3. To always try to change ourselves so that we can deal with future and attain further development
4. To realize a group full of vitality by developing and empowering people

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

# Consolidated Operating Highlights

Nippon Steel Corporation and Consolidated Subsidiaries
Years ended March 31



In fiscal 2006, ended March 31, 2007, Nippon Steel achieved record sales and earnings for the third consecutive year. On a consolidated basis, net sales reached ¥4,302.1 billion; operating profit increased to ¥580.0 billion; ordinary profit grew to ¥597.6 billion; and net income rose to ¥351.1 billion. In the global steel market, which is divided into two main categories, medium-high grade steel and commodity-grade steel, Nippon Steel successfully capitalized on strong demand for medium-high grade steel, mainly from companies in the automobile, shipbuilding and energy-related industries. Initiatives included timely and well-targeted capital expenditures as well as the use of medium-high grade steel production facilities at Group companies and alliance partners in Japan and other countries. In line with the Company's dividend policy, the fiscal 2006 dividend was raised ¥1 to ¥10 per share. Despite greater demand for funds for capital investments to generate future growth, the debt-to-equity ratio declined 0.09 point, to 0.64 times, owing to higher shareholders' equity.

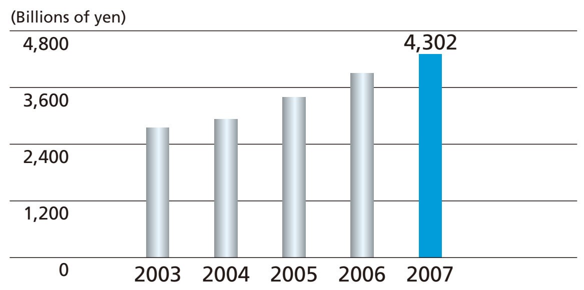
[ Dividend Policy ] Since fiscal 2004, Nippon Steel has implemented a policy of distributing profits consistent with the consolidated operating results of each fiscal year, taking into account capital investment requirements aimed at raising value, forecasts for future operating results and other relevant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

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% to 20% (non-consolidated: 20% to 30%), slightly below the standard, in order to focus on its most important management task of improving its financial position.

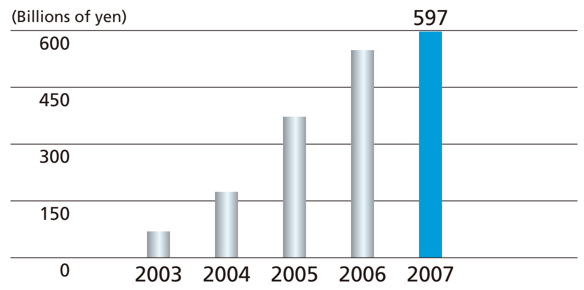
| | Millions of yen | | | Change (%) | Millions of U.S. dollars(1) |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2007/2006 | **2007** |
| **Operating Results (for the year)** | | | | | |
| Net sales | **¥4,302,145** | ¥3,906,301 | ¥3,389,356 | 10.1% | **$36,443** |
| Operating profit | **580,097** | 576,319 | 429,948 | 0.7 | **4,914** |
| Ordinary profit | **597,640** | 547,400 | 371,446 | 9.2 | **5,062** |
| Net income | **351,182** | 343,903 | 220,601 | 2.1 | **2,974** |
| **Financial Position (at year-end)** | | | | | |
| Total assets | **¥5,344,924** | ¥4,542,766 | ¥3,872,110 | 17.7% | **$45,276** |
| Shareholders' equity | **1,892,883** | 1,677,889 | 1,188,409 | 12.8 | **16,034** |
| Interest-bearing debt | **1,213,057** | 1,223,837 | 1,282,266 | (0.9) | **10,275** |
| **Per Share Data (yen / U.S. dollars)** | | | | | |
| Net income | **¥54.28** | ¥51.07 | ¥32.73 | 6.3% | |
| Cash dividends | **10.00** | 9.00 | 5.00 | 11.1 | |
| Dividend payout ratio | **18.4%** | 17.6% | 15.3% | | |
| **Ratios** | | | | | |
| Return on sales(2) | **13.9%** | 14.0% | 11.0% | | |
| Return on assets(3) | **12.1** | 13.0 | 9.8 | | |
| Return on equity(4) | **19.7** | 24.0 | 20.7 | | |
| Ratio of net worth(5) | **35.4** | 36.9 | 30.7 | | |
| Debt-to-equity ratio(6) (times) | **0.64** | 0.73 | 1.08 | | |
| **Reference** | | | | | |
| Crude steel production (consolidated, thousands of tons(7)) | **34,520** | 33,950 | 32,790 | | |
| Price of steel (non-consolidated, thousands of yen per ton) | **75.3** | 74.3 | 61.6 | | |
| Export ratio (non-consolidated, value basis; %) | **32.3** | 30.9 | 31.6 | | |

Notes: (1) U.S. dollar amounts are translated, for convenience only, at the rate of ¥118.05=US$1, at the latest balance sheet date of March 31, 2007.
(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) Ratio of net worth = (Shareholders' equity / Total assets) x 100
(6) Debt-to-equity ratio = Interest-bearing debt / Shareholders' equity
(7) Tonnage figures are in metric tons.

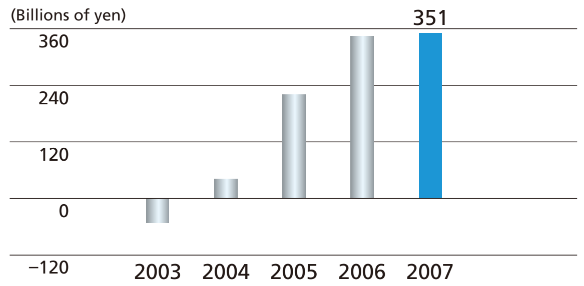
[ Net Sales ]



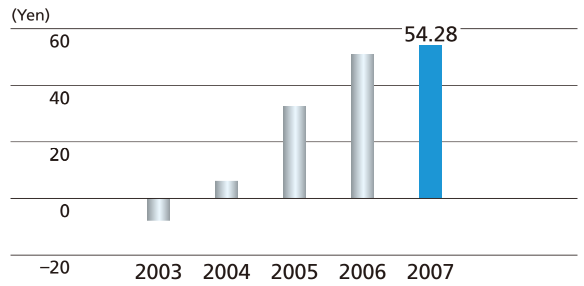

[ Ordinary Profit ]



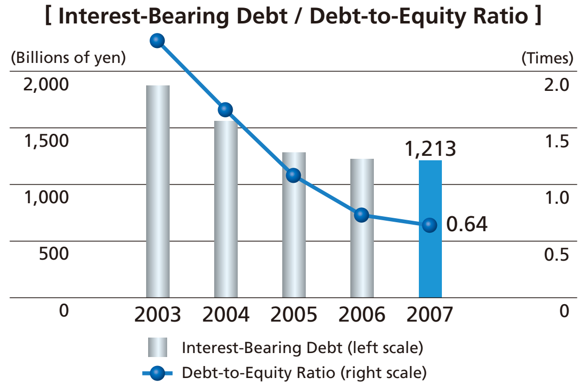

[ Net Income (Loss) ]



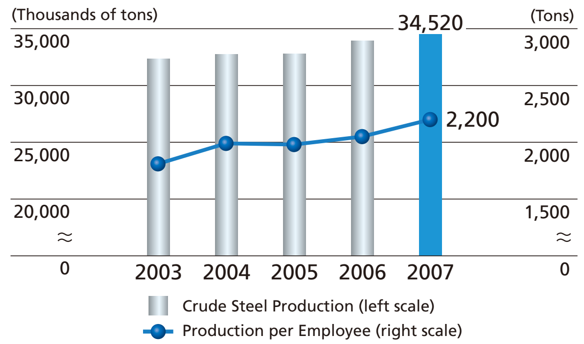

[ Net Income (Loss) per Share ]




[ Interest-Bearing Debt / Debt-to-Equity Ratio ]




[ Crude Steel Production (Consolidated) and Production per Employee (Non-Consolidated) ]



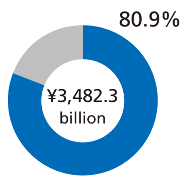
# Review of Operations

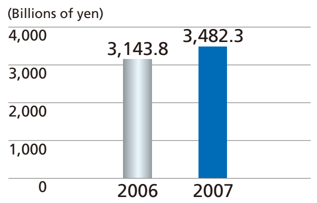


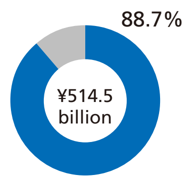
As part of its efforts to reform the organization to promote consolidated management, in July 2006 the Nippon Steel Group spun off its Engineering and New Materials businesses as separate companies and restructured Nippon Steel as a holding company for the Steelmaking business. In the future, we will promote the operations of our six business segments, both independently and concurrently, within a structure that encourages self-sustaining development.

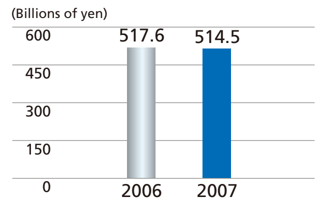
Composition of Consolidated Net Sales[1] | Net Sales[2] | Composition of Consolidated Operating Profit[1] | Operating Profit[2] | Business Highlights

## Steelmaking and Steel Fabrication



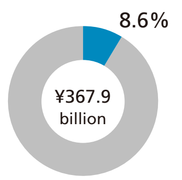



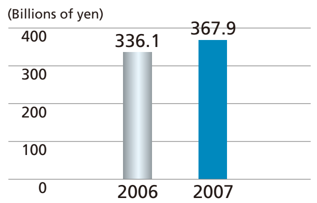



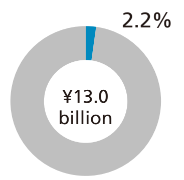



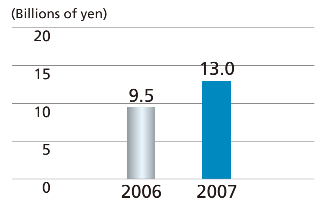

Nippon Steel took actions in response to the division of the steel market into two main categories: medium-high grade steel and commodity-grade steel. Additionally, this segment took full advantage of newly completed production facilities along with the facilities of Group companies and alliance partners to capture the active demand for medium-high grade steel. Due to these efforts, segment sales increased 10.8% to ¥3,482.3 billion and operating profit was basically unchanged at ¥514.5 billion.

## Engineering and Construction



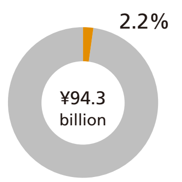



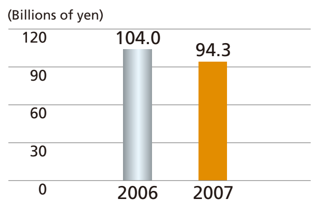



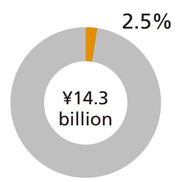



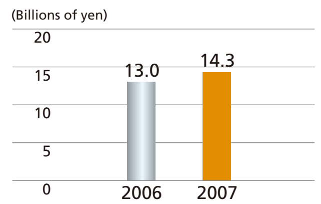

This segment capitalized on opportunities in all business fields amid favorable market conditions. Capital expenditures were strong in Japan and there was a large volume of overseas natural resource and energy development investments, particularly in Southeast Asia. As a result, orders were again near the all-time high. In fiscal 2006, segment sales increased 9.5% to ¥367.9 billion and operating profit was up 36.8% to ¥13.0 billion.

## Urban Development



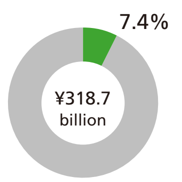



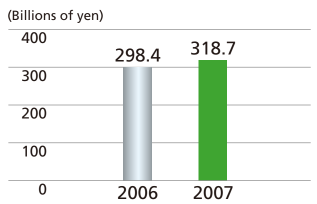



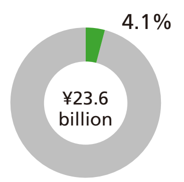



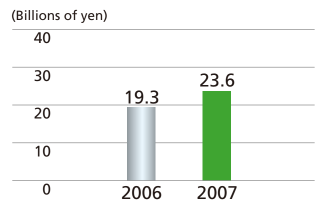

This segment concentrated on measures to further increase earnings. Other initiatives targeted large urban redevelopment projects and reconstruction of condominium buildings. In addition, the segment began operations at its first urban commercial building and took other actions to establish new sources of earnings and a sounder base of operations. Segment sales declined slightly to ¥94.3 billion but operating profit increased 10.0% to ¥14.3 billion.

## Chemicals



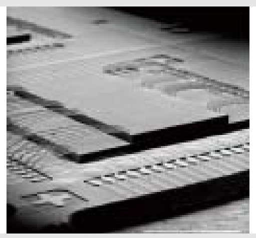



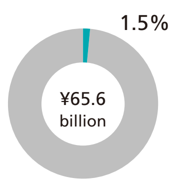



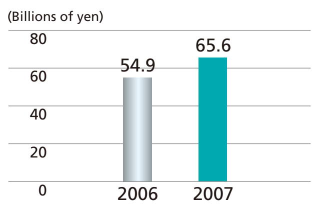



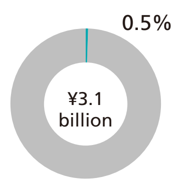

The Electronic Materials business faced even more heated competition, on the other hand, the Chemicals and Coal Tar Chemicals businesses both performed well due to solid demand. As a whole, the Chemicals segment posted record earnings despite the higher costs of crude oil and naphtha. The result was a 6.8% increase in segment sales to ¥318.7 billion and a 22.3% increase in operating profit to ¥23.6 billion.

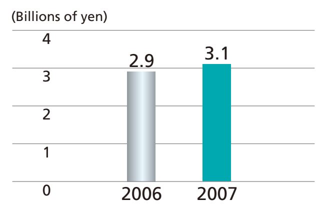
## New Materials





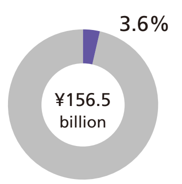



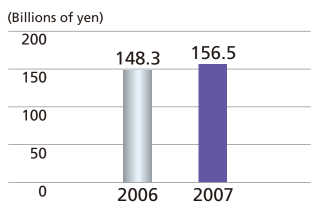



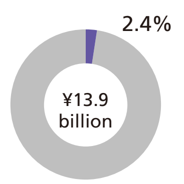



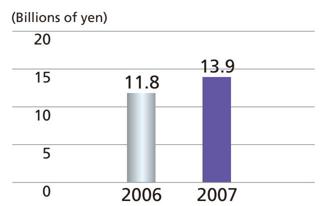

Sales of semiconductor mounting materials were higher due to strong demand, even though there was a brief period of inventory reductions in the mainstay electronics market. Segment sales increased 19.5% to ¥65.6 billion and operating profit increased 6.9% to ¥3.1 billion.

## System Solutions



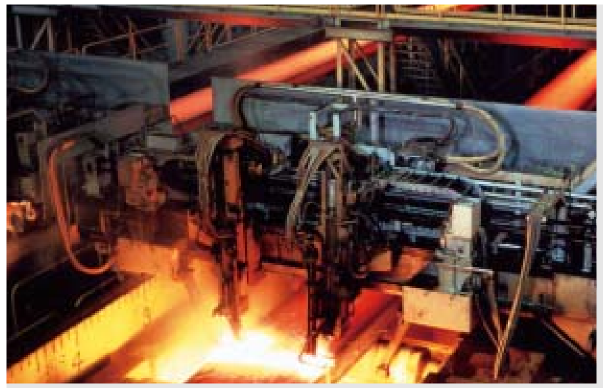




This segment benefited from many opportunities by effectively utilizing its system life cycle (SLC) total solutions business. An integrated line of services covering system planning, installation, operation and maintenance, the SLC total solutions business can meet highly sophisticated and complex customer demands. Segment sales increased 5.5% to ¥156.5 billion and operating profit increased 17.8% to ¥13.9 billion, both record highs.

Notes: 1. Segment sales and operating profit (including inter-segment transactions) as percentages of consolidated net sales and consolidated operating profit (eliminating inter-segment transactions), respectively

2. Fiscal 2005 segment information has been revised to reflect the following changes to the composition of business segments made in fiscal 2006.
   a) Chemicals and New Materials, which made up the former Chemicals and Nonferrous Materials segment, were made separate business segments. In addition, titanium and aluminum operations were transferred to the Steelmaking and Steel Fabrication segment.
   b) Other businesses (electric power supply, services and others) were transferred to the Steelmaking and Steel Fabrication segment.

# Steelmaking and Steel Fabrication

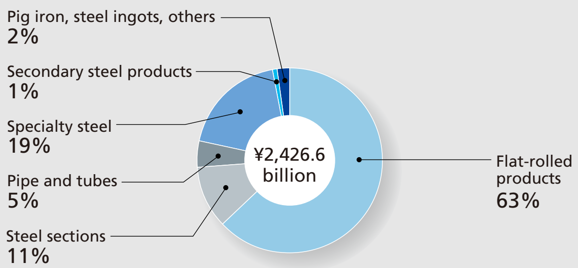


A continuous casting line

## Business Profile

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

## Sales by Product (Non-Consolidated)




## Segment Performance (Consolidated)

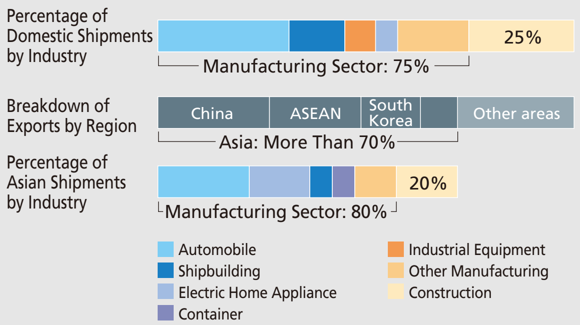
(Billions of yen)

| | 2006 | 2007 |
|---|---|---|
| Sales | ¥3,143.8 | ¥3,482.3 |
| Operating Profit | 517.6 | 514.5 |

Note: Segment information in 2006 has been revised to reflect changes to the composition of business segments made in 2007.

## Breakdown of Shipments by Demand Sector

- The domestic market consumes approximately 70% of Nippon Steel's steel products.
- More than 70% of Nippon Steel's steel products for export are supplied to Asian countries.
- More than 70% of Nippon Steel's products are medium-high grade steel supplied to manufacturers, both domestically and worldwide.




## Strategic Objective

Our objective is to be the No. 1 global steelmaker focusing on medium-high grade steel. To accomplish this, we are reinforcing manufacturing skills while continuing to refine our technologies. There are five core initiatives. First is filling the demand for steel, mainly medium-high grade, by improving our ability to meet the needs of customers. Second is bolstering and expanding our technological and manufacturing skills with the aim of supplying steel in line with demand. Third is reinforcing our business portfolio to achieve more progress in the years ahead. Fourth is working with other steelmaking companies in the Nippon Steel Group to improve profitability and financial soundness. And fifth is deepening existing alliances while establishing new ones.



A pipeline using high-strength steel pipes made by Nippon Steel

The No. 1 blast furnace at the Nagoya Works after relining

## Results of Operations

The Japanese economy continued to expand against a backdrop of generally favorable economic trends worldwide. Growth in Japan was fueled by private-sector demand as rising corporate earnings led to increases in capital expenditures and other consumptions. Fiscal 2006 crude steel production in Japan totaled 117.75 million metric tons, an increase of 5.03 million metric tons. This was the fourth consecutive year that production topped 110 million metric tons. Moreover, fiscal 2006 output was the second highest ever, surpassed only by production in fiscal 1973, the peak of Japan's fast-growth years. There was solid demand for steel from Japanese manufacturers as sales of Japan's many globally competitive products were strong. Steady demand from the construction industry and overseas markets also lifted sales. Another factor was a consistently tight global supply due to the enormous demand for medium-high grade steel, which is used mainly by manufacturers, particularly in the automobile and shipbuilding industries. For commodity-grade steel, prices were relatively stable as rising global demand absorbed the higher production of this steel in China.

In response to these trends, Nippon Steel aligned its steelmaking operations to reflect the polarization of the steel market into the medium-high grade and commodity-grade categories. In the medium-high grade sector, we increased output to fill the large volume of orders coming primarily from the automobile, shipbuilding and energy-related industries. We took steps that included investments to raise capacity and quick start-ups of operations at new facilities. Furthermore, we made effective use of the global production facilities of Group companies and strategic partners.

New product development activities accurately targeted user needs, utilizing an integrated approach linking our manufacturing, sales, technology and research resources. There were many accomplishments during fiscal 2006. We took part in the development of a revolutionary high-strength steel plate for containerships, a joint project with a customer. We started preparing for the production of a new high-strength steel pipe for natural gas pipelines, a product that we were first to develop and commercialize. Slated for completion in March 2008, this investment will make Nippon Steel the world's first high-volume supplier of these pipes.

In the commodity-grade steel category, we are adopting a cautious stance. This mainly involves monitoring changes in inventories to determine the scale of actual demand for this steel.

Nippon Steel is constantly seeking ways to make more refinements to manufacturing operations. There are many programs for maintaining and upgrading the performance of production equipment. People are equally important. We have extensive recruiting and training programs. Providing stimulating workplaces and ensuring that know-how is passed on to younger workers are also vital to upgrading manufacturing activities.

In fiscal 2006, there was a year-on-year increase of 1.92 million metric tons in shipments of steel products, mainly medium-high grade steel. This growth raised segment sales by ¥338.5 billion to ¥3,482.3 billion. Operating profit was ¥514.5 billion. But after excluding the one-time inventory valuation gain in the previous fiscal year, there was an effective year-on-year increase of about ¥100 billion.

## Investments to Meet Rising Orders for Medium-High Grade Steel

There is immense demand for medium-high grade steel worldwide. In response, Nippon Steel is making investments to raise output and deliver the quality that customers require. One highlight was the

# Steelmaking and Steel Fabrication


The hot-dip galvanizing line at the Kimitsu Works


The hot-dip galvanizing line at the Nagoya Works


The hot-dip galvanizing line at the Hirohata Works

November 2006 start of operations at the No. 6 continuous casting line at the Kimitsu Works. In April 2007, work on the relining of the No. 1 blast furnace at the Nagoya Works was completed. In addition, we are installing a basic-oxygen furnace at the Nagoya Works to produce steel more efficiently. At the Oita Works, work has progressed on the No. 5 coke oven, and the go-ahead was given for the relining of the No. 1 blast furnace, which is scheduled for completion in 2009. Blast furnace projects at the Nagoya and Oita Works will raise output along with performance. Together, the investments will boost our annual raw steel output capacity by about 3 million metric tons. For processes that make steel products, we began operating three hot-dip galvanizing lines, at our works in Kimitsu, Nagoya and Hirohata, during fiscal 2006.

Outside Japan, we improved our manufacturing capabilities in order to keep pace with growth in steel demand in the automobile industry in China and Southeast Asia. We established companies in China and Thailand that will manufacture and sell high-grade cold-heading steel wire, used to fabricate automotive components that are critical to automotive safety. The companies are jointly owned with several Japanese manufacturers. Another move targeted rising demand for automotive pipe and tubes in Thailand and Indonesia. To supply these products, we formed a company in Indonesia as a subsidiary of a Thai pipe manufacturing company. Operations at the Indonesian company started in February 2007.

## Cooperation with Alliance Partners in Japan and Other Countries

During fiscal 2006, Nippon Steel strengthened the strategic alliance that it formed in 2000 with POSCO, of South Korea. In October 2006, the two companies agreed on further cooperative measures and on making additional purchases of about ¥55 billion of each other's stock. Key items of this agreement include the mutual supply of steel slabs during blast furnace maintenance work and cooperation concerning dry-dust recycling. The supply of steel slabs started in 2007.

Usinas Siderurgicas de Minas Gerais S.A. (USIMINAS), a Brazilian company that is the leading steelmaker in South America, became an equity-method affiliate of Nippon Steel in December 2006. This additional investment further deepened ties with USIMINAS, which is one of Nippon Steel's most important partners in the implementation of the Company's global strategy. The two companies operate a joint venture for the manufacture of hot-dip galvanized automotive steel sheets, supplying steel for the rapidly increasing output of automakers in South America. As an equity-method affiliate, USIMINAS can better enable Nippon Steel to play a part in meeting the diversifying needs for steel in Brazil and other American countries.

In Japan, Nippon Steel and Sumitomo Metal Industries, Ltd. (Sumitomo Metals) integrated their structural steel sheet operations and road and civil engineering materials operations. This was one aspect of our ongoing collaboration with this company. The combined businesses are now operated by two jointly owned companies: Nippon Steel & Sumikin Coated Sheet Corporation and Nippon Steel & Sumikin Metal Products Co., Ltd. In addition, we raised our ownership of Sanyo Special Steel Co., Ltd. and Godo Steel, Ltd., making them both equity-method affiliates. This will facilitate even more collaboration with these companies to make them more competitive.


Nippon Steel and POSCO agreed to strengthen their strategic alliance and increase holdings of each other's stock.


UNIGAL, a joint venture of Nippon Steel and USIMINAS, manufactures automotive steel sheets.

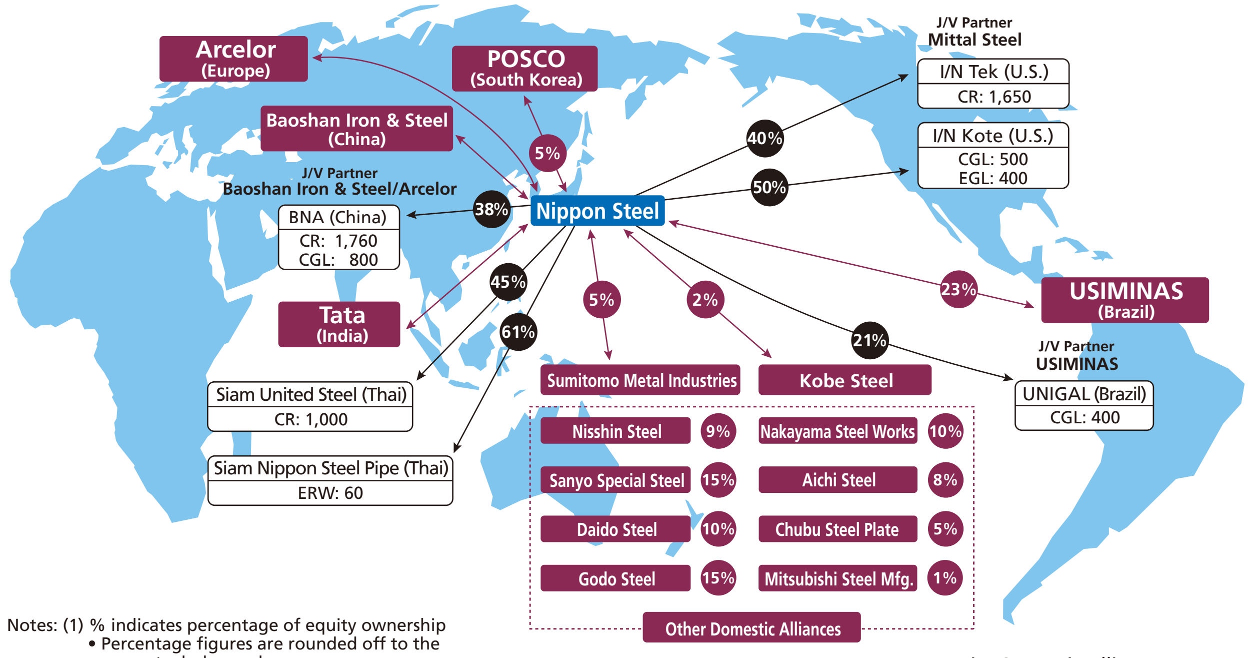
## More Effectively Managing Group Resources

During fiscal 2006, we continued to upgrade our consolidated management system. By focusing resources on carefully selected strategically important businesses in line with a unified strategy, consolidated management raises the productivity of the Group's collective resources. Recent illustrations of actions based on this management system are our investments that made The Siam United Steel (1995) Co., Ltd., a Thai manufacturer of cold-rolled sheets, a subsidiary and made Nippon Steel Drum Co., Ltd. and Hokkai Koki Co., Ltd. wholly owned subsidiaries.

## Alliances for Procuring Raw Materials

Nippon Steel and Companhia Vale do Rio Doce (CVRD), a major Brazilian supplier of raw materials, signed a strategic alliance agreement in December 2006. The two companies will explore many forms of cooperation. Possibilities include more cooperation at ongoing joint projects; the additional intake of pellets by Nippon Steel; the joint development of new mining projects; and collaboration concerning ferro alloys, logistics and R&D. Separately, Nippon Steel and China Steel Corporation, of Taiwan, started combination transport (a cooperative vessel utilization arrangement) using vessels owned by Nippon Steel Shipping Co., Ltd.

**Global Alliance Network** (As of July 2007)




Notes: (1) % indicates percentage of equity ownership
- Percentage figures are rounded off to the nearest whole number
- USIMINAS includes 21.6% voting shares held by Nippon Usiminas Co., Ltd.

(2) CR: Cold-rolling mill
(3) CGL: Hot-dip galvanizing line
(4) EGL: Electrogalvanizing line
(5) ERW: Electric resistance-welded pipe and tubes

Major Strategic Alliances
Major Overseas Joint Ventures

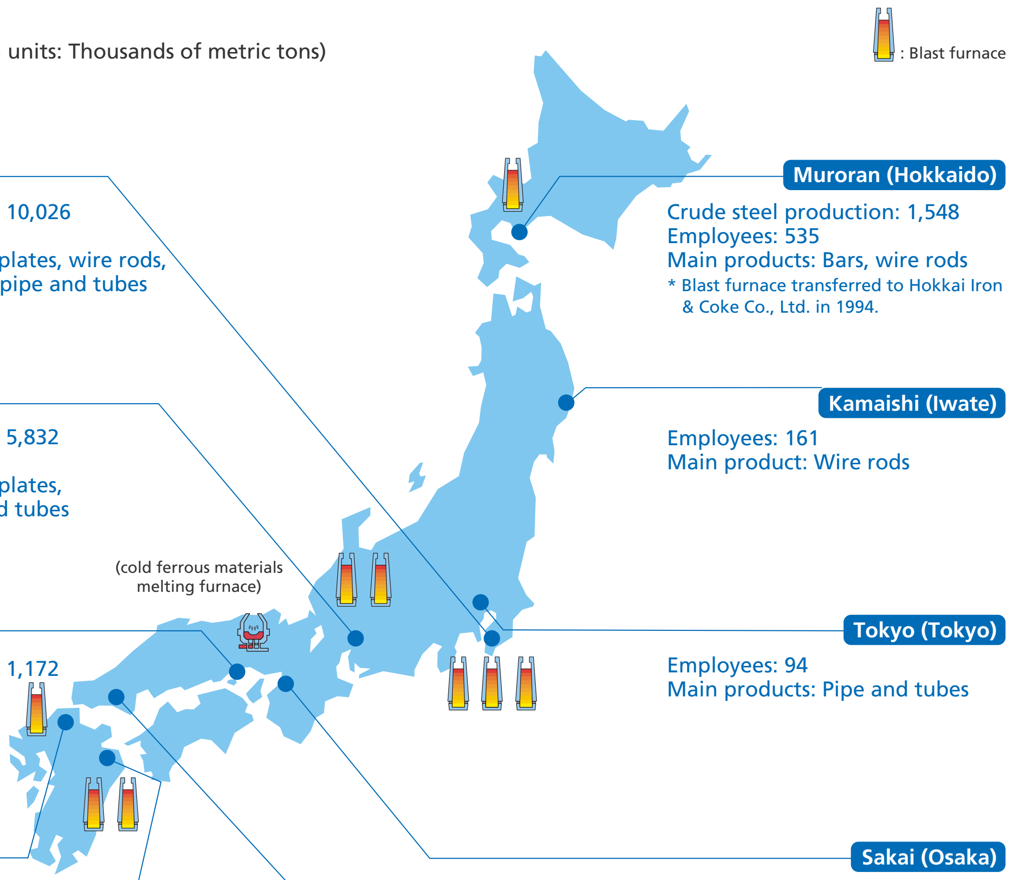
Tonnage figures indicates annual production volume and are in thousands of metric tons. (Tonnage figures of the joint venture in the United States are in short tons)

# Steelmaking and Steel Fabrication

## Domestic Steelworks (Non-Consolidated)

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

(Crude steel production units: Thousands of metric tons)




**Kimitsu (Chiba)**
Crude steel production: 10,026
Employees: 2,939
Main products: Sheets, plates, wire rods, shapes, pipe and tubes

**Nagoya (Aichi)**
Crude steel production: 5,832
Employees: 2,794
Main products: Sheets, plates, pipe and tubes

**Hirohata (Hyogo)**
Crude steel production: 1,172
Employees: 1,110
Main product: Sheets

**Yawata (Fukuoka)**
Crude steel production: 3,894
Employees: 2,635
Main products: Sheets, shapes, rails, pipe and tubes

**Oita (Oita)**
Crude steel production: 9,123
Employees: 1,531
Main products: Sheets, plates

**Muroran (Hokkaido)**
Crude steel production: 1,548
Employees: 535
Main products: Bars, wire rods
* Blast furnace transferred to Hokkai Iron & Coke Co., Ltd. in 1994.

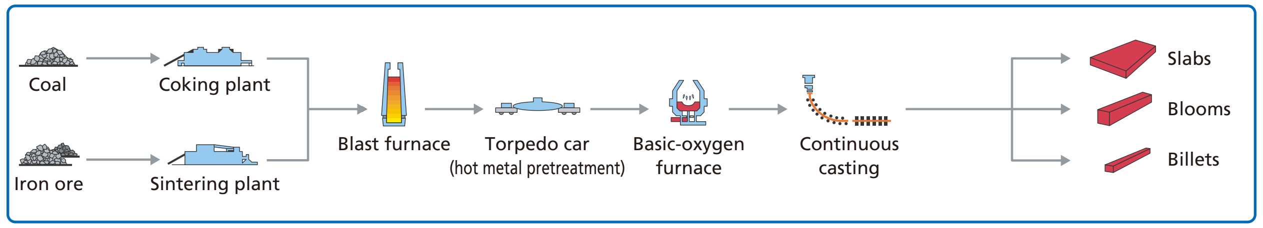
**Kamaishi (Iwate)**
Employees: 161
Main product: Wire rods

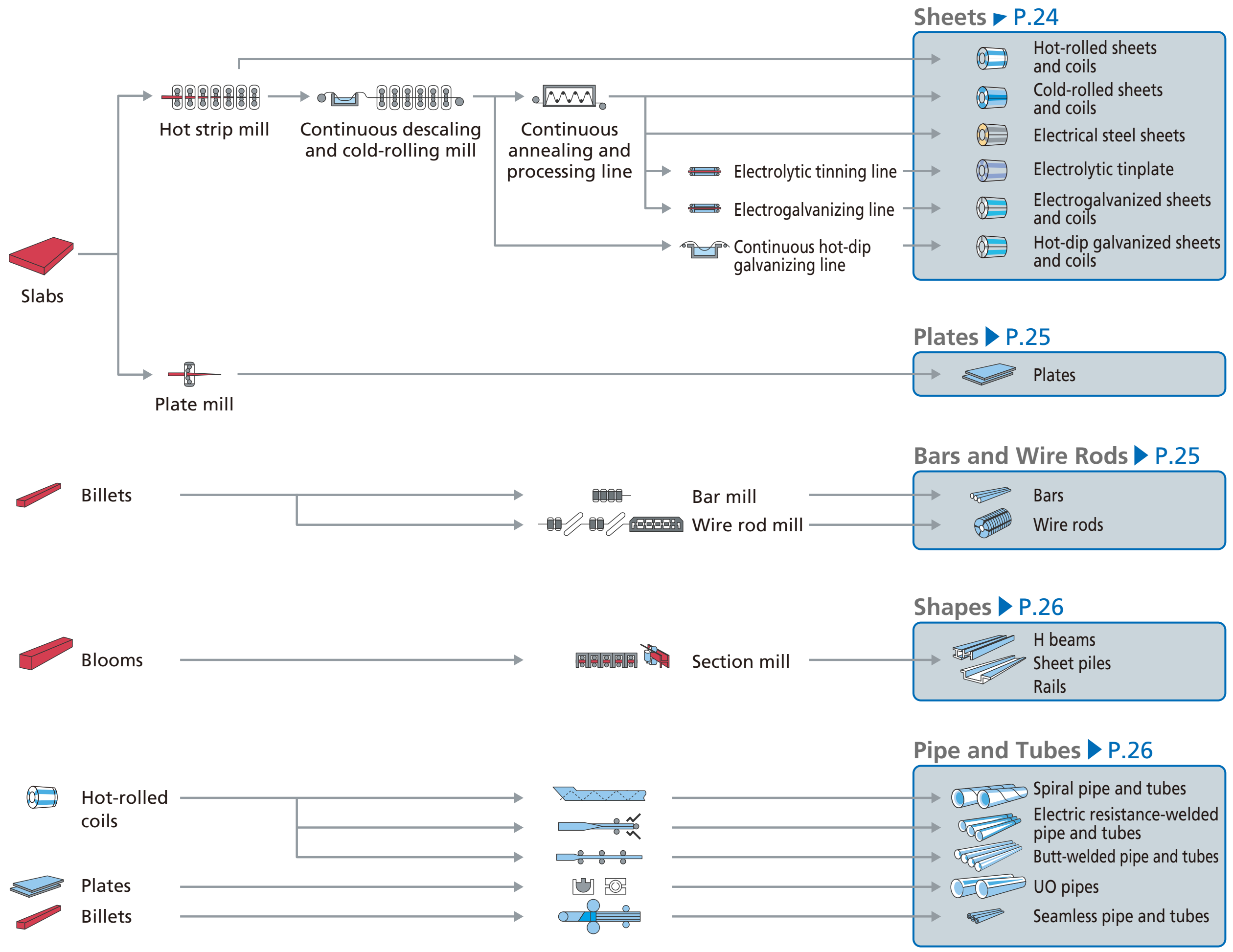
**Tokyo (Tokyo)**
Employees: 94
Main products: Pipe and tubes

**Sakai (Osaka)**
Employees: 301
Main product: Shapes

**Hikari Pipe & Tube Division (Yamaguchi)**
Employees: 226
Main products: Pipe and tubes, Titanium

## Steelmaking Flow



# Steelmaking and Steel Fabrication

## Sheets

**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, appliances, electrical machinery, steel furniture, office equipment, construction materials, containers, motors and transducers.

Tinplate

Electrical sheets

### Market Trends

There has been considerable growth in demand for steel sheets in recent years. Rising production of automobiles along with the popularity of digital consumer electronics and other IT products are largely responsible. Growth in orders for medium-high grade steel sheets has been particularly strong from manufacturers for use in their high-performance products and environmentally conscious products.

### Sheets of Nippon Steel

Nippon Steel is a very competitive supplier of steel sheets due to its ability to combine an extensive product lineup with a quick response to customer requirements of all kinds. Demand for steel sheets is steadily becoming more complex and sophisticated. We have the know-how to supply the high-performance steel materials that match these requirements ahead of competitors. For example, a higher tensile-strength sheet that makes automobiles lighter and SuperDyma, a galvanized sheet that is highly resistant to corrosion, have earned high marks from customers.

To strengthen our ability to supply medium-high grade steel, we began operating new hot-dip galvanizing lines at our works in Kimitsu, Nagoya and Hirohata during fiscal 2006.

Customers are using the Eco-Products of Nippon Steel in an increasing range of applications as concerns about the environment grow. Our Eco-Products protect the environment in many ways. Ultra thin tinplate makes cans lighter. High-efficiency electrical steel sheets help conserve electricity in home appliances and other products. Laminated sheets for cans and pre-coated sheets, mainly for home appliance enclosures, eliminate the need for manufacturers to paint products themselves. Additionally, we meet customer demands by supplying products conforming to such regulations as the European Union's End-of-Life Vehicles (ELV), Restriction of Hazardous Substances (RoHS) and other environmental directives. For example, we fabricate sheets that are free of lead, hexavalent chromium and other prohibited substances banned under environmental compliance guidelines.

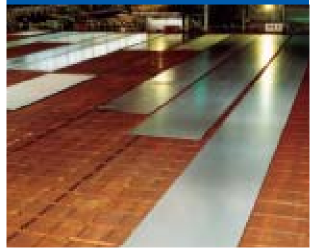
Japanese companies that have long-term relationships with Nippon Steel account for a large share of steel sheet sales. This characteristic distinguishes our client base from those of competitors. In Japan, we have a supply network closely linked to the factories of our customers. Making this possible is a network of steelworks and sales offices covering every area of Japan. Overseas, we use strategically located offices to extend services that accurately reflect customer demands.

We are responding to full-scale growth in the market for steel-frame houses, which are energy-efficient and functional. This mainly entails promoting the use of our Nittetsu Super Frame Method, a proprietary technique that employs thin and light structural steel components.

In fiscal 2004, Nittetsu Steel Sheet Corporation and Nippon Steel Metal Products Co., Ltd. became wholly owned subsidiaries. These companies were then merged with the structural steel sheet and road and civil engineering materials businesses of Sumitomo Metal Industries, Ltd. in fiscal 2006. This integration process created two new companies: Nippon Steel & Sumikin Coated Sheet Corporation and Nippon Steel & Sumikin Metal Products Co., Ltd. In fiscal 2007, Nippon Steel Drum Co., Ltd. and Hokkaki Koki Co., Ltd. became wholly owned subsidiaries as well. Realigning and integrating Group companies in this manner has created an even more powerful operating base for steel sheets.



## Plates



**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, civil engineering and construction machines, rail cars, tanks and pressure vessels, and nuclear, thermal and hydroelectric plants.

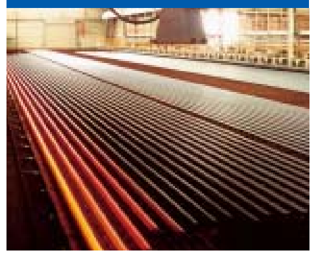
### Market Trends

Solid growth in demand for plates is expected to continue. Plates are a vital material in shipbuilding, construction machinery, energy-related plants and tanks and many other areas. One major trend is the increasing demand for plates that have a certain thickness, strength and toughness. These characteristics are essential for making larger commercial ships to raise transportation efficiency and building facilities associated with crude oil and other energy sources.

### Plates of Nippon Steel

There are two distinguishing characteristics of our plate operations. One is the supply of extra-long and extra-wide plates using Nippon Steel's large facilities. The other is plates that incorporate sophisticated technologies, such as our Continuous on Line Control Next-Generation Accelerated Cooling Process (CLC-μ). Our plates contribute to the structural safety of buildings. They also enable customers in many industries to improve productivity and make their products more competitive. Two recent accomplishments in the shipbuilding sector exemplify our expertise. One is the development of higher tensile-strength steel plates with a yield stress of $47kgf/mm^2$ (EH47) for building super-sized containerships. This material received a 2006 Nikkei Superior Products and Services Awards for Excellence. The other is Nippon Steel's Green Protect-1 (NSGP-1), a highly corrosion-resistant plate for crude oil tankers. Another priority of ours is meeting the growing demand for steel required for energy projects. Key products in this category include highly tough plates suitable for ultralow-temperature environments for liquefied natural gas (LNG) tanks and ultra-thick plates for energy plants and large machinery.

## Bars and Wire Rods



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

**Uses**
The bars, wire rods and foundry pig iron produced by Nippon Steel are used widely in the manufacturing sector, especially in the automobile and construction sectors, where they undergo additional processing, including heat treatment, wire drawing or forging. In the automobile sector, these steel materials become components, such as shafts and gears, and steel cord for tires, while in the construction sector they are turned into higher tensile-strength cable for suspension bridges, concrete reinforcing rebar, wires and nails.

### Market Trends

The automobile and construction industries account for most sales of bars and wire rods. A large percentage of these products are used to fabricate components critical to automotive safety, including the engine, drivetrain and suspension. Growing overseas production by Japanese automakers is steadily raising orders for high-grade bars and wire rods. In the construction industry, there is also steady growth in demand for high-grade products that have outstanding strength and durability.

### Bars and Wire Rods of Nippon Steel

Demand for bars and wire rods of Nippon Steel is immense. We use a variety of production processes and a stringent quality-control program, all backed by advanced technologies. Our objective is to use these strengths to match the specific requirements of high-end products, including those made by secondary manufacturers, that incorporate our bars and wire rods. In Japan, one step was the establishment of Nittetsu Tokai Steel Wire Co., Ltd. to increase production capacity of cold-heading steel wire. Overseas, we established companies in China's Jiangsu Province and in Thailand to manufacture and sell secondary products using specialty steel bars and wire rods. The new bases are joint projects of Nippon Steel and its business associates, Matsubishi Metal Industry Co., Ltd., Miyazaki Seiko Co., Ltd. and Sanyu Co., Ltd., which manufacture grinding bars and cold-heading steel wire. These actions made us even more competitive in the global market for bars and wire rods.

# Steelmaking and Steel Fabrication

## Construction Materials

**Main Products**
H beams, heavy plates for steel frames, rails for railways, steel sheet piles, pipe piles 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 steel sheet piles, as well as fabricated products and construction methods matched to diverse needs.

### Market Trends

Demand for construction materials depends on trends in the civil engineering and building construction markets. In the civil engineering sector, Japan's shrinking public-works expenditures make a significant recovery in demand for construction materials unlikely. However, a temporary upturn is foreseen due to the March 2007 start of construction of a new runway at Tokyo International Airport (Haneda). In the building construction sector, demand for construction materials is strong. Major causes are large-scale urban redevelopment projects and the construction of factories due to the return of some manufacturing activities to Japan and rising production of digital consumer electronics. Additionally, Japan's economic recovery has led to the construction of retailing and distribution facilities. Demand for construction materials in the building construction and other sectors is expected to remain healthy. More urban redevelopment projects are planned. Another source of demand is renovations of the many aging structures that were constructed in civil engineering and building projects undertaken when the Japanese economy was expanding rapidly during the 1950s and early 1970s.

### Construction Materials of Nippon Steel

Based on the generally favorable outlook, Nippon Steel continued to work on preserving market stability. This chiefly has involved maintaining production that matches demand for H beams and other products. Highlights in fiscal 2006 included the launch of innovative new products: an expanded NITTETSU HYPER BEAM lineup of value-added H beams with constant outer dimensions; hat-shaped steel sheet piles for building foundations, which lower material and installation costs; TN-X pipe piles for building foundations; and a highly durable, low-cost bridge-building method that permits quick installation. We will continue to draw on our strengths to supply products that meet even more customer needs.

## Pipe and Tubes

**Main Products**
UO pipe and spiral, electric resistance-welded, butt-welded, seamless pipe and tubes

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

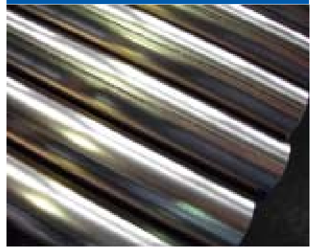
### Market Trends

Nippon Steel supplies pipe and tubes to customers in many industries, including energy-related, automobile, construction machinery and construction, both building and civil engineering. To meet rising global demand for energy, there are many development and transportation projects currently under way in harsh and remote areas of the world. Further growth is foreseen in demand for high-grade pipes needed to meet the complex requirements of these projects. Rising overseas production by Japanese makers of automobiles and construction machinery is also raising demand for pipe and tubes. Nippon Steel anticipates more growth in orders for high-grade pipe and tubes with the precise combination of strength, formability and other properties for specific components vital to the safe operation of a vehicle or a machine.

### Pipe and Tubes of Nippon Steel

Nippon Steel has a fully integrated supply infrastructure that includes development, manufacture and marketing, from materials to finished pipe and tubes. Using these strengths allows us to develop highly sophisticated products that target actual user needs. For example, in a move that put us ahead of competitors, we developed a pipe (X-120) for pipelines that is much stronger than conventional pipes for this application. We plan to begin volume production in March 2008. For the automobile industry, we are stepping up development activities that extend to techniques to make our pipe and tubes easier to use in production processes at customers. This helps our customers to fabricate products that are lighter and more energy efficient. In China and Southeast Asia, we are expanding production activities as automakers and parts suppliers increase local production and procurement activities.

## Titanium



**Main Products**
Cold-rolled sheets and coils, welded pipe and tubes, hot-rolled sheets and coils, plates, bars and wire rods, foils and fabricated products

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

### Market Trends

Demand for titanium is extremely strong in both major markets for this material: general industrial applications and aerospace. As a result, the supply of titanium is consistently tight despite growth in the supply of the raw material sponge titanium. Nippon Steel has been focusing on measures to raise sales of titanium for general industrial applications. These activities led to very high sales of titanium, particularly for heat exchangers used in the energy-related equipment, ships and for automobile parts.

### Titanium of Nippon Steel

Comprehensive skills in rolling technology acquired through our steelmaking operations give us a valuable competitive edge in the titanium business. This includes expertise in manufacturing, production equipment and research programs. In the mainstay titanium sheets and plates sector, we use the world's largest titanium slabbing mill to supply products of exceptional quality. The product line extends from wide, thin-gauge cold-rolled materials to heavy plates. Heat exchangers are a key market for our titanium products indeed. However, we are establishing ties with new customers in the automobile, IT and construction materials industries as well. These strategic marketing activities have enabled us to preserve our position as one of the world's greatest suppliers of titanium mill products for general industrial applications. We plan to reinforce ties with suppliers of titanium raw materials to further strengthen our integrated production system. This will provide a base for tapping more sources of demand in order to continue the expansion of our titanium operations.

## Stainless Steel

**Main Products**
Cold-rolled sheets, hot-rolled sheets, plates and bars and wire rods

**Uses**
Stainless steel is used in a broad spectrum of applications, including parts for automotive exhaust systems, electric appliances, kitchen equipment for homes and commercial venues, cookware, ships and food processing and chemical plants. 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.

### Market Trends

Nippon Steel & Sumikin Stainless Steel Corporation, a member of the Nippon Steel Group, is Japan's largest producer of stainless steel. With annual output of 1.06 million metric tons, this company alone accounts for about one-third of Japan's stainless steel output. Stainless steel demand was strong in fiscal 2006, and there were sharp increases in prices of such raw materials as nickel and chromium. The result was an upturn in prices of stainless steel products as well. A transition is occurring in the market as customer needs shift from general-purpose grades of stainless steel to grades that have even better properties to meet specific requirements.

### Stainless Steel of Nippon Steel

In response to the rising cost of raw materials and changes in supply and demand dynamics, Nippon Steel & Sumikin Stainless Steel is constantly developing original products. Illustrating this expertise is the development of high-purity ferrite steel, high-performance duplex stainless steel and super stainless steel. Accurately meeting needs with products like these has earned the company a solid reputation among customers in Japan and overseas. High-purity ferrite steel (NSSC 180 and NSSC 160R) has generated a particularly strong market response. Containing no costly nickel, this steel offers an outstanding balance among corrosion resistance, formability and cost. As Japan's industry leader, Nippon Steel & Sumikin Stainless Steel will continue to conduct extensive R&D activities. Building a sales and production infrastructure to reflect the increasingly global scale of industrial activity is another theme. Overall, the company is dedicated to meeting the expectations of customers worldwide as a reliable supplier of stainless steel along with innovative ideas and solutions for a variety of issues.

# Engineering and Construction

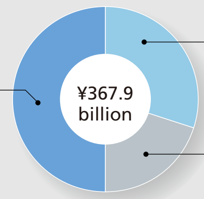
## Nippon Steel Engineering Co., Ltd.

The *Kuroshio* derrick and lay barge

### Business Profile

**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 long-span 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/english/**

### Sales by Business Field (Consolidated)




### Segment Performance (Consolidated)

(Billions of yen)

| | 2006 | 2007 |
|---|---|---|
| Order value | ¥384.7 | ¥371.9 |
| Sales | 336.1 | 367.9 |
| Operating Profit | 9.5 | 13.0 |

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 long-span bridges, skyscrapers and giant structures.

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 know-how 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.

A coke dry quenching facility

A waste treatment facility

An LNG receiving terminal

A large distribution facility

Specifically, we will emphasize the following four business areas.

### 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 Facilities, Civil Engineering and Marine Construction

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 offshore or harbor-based facilities.

### Building Construction and Steel Structures

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

Market conditions were favorable for the engineering and construction operations of Nippon Steel Engineering in fiscal 2006. Capital expenditures in Japan were strong. Overseas, there is a large volume of energy and natural resource development projects under way, especially in Southeast Asia. In Japan, construction work at steel plants and large distribution facilities was a major contributor to sales. In addition, the company successfully used proposal-linked style sales activities, such as for waste treatment plants using the private finance initiative (PFI) system. This permits the use of private-sector capital and know-how to build and operate public-sector facilities. In Southeast Asia, there were several orders for building natural gas development platforms and undersea pipelines. By capitalizing on opportunities in all market sectors, the company recorded a near-record level of orders, approaching the previous record in fiscal 2005. Profitability benefited from cost-cutting initiatives. As a result, orders, sales and earnings all surpassed the initial targets for fiscal 2006, giving Nippon Steel Engineering a strong start in its first year of operations.

# Urban Development

## Nippon Steel City Produce, Inc.

The vast Shibaura Island development on the waterfront in central Tokyo

### Segment Performance (Consolidated)

(Billions of yen)

| | 2006 | 2007 |
|---|---|---|
| Sales | ¥104.0 | ¥94.3 |
| Operating Profit | 13.0 | 14.3 |

### Business Profile

**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 condominium 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/**

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 contribute the formation of value-added assets to society and to establish a distinctive profile in the urban development sector as a comprehensive property developer.

### Fiscal Summary

Sales of condominiums in Japan are consistently brisk due primarily to demand from children of the baby-boom generation. The office leasing market is healthy, too. Japan's economic recovery is creating demand for office relocations and expansions. The result is a decline in vacancy rates and an increase in leasing fees, chiefly at large buildings in central Tokyo.

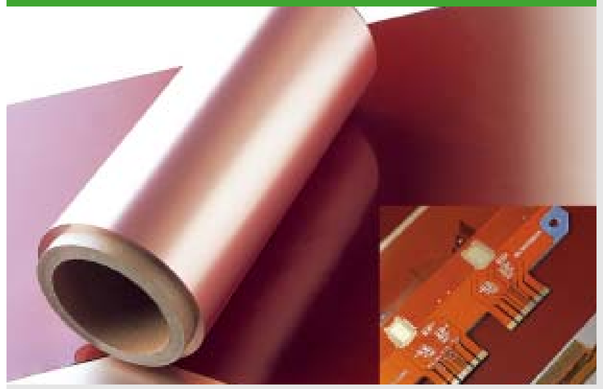
In response, Nippon Steel City Produce continued to take steps to improve profitability. At the same time, the company made further progress in establishing a new profit structure and a more powerful base of operations. Participation in large redevelopment projects like Shibaura Island is one example of this process. The company is also expanding its condominium reconstruction business and started operations at Roppongi Food Gate "ROCMON," its first urban commercial property.





# Chemicals

## Nippon Steel Chemical Co., Ltd.



ESPANEX, a material for flexible printed circuit boards

### Segment Performance (Consolidated)

(Billions of yen)

| | 2006 | 2007 |
|---|---|---|
| Sales | ¥298.4 | ¥318.7 |
| Operating Profit | 19.3 | 23.6 |

Note: Segment information in 2006 has been revised to reflect changes to the composition of business segments made in 2007.

### Business Profile

**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 for two-layer CCLs.**

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

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

### Business Strategies

Nippon Steel Chemical's specialized profile comprises four businesses: Coal Tar Chemicals, Chemicals, Functional Polymer Materials and Electronic Materials. In addition to these core businesses, the company is working on the development of organic EL 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

Nippon Steel Chemical raised consolidated ordinary profit to a new record in fiscal 2006 despite the much higher costs of crude oil, naphtha and other raw materials. Solid demand in Japan and overseas resulted in high prices of styrene monomer and benzene in the Coal Tar Chemicals and Chemicals businesses, which absorbed such higher raw materials costs. There was considerable capacity investment during fiscal 2006 to build a platform for adapting with speed and flexibility to changes in market conditions. New installation was completed on a large storage tank for toluene, a widely used solvent. Also, production capacities were expanded for benzene and specialty carbon products. For Electronic Materials and Functional Polymer Materials, including ESPANEX, the company is conducting sales activities that accurately match customer needs.

# New Materials

## Nippon Steel Materials Co., Ltd.

Semiconductor mounting material (metal bonding wire)

### Segment Performance (Consolidated)

(Billions of yen)

| | 2006 | 2007 |
|---|---|---|
| Sales | ¥54.9 | ¥65.6 |
| Operating Profit | 2.9 | 3.1 |

Note: Segment information in 2006 has been revised to reflect changes to the composition of business segments made in 2007.

### Business Profile

**Nippon Steel Materials conducts Nippon Steel's new materials business. Operations are based on materials expertise gained from steelmaking along with technologies for the design, analysis and evaluation of molecular structures. These skills allow us to supply materials solutions covering a broad spectrum of issues in market sectors that rely on highly advanced technologies.**

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

| | Nippon Steel Materials | [Affiliates] |
|---|---|---|
| Semiconductor and electronic components and materials | ● Stainless steel foils<br>● Microball bumping service<br>● Chemical mechanical polishing (CMP) pad conditioners | Nippon Micrometal Group<br>● Gold bonding wire<br>● Microsolder ball<br>Micron Group<br>● Silica/Alumina spherical particle |
| Basic industrial components and materials | ● Fine ceramics<br>● HIP processed materials | Nippon Steel Composite Group<br>● Pitch-based carbon fiber<br>● CFRP products |
| Energy- and environment-related components and materials | ● Metal substrates for catalytic converters | NS Solar Material<br>● Polycrystalline silicon |

Nippon Steel Technical Development Bureau

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

### Business Strategies

Operations at Nippon Steel Materials cover three growing markets: semiconductor and electronic components and materials; basic industrial components and materials, other than those made of traditional steel-related materials; and energy- and environment-related components and materials, which are sectors of considerable social importance. In all markets, the company supplies highly innovative products incorporating advanced technologies acquired through steelmaking. With these products, Nippon Steel Materials has established a distinctive presence in each of its markets. In many product categories, the company ranks among the world's top-three suppliers, including a dominant share of the market for stainless steel foils for hard disks. This makes Nippon Steel Materials a company made up of small but powerful businesses.

### Fiscal Summary

Demand in the semiconductor and electronics industries was healthy during fiscal 2006, although there was a brief period of inventory reductions. This resulted in higher sales of semiconductor mounting materials and carbon fiber. Regarding new businesses, construction is proceeding on schedule at the solar cell polycrystalline silicon factory of NS Solar Material Co., Ltd., which was established in 2006. Production is scheduled to start up later in 2007. In addition, Nippon Steel Materials launched its microball bumping service in February 2007. The service uses an internally developed technology to form microscopic ball bumps on semiconductor wafers for the direct, flip chip (FC) interconnection of semiconductor chips and printed circuit boards.






# System Solutions

## NS Solutions Corporation

### Segment Performance (Consolidated)

(Billions of yen)

| | 2006 | 2007 |
|---|---|---|
| Sales | ¥148.3 | ¥156.5 |
| Operating profit | 11.8 | 13.9 |

### Business Profile

**NS Solutions is a source of integrated services, beginning with the design of systems and including their subsequent development and operations. Experience and sophisticated IT capabilities acquired through the steelmaking operations of Nippon Steel underpin these activities. We offer business solutions for the manufacturing, distribution and service, finance, and government agency and public-service sectors. We also supply platform solutions, using comprehensive engineering skills to create the best systems through trial operations for cutting-edge products. Customers also rely on us for business services involving system operations and maintenance and outsourcing.**

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

President,
NS Solutions Corporation
Mitsuo Kitagawa

### Business Strategies

The operating climate for NS Solutions is undergoing significant changes due to the widespread use of broadband technology and other developments. In response, we are extensively strengthening our IT services business. Our goal is to achieve the industry's highest levels of profitability and growth. To accomplish this, we are executing a differentiation strategy centered on system life cycle (SLC) total solutions, which encompass the planning, configuration, operation and maintenance of IT systems.

### Fiscal Summary

In fiscal 2006, client companies made substantial investments to upgrade large-scale systems and make other improvements. Integrations and upgrades to mission-critical systems for sales, production and logistics in the manufacturing and distribution industries were one major source of orders. There were also orders involving the IT systems for business operations of securities companies and large banks. In response, we used SLC total solutions that are capable of meeting the highly sophisticated and intricate needs of customers. By earning the trust of established customers, this approach enabled us to capture a steady stream of orders as we took advantage of many opportunities. Other measures taken during fiscal 2006 bolstered our operating framework. We improved the development process, strengthened internal controls and upgraded employee training programs. Collectively, these activities produced growth in business solutions operations, leading to all-time high sales and operating profit.

# Research and Development

The Research and Engineering Center

### R&D Expenditures

(Billions of yen)

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Consolidated | ¥36.3 | ¥37.8 | ¥41.2 |
| Non-consolidated | 27.3 | 28.0 | 29.0 |

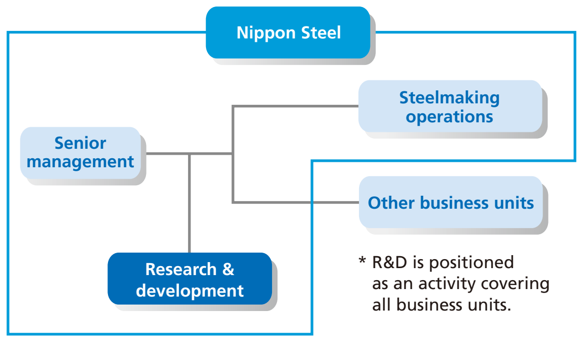
### R&D Organization

**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 consistent coordination of activities between the Research and Engineering Center, at the core of our R&D organization, and the R&D laboratories at steelworks across the country that provide support.**

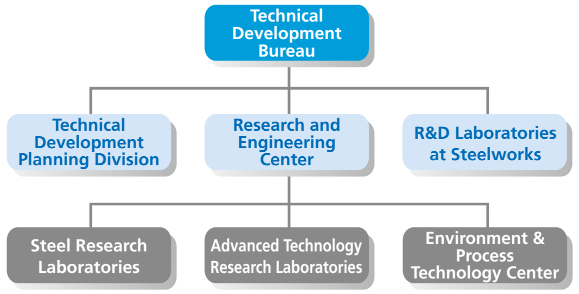
**Our R&D capabilities highlight five strengths: 1) comprehensiveness and speed of development, facilitated by the integration of R&D and engineering; 2) an R&D network system with bases in customer regions; 3) proposal-style solutions fine-tuned to customer needs; 4) the ability to address energy- and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

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

### Positioning of Research and Development




### R&D Organization




## R&D Direction

Amid diversifying social needs, characterized by changing consumer preferences and growing concerns over energy and the environment, Nippon Steel is selectively investing management resources in 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 high-end needs of the polarized steel market
2. Technology that facilitates the use of low-grade iron ore, coking coal and other raw materials and fuels, thereby enabling the Company to respond to a downward trend in raw material and fuel quality
3. Environment-oriented technology that underpins sustained corporate development

## Major Accomplishments

### World's First Practical Use of Corrosion-Resistant Plate for Supertankers

NSGP-1 was used for the first time on an experimental basis in the *Takamine*, a VLCC operated by NYK Line.

The bottom of tanks in crude oil carriers is highly susceptible to pitting corrosion caused by the settling of saltwater contained in crude oil. If left unattended, this corrosion could eventually lead to a serious problem like an oil leak. Currently, applying a thick protective coating prevents corrosion. Recognizing the need for a better solution, Nippon Steel developed a steel plate that requires no coating. The revolutionary plate, called NSGP-1 (Nippon Steel's Green Protect-1), will be used for the first time on a full scale in a supertanker (VLCC) that will be constructed for Nippon Yusen KK (NYK Line), a major marine transportation company. NSGP-1 has two key features. First is the use of a minimal amount of alloying metals to achieve outstanding resistance to corrosion. Second is the use of carefully chosen types and amounts of alloying metals to further boost corrosion resistance. Despite its different composition, NSGP-1 has the same ease of forming and welding as with conventional steel. By eliminating the need for coatings, NSGP-1 lowers the environmental impact of ships. Better still, there are big reductions in the cost of painting when constructing and maintaining vessels. With these attributes, Nippon Steel's new plate makes ships safer, more economical and friendlier to the environment.

### Ecokote-S Steel Sheet for Automotive Fuel Tanks

An intricately shaped fuel tank made of Ecokote

Nippon Steel has developed environmentally friendly steel for automotive fuel tanks. Called Ecokote-S, the material helps protect the environment in several ways. Most significantly, the new material eliminates lead, a harmful substance, by coating a tin and zinc alloy rather than a lead alloy. In addition, the high corrosion resistance of Ecokote-S makes it suitable for tanks that can hold environmentally friendly biofuels, which are more corrosive than gasoline. Another advantage of Ecokote-S is its greater ease of recycling compared with fuel tanks made of resin and other materials.

### Super-PureFlex—Extends Applications for Titanium by Allowing Ultradeep-Draw Processing

An *onigawara* demon tile made of Super-PureFlex and standard roof tiles on the Hozomon Gate of Sensoji Temple

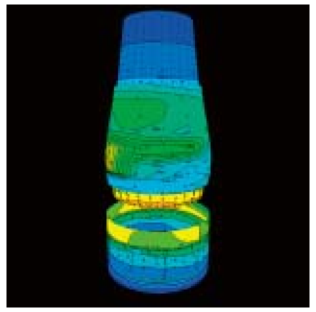
Super-PureFlex is a pure titanium material with about 20% better formability than was possible with titanium until now. This improvement was accomplished by reducing oxygen content, which prevents materials from "stretching," to the absolute minimum. Ease of formability permits the use of ultradeep-draw processing, thus allowing manufacturers to raise the efficiency of pressing and eliminating certain processes. The unique properties and beauty of titanium make this material even more appealing. Manufacturers have selected Super-PureFlex for the enclosures of high-end audio products and other luxury consumer products. The world's first all-titanium tile roof was installed at the spectacular Hozomon Gate of Sensoji Temple in Tokyo, with work completed in July 2007. Super-PureFlex was selected for the intricately shaped *onigawara*, which are ridge end tiles. Standard roof tiles use another Nippon Steel titanium product that also has excellent formability.

## Research and Development

Left to right are shown 2-inch, 3-inch and 4-inch (100mm) single crystal SiC wafers

### World's Highest Quality for a 100mm Single Crystal Silicon Carbide Wafer

Single crystal silicon carbide (SiC) wafers offer several advantages over conventional silicon wafers when they are used as materials for semiconductor devices, like high temperature and high voltage operation with a smaller electrical loss. Manufacturing SiC wafers requires a very high temperature of more than 2,400°C, and this makes it difficult to control crystallization processes, resulting in a high rate of crystal defects in large-diameter wafers. Nippon Steel used its unique manufacturing tools and computer simulation technology to optimize the ultrahigh-temperature production process and successfully achieved high-quality 100mm SiC wafers with a much lower density of crystal defects. This result expects to put SiC wafers to practical use for power semiconductors that reduce energy consumption in industrial machinery, home appliances and automobiles.



The 3D-VENUS system

### 3D-VENUS Provides Visual Data to Permit the Highly Stable Operation of Even Ultralarge Blast Furnaces

Nippon Steel has developed a revolutionary system that provides visual data for the operations of a blast furnace, which converts iron ore into pig iron. Known internally as 3D-VENUS (Visual Evaluation and Numerical Analysis System of Blast Furnace Operation), this system produces a three-dimensional image in one-second intervals. Data include temperature, pressure, gas distribution and other parameters. The system permits monitoring operations with much more speed and accuracy than with two-dimensional systems. Blast furnace operators can make adjustments faster and more precisely. 3D-VENUS is currently used at the No. 1 blast furnace of the Nagoya Works, where a relining project was completed in April 2007. Nippon Steel plans to introduce this technology at other blast furnaces as well. This achievement demonstrates Nippon Steel's ability to be the first to create and use the world's most advanced operation and control technologies to optimize the performance of large blast furnaces.

A GTL pilot plant
(Photo credit: JOGMEC)

### Development of a Liquid Fuel Synthesis Catalyst—Core to Next-Generation GTL Technology

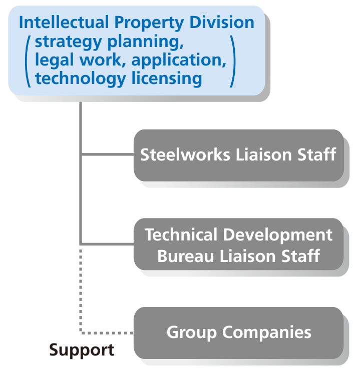
Gas-to-liquids (GTL) technology converts natural gas into a clean-burning and easy-to-handle synthetic fuel for diesel engines that can replace petroleum-based fuels. In 2001, the Nippon Steel Group began participating in the development of a high-efficiency liquid fuel synthesis technology (Fischer-Tropsch (F-T) synthesis technology), which is the most critical element of the GTL process. We worked with Japan Oil, Gas and Metals National Corporation (JOGMEC) and other companies involved in a national GTL project between 2001 and 2004. Subsequently, we used expertise in material science obtained through steelmaking to develop an F-T synthesis catalyst that shows the world's highest level of GTL production efficiency. We are determined to achieve many more breakthroughs in both the fields of "Energy" and "the Environment."





# Intellectual Property

### Intellectual Property Organization




### Intellectual Property

It is Nippon Steel's basic policy to obtain intellectual property based on the Company's accumulated wide-ranging production technologies and achievements made through the latest R&D activities, and to take advantage of intellectual property as an effective tool for the business.

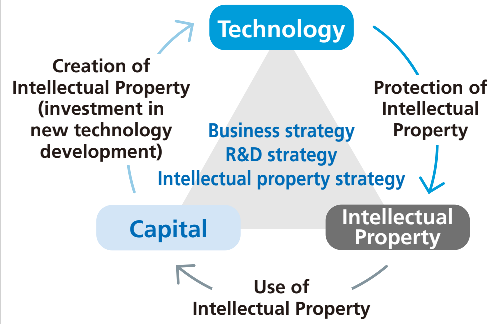
### Strategic Management and Use of the Intellectual Property

It is a requirement to meet the diverse needs of customers and expanding worldwide business and to promote development of new products and global supply of sophisticated steel products in order to secure the unshaken position as No. 1 global steelmaker focusing on expanding technology innovation. To meet the mission above and keep an international competitive edge, strategic management and use of intellectual property has been getting more important.

For example, it is a must to obtain broad and strong intellectual property in targeted countries and regions and to enforce the right properly for promoting international joint ventures and alliances.

Recently, the following activities have been emphasized. In terms of filing patent applications, promotion of filing application in BRICs and neighbor countries and the decision of whether the technology should be filed for patent or kept secret as know-how. In terms of use of intellectual property, selecting of technologies to be monopolized or to be diffused and setting reasonable terms and conditions for joint development and licensing. With respect to the licensing of technology to alliance partners, the greatest care has been taken to prevent an unintentional technology drain of our important technology in terms of making licensing agreements and the actual practice.

### Intellectual Property Creation Cycle




### Examples of Recent Important Technology Fields

To reinforce key/core technologies necessary for the "growth in profits based on expanding technology innovation," the Intellectual Property Division selects and narrows down technological issues to be solved in collaboration with business divisions and R&D divisions and strives to make the outcome of R&D be surely converted to the patent right. Recent important technology fields include the following:

- Providing customers with solutions
- How to cope with raw material issues (soaring cost, degradation of quality)
- Increasing productivity
- Measures for environmental issues and saving energy
- Sophistication of products (improved performance, formability)

Intellectual Property organization includes the Intellectual Property Division in the Head Office and staff members deployed at R&D laboratories and steelworks and also Japan Technical Information Services Corporation (JATIS), a 100% subsidiary specialized in intellectual property search.

For our major Group companies, joint meetings are held for sharing the common intellectual property policy and strengthening collaboration with each other, and Group companies also receive support from Nippon Steel and JATIS as required.

# Corporate Governance



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. 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 from fiscal 2006 to fiscal 2008, 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 to 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.

As a result, eleven 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 Structure

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 president and executive vice presidents and normally meets once a week. In addition, Nippon Steel has set up 17 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 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, as a structure dedicated to internal controls within the General Administration Division.
- Create and operate the internal control system under the Basic Rules for Internal Controls, enforced by the Board of Directors' meeting. The Board of Directors regularly verifies the status of system operation based on these rules.
- Set up internal reporting structures, namely, the Corporate Risk Consulting Room and the 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 interview-style audits to pursue corporate social responsibility, enhance the internal control system, prevent risk factors and maximize the Group's synergy. 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.

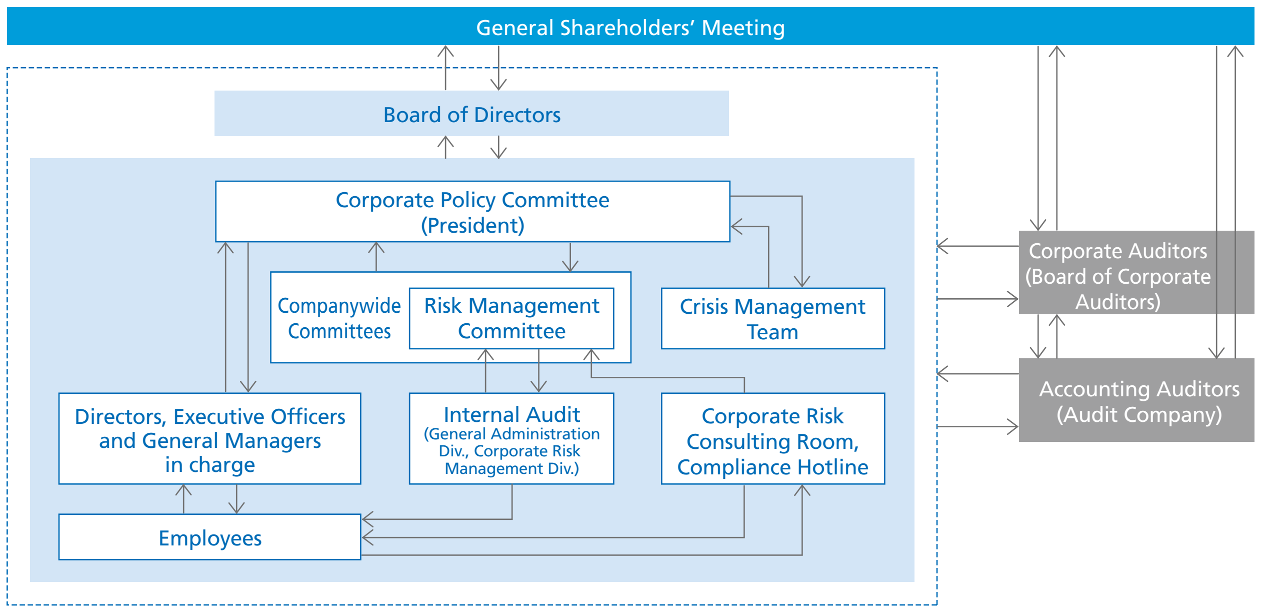
Nippon Steel and the Group will consistently put these internal control measures into practice and strive to keep them effective.

## Compliance

Nippon Steel believes that compliance with laws and regulations is vital to the survival of any company. Accordingly, through messages from senior management, periodic legal training programs and other activities, we make certain that all employees fully understand Nippon Steel's basic policy of management fairness and transparency. Through seminars by lawyers and e-learning programs, all employees are made aware of the *Antimonopoly Law Compliance Manual,* which features concrete examples of actions that could be seen as violations of the Antimonopoly Law.

In addition, we have prepared *30 Don'ts of Business Behavior,* a set of compliance guidelines that include simple examples of violations of the Antimonopoly Law and other laws governing business activities. By conducting seminars and other education programs, we cultivate among everyone at Nippon Steel and Group companies a strong awareness of these guidelines and the importance of complying with laws and regulations.

**Internal Control System**




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

**● 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 pertinent information and sufficient time for the Board of Directors to examine the takeover proposal, including alternatives, so that the Company can supply shareholders with informed judgment (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 (including gratis allotment, hereinafter the same is true of the description of 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 and an attorney of international stature); and 3) the shareholders approve the issuance of new shares.

## Executive Team (As of July 2007)

**Akio Mimura**
Representative Director and President

**Hideaki Sekizawa**
Representative Director and Executive Vice President
General Administration; Business Process Innovation; Labor Relations in Personnel & Labor Relations; Environmental Management

**Shoji Muneoka**
Representative Director and Executive Vice President
Sales Administration & Planning; Global Marketing; Project Development; Each Steel Products Division; Machinery & Materials; Domestic Sales Offices; Cooperating with Executive Vice President K. Masuda on Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project, Overseas Offices

**Hiroshi Shima**
Representative Director and Executive Vice President
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

**Kiichiroh Masuda**
Representative Director and Executive Vice President
Corporate Planning; Accounting & Finance; Overseas Business Development; Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project; Overseas Offices

**Bun'yu Futamura**
Representative Director and Executive Vice President
Director, Technical Development Bureau

### Managing Directors, Members of the Board

**Tetsuo Imakubo**
Sales Administration & Planning; Global Marketing; Rendering Assistance to Executive Vice President S. Muneoka on Steel Products

**Junji Ota**
Corporate Planning; Overseas Business Development

**Kohzoh Uchida**
Director, Flat Products Division; Director, Bar & Wire Rod Division

**Shinichi Taniguchi**
Accounting & Finance
Cooperating with General Manager, General Administration Division on Public Relations

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

11 Members of the Board

### Managing Directors

**Yuki Iriyama**
General Manager, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project; Rendering Assistance to Executive Vice President K. Masuda on Overseas Business Development

**Keisuke Kuroki**
General Superintendent, Kimitsu Works

**Yasuo Takeda**
Director, Steel Research Laboratories, Technical Development Bureau

**Kizoh Hirayama**
General Manager, Personnel & Labor Relations Division

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

### Directors

**Norio Katsuyama**
General Superintendent, Nagoya Works

**Kosei Shindo**
General Manager, General Administration Division; Rendering Assistance to Executive Vice President H. Sekizawa on Business Process Innovation

**Junji Uchida**
Director, Plate Division; Rendering Assistance to Managing Director T. Imakubo on Global Marketing

**Masaru Kiuchi**
General Manager, Sales Administration & Planning Division; Rendering Assistance to Executive Vice President H. Sekizawa on Business Process Innovation

**Shinichi Nakatsu**
Director, Structurals Division; Director, Pipe & Tube Division; Project Development; Titanium

**Shigeru Oshita**
General Superintendent, Oita Works

**Tooru Obata**
Raw Materials; Machinery & Materials

**Yasuo Fujii**
General Superintendent, Yawata Works

**Kiyoshi Nishioka**
General Manager, Technical Development Planning Division, Technical Development Bureau

**Katsunari Yoshida**
Rendering Assistance to Managing Director M. Iwaki on Flat Products

**Kenji Hiwatari**
General Manager, Osaka Sales Office

**Yasuhiro Itazuri**
General Superintendent, Hirohata Works

**Shinya Higuchi**
General Manager, Overseas Business Development Division

**Hiroshi Kimura**
General Manager, Technical Administration & Planning Division; Rendering Assistance to Executive Vice President H. Shima on Personnel & Labor Relations (Safety and Health)

**Noriyuki Masumitsu**
General Superintendent, Muroran Works, Bar & Wire Rod Division

**Katsuhiko Ota**
General Manager, Corporate Planning Division

**Ikuya Yamamoto**
Director, Environment & Process Technology Center, Technical Development Bureau

**Takayoshi Meiga**
General Superintendent, Sakai Works, Structurals Division

**Hiromichi Aoki**
Environmental Management; Rendering Assistance to Managing Director Y. Hamamoto on Energy & Recycling; Rendering Assistance to Executive Vice President H. Sekizawa on General Affairs

### Senior Corporate Auditor

**Tetsuo Seki**

### Corporate Auditors

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

* External Auditor





## Risks Associated with Business and Other Operations

This section lists major risk factors concerning the Nippon Steel Group's operations, financial condition and other items that may have a significant impact on decisions reached by investors.

### Changes in Steel Supply and Demand

The Steelmaking and Steel Fabrication segment accounts for about 80% of consolidated net sales. Changes in supply or demand in the global steel market could affect the performance of this segment. In addition, the Nippon Steel Group faces intense competition from other steelmakers in Japan and other countries. As a result, any decline in the competitive edge of the Group's technologies, cost structure, product quality and other aspects of performance relative to competitors could have a serial impact on operating results.

Most of Nippon Steel's customers in the Steelmaking and Steel Fabrication segment regularly purchase large quantities of steel based on the premise that they can sell the products they make of this steel. Consequently, shifts in the purchasing policies of major customers could have an impact on operating results.

In addition, problems involving credit risk at trading companies and companies that use steel, which are the primary buyers of steel, could have a serial impact on operating results.

### Fluctuations in the Price of Raw Materials and Fuels

Prices of raw materials and fuels like iron ore, coal, ferroalloys and scrap used in the Steelmaking and Steel Fabrication segment, along with ocean freight rates for these materials, are linked to the global supply and demand balance for these resources. In recent years, the prices of raw materials and fuels and ocean freight rates have increased rapidly due to strong growth in steel production in China and other countries in East Asia. Changes in the balance between supply and demand may cause more volatility in raw materials and fuels prices and ocean freight rates in the future.

### Fluctuations in the Interest Rates of Loans and Bonds and Changes in Financial Markets

Consolidated interest-bearing debt as of March 31, 2007 amounted to ¥1,213.0 billion. As a result, changes in interest rates and other items linked to financial markets could have an impact on operating results.

### Fluctuations in the Value of Securities and Other Assets (including pension plan assets)

Consolidated investments in securities as of March 31, 2007 amounted to ¥1,507.3 billion. Nippon Steel may need to recognize valuation losses on certain securities resulting from poor operating results at a portfolio company, a downturn in stock markets or other factors.

In addition to investments in securities, Nippon Steel has ¥511.3 billion of pension plan assets (including employee retirement benefit trust assets) on a non-consolidated basis. Fluctuations in the prices or interest rates for Japanese and overseas stocks, bonds and other investments comprising the plan assets could have an impact on operating results.

### Exchange Rate Fluctuations

The Nippon Steel Group uses foreign currency denominated transactions in the course of exporting products, importing raw materials and other business activities. In addition, the Group holds assets and liabilities denominated in foreign currencies. As a result, changes in exchange rates could have an impact on operating results.

### Environmental Regulations and Taxes Imposed on Business Operations

In the future, Japan may establish environmental regulations affecting companies that consume fossil fuels and/or release $CO_2$ into the atmosphere. These restrictions could include quantitative restrictions, environmental taxes or other items. The resulting limitations on the business activities of the Nippon Steel Group, primarily its steelmaking operations, could have an impact on operating results.

### Increase in Duties and Other Import Restrictions in Major Overseas Markets

The U.S. and other countries have levied anti-dumping duties on the exports of certain steel products of the Nippon Steel Group. If such import restrictions as duty hikes and quotas are imposed in major overseas markets, the resulting restrictions on exports could have an impact on operating results.

### Suspension of Operations or Limitations Due to Disasters, Accidents or Other Events

Damage caused by a major typhoon, earthquake or other natural disaster at a steelworks or other business site of the Nippon Steel Group could interrupt the operations of these facilities, resulting in an impact on operating results. In addition, a suspension of operations or limitations on operations resulting from a serious accident, equipment malfunction or other emergency could have an impact on operating results.

### Administrative Actions by the Fair Trade Commission of Japan or Other Government Authorities

Nippon Steel was indicted and received a cease-and-desist order under the provisions of the Japanese Antimonopoly Law in relation to steel bridge projects. Administrative actions, such as the imposition of surcharges, could have an impact on operating results.

# Environmental Activities

## Basic Policy

The business operations of Nippon Steel have a significant impact on the environment, primarily in association with the consumption of large volumes of resources and energy. Recognizing the need to reduce this impact, we long ago made environmental activities an integral component of our business operations. For example, the Basic Environmental Policy was first established in 1972. Initiatives include energy conservation, recycling and other ongoing programs as well as measures to deal with long-term issues, such as developing technologies to curb global warming.

The Nippon Steel Basic Environmental Policy
(Revised in 2000)

1) Contribute to the creation of a society committed to environmental preservation
2) Reduce environmental impact at every stage of operations
3) Make international contributions through involvement in environmental conservation initiatives on a global scale

Since 1971, Nippon Steel has been creating community forests by planting trees and other vegetation at its steelworks. The total area of these forests is now 744 hectares, more than twice the area of Central Park in New York City.



## Measures to Curb Global Warming

The Japanese steel industry established a voluntary action plan to contribute to reaching the Kyoto Protocol targets for lowering $CO_2$ emissions by industrialized countries. The action plan targets approximately 10% reduction in energy consumption by 2010 from the fiscal 1990 level. To achieve this target, the Nippon Steel Group is taking many steps to slow global warming. Progress is significant; fiscal 2006 $CO_2$ emissions were approximately 10% below emissions in fiscal 1990 even though the volume of crude steel production was higher. We will continue to lower these emissions in many ways: recovering exhaust heat; reusing by-product gas; reusing waste plastic and tires as raw materials; updating blast furnaces and other aging facilities to boost efficiency; and recycling water.

### ■ Utilization of Currently Unused Energy

Devising ways to utilize unused energy at steelworks is one of the most important medium-term environmental themes at Nippon Steel. A primary example of unused energy is exhaust heat in the medium temperature range of 200°C to 300°C. Recovering energy from heat in this temperature range is less efficient and more costly than with the much hotter exhaust heat that is utilized for electric generators and certain other equipment. As a result, there is currently no effective means of utilizing exhaust heat in the medium temperature range.

To meet this challenge, Nippon Steel is participating in a national project that aims to create technologies for efficiently using exhaust heat. For instance, the project team is studying ways to utilize heat from coke oven exhaust gas, to use the hydrogen in this gas and to separate and recover $CO_2$.

### ■ International Sharing of Energy Conservation and Environmental Technologies

To assist in lowering $CO_2$ emissions on a global scale, Nippon Steel is an active participant in measures to create international platforms for cutting emissions. We took part in the Japan-China Advanced Technology Exchange Meeting for Environmental Protection and Energy Saving. We are part of the Asia-Pacific Partnership on Clean Development and Climate. Covering six countries, including Japan and the U.S., this organization seeks to accelerate the deployment of clean energy technologies. In addition, we participate in the $CO_2$ Breakthrough Program of the International Iron and Steel Institute, which aims to develop revolutionary technologies for cutting $CO_2$ emissions.

The Japan-China Advanced Technology Exchange Meeting for Environmental Protection and Energy Saving took place in Oita, Japan, in November 2006. Nippon Steel Executive Vice President Hideaki Sekizawa was the main representative for the participants from Japan.

Another facet of our environmental activities involves the extensive sharing of our advanced energy conservation and environmental protection technologies with companies in other countries. Manufacturing skills gained through steelmaking processes underpin these technologies. We also use engineering know-how gained from constructing our plants to cut $CO_2$ emissions. For example, we have a chloro fluoro carbon breakdown and processing business. And we operate a business that uses coke dry quenching technology, a highly sophisticated technique for conserving energy. With this technology, we purchase $CO_2$ emission rights outside Japan.

A coke dry quenching facility

## Contributing to a Resource-Recycling Society

Nippon Steel reuses 98% of the slag, dust, sludge and other by-products of the ironmaking process. This high reuse ratio demonstrates our dedication to helping establish a recycling-oriented society. Accomplishing this goal involves minimizing waste materials by recycling and reusing resources through a framework that goes beyond industrial activities alone. We started taking wide-ranging measures many years ago to achieve this goal. In particular, we are recycling waste plastic, used tires, automobile residue dust and other waste materials in our steelmaking operations. This allows us to reuse these materials as a resource that has a minimal environmental impact.

We will continue to use the by-products of social activities as substitutes for other resources required to manufacture steel. Actively reusing these materials lowers the amount of new resources required by society while greatly lowering the volume of waste materials.

A dust-recycling facility

### ■ Recycling Waste Plastic

Nippon Steel processes discarded household plastic containers and wrapping materials at five steelworks in Japan. About 30% of all waste plastic in Japan is reused, with 100% of this plastic utilized as steel raw materials, oils and electric generation gases. In 2006, we transformed about 170,000 metric tons of waste plastic, the largest volume of any independent company in Japan, into reusable materials. This equates to an annual reduction of about 500,000 metric tons of $CO_2$ emissions. A forest of an area of about 70,000 hectares would be needed to absorb the same amount of $CO_2$.

The volume of waste plastic collected in Japan is likely to grow as local governments establish more trash sorting and reuse programs. To handle the larger volume, Nippon Steel plans to increase its waste plastic treatment capacity from the present level of about 250,000 metric tons to between 300,000 metric tons and 400,000 metric tons.

A waste plastic recycling facility

## A Global Leader in Environmental Responsibility

The Nippon Steel Group's firm commitment to protecting the environment has received recognition on a global scale. One aspect of this commitment is social contributions supported by advanced technologies gained through steelmaking operations. We also receive recognition for our medium-to-long-term environmental initiatives based on a global perspective. Nippon Steel placed in the top 10 in a ranking by the Coalition for Environmentally Responsible Economies (CERES), a U.S. environmental organization made up of major U.S. pension funds and other investors, environmental organizations and other entities. Furthermore, we were selected as one of only 50 companies worldwide for inclusion in the prestigious Climate Leadership Index (CLI) 2006 of the Carbon Disclosure Project. This index is based on evaluations of climate change prevention activities at about 2,000 large, listed companies worldwide. We will continue to take actions to reinforce our position as one of the world's most environmentally responsible companies.

For more information about our environmental activities, please read our Sustainability Report on our web site (http://www.nsc.co.jp/).

# Communicating with Stakeholders

## Shareholders and Investors

Nippon steel places priority on investor relations (IR) activities in order to provide information that demonstrates its corporate principle to conduct business operations in a manner that is fair and transparent. We have an extensive IR program. We publish an annual report and a reporting booklet for shareholders; conduct investor surveys; maintain an IR section on our web site; hold information meetings for institutional investors and analysts; and offer information meetings and tours of our steelworks for individual shareholders. We will continue to work on ways to provide timely and useful information and improve our IR activities by increasing interactive communication with shareholders and other investors. Through these activities, we hope to give investors many reasons to continue owning our shares.

For more financial information about Nippon Steel, please visit the "Investors" section of our web site. (http://www.nsc.co.jp/)

### ■ Distribution of a Booklet for Shareholders

Nippon Steel began publishing a reporting booklet for shareholders in September 2006 that covers subjects to complement information provided in the Company's business reports and interim report. This new publication tells shareholders primarily about operating results and major events in a format that is easy to read. We plan to publish this reporting booklet twice a year.

### ■ Steelworks Tours and Information Meetings for Individual Shareholders

The first steelworks tour and information meeting for individual shareholders took place in April 2005. We held many tours and meetings during fiscal 2006, raising the number of these events to 16 and total attendance to about 4,000 shareholders. We plan to continue these events in each area of Japan to give more shareholders a better understanding of our management policy, activities and steelmaking operations.

Nippon Steel shareholders visit a blast furnace, the symbol of a steelworks, at the Kimitsu Works

## Customers and Suppliers

Our manufacturing and marketing divisions work closely together to provide reliable products and services that satisfy the requirements of our customers. One aspect of this cooperation is quality assurance, which involves standardizing and then improving business, manufacturing and management activities. Another is quality control, which involves upgrading product-specific manufacturing, management, development and improvement processes. Our quality systems and activities have received recognition from customers and third parties, including certifications under ISO 9001 and other internationally recognized standards.

The Head Office and each steelworks establish policies for ensuring the fairness of purchasing activities with regard to legal compliance and economic rationale. Our objective is to foster mutual understanding and stronger bonds of trust with our suppliers in order to establish long-term partnerships.

## Employees

According to a corporate principle of "Helping employees develop their skills and then fully utilize those talents," Nippon Steel aspires to provide a workplace where people can take pride in their jobs and constantly aim for attaining higher goals. The basis for creating this type of environment is a human resources policy that prioritizes fairness and respect for each individual.

We believe that manufacturing quality products must begin with the training of quality workers. From this perspective, we have many programs to enhance the comprehensive skills of our workforce. The primary means is on-the-job training based on concrete plans. Employees also have access to a variety of other training programs. In addition, we offer support for training the next generation of skilled workers and we have a system for rehiring workers who have reached the mandatory retirement age. Collectively, these human resources programs provide a rewarding workplace with many opportunities for everyone who works at Nippon Steel.

The health and safety of workers takes precedence over all aspects of our production activities. We use risk assessments to identify and eliminate potential sources of danger and harm to workers. Furthermore, we have a workers' health and safety management system that incorporates a system for the internal evaluation of health and safety activities. By methodically and continuously augmenting these activities, we are dedicated to achieving more improvements in workplace health and safety.

## Corporate Citizenship

### ■ Cultural Activities

Since its establishment, Nippon Steel has supported the musical arts, primarily through sponsorship of Nippon Steel Concerts and the Nippon Steel Music Awards. The Nippon Steel Arts Foundation, which was established in 1994, is the primary source of assistance for cultural activities. The foundation uses Kioi Hall, which is used solely for musical performances, to present classical concerts performed mainly by Kioi Sinfonietta Tokyo. There are also performances featuring traditional Japanese music, including *nagauta* and *gidayu*.

• Kioi Hall

Nippon Steel constructed Kioi Hall in 1995, one of its most visible donations to the community. The central Tokyo concert hall quickly earned an excellent reputation among music fans as well as musicians due to its outstanding acoustic properties.

• Kioi Sinfonietta Tokyo

This chamber orchestra was formed as the resident orchestra for the newly completed Kioi Hall. Since then, the orchestra has gained international recognition, including a 2005 invitation to Germany's largest music festival.

As part of their July 2006 performance in Iwate Prefecture, members of Kioi Sinfonietta Tokyo gave special lessons and conducted an open rehearsal.

### ■ Sporting Activities

Nippon Steel cooperates with other companies, local governments and communities in areas where it has steelworks to form and operate regional sports clubs. Assistance covers numerous activities, such as training players, coaching junior teams and participating in various local events.

Members of the Tokai REX baseball team, a regional sports club, served as instructors at a youth baseball clinic.

### ■ Manufacturing and Environmental Education Programs

As a supplier of basic materials, Nippon Steel has a number of programs to tell young children and students—on whose shoulders the future rests—about the importance of manufacturing and the wonders of steel. Activities include a hands-on steelmaking program using the *tatara* method, a traditional Japanese ironmaking technique, an energy conservation and environmental protection class for elementary and junior-high school students and special classroom lectures.

During fiscal 2006, *tatara* ironmaking events were held at the Science Museum of the Japan Science Foundation and at Nippon Steel's Kamaishi, Nagoya, Yawata and Hirohata works.

### ■ *New Story About Iron*

*New Story About Iron* is a series of picture books that covers two themes using an easy-to-understand storybook format. One theme is explaining how to lead a fulfilling and comfortable life while helping protect the environment. The other theme is explaining the wonders of science associated with manufacturing, with a focus on steelmaking. Thus far, a total of 600,000 copies have been distributed at no cost to visitors on tours at our steelworks and exhibitions. These books are extremely popular among a wide range of readers, from children to the general public and even educators. In April 2007, we jointly produced a storybook with alliance partner POSCO, of South Korea. This latest version, the seventh in the *New Story About Iron* series, uses steelmaking operations to tell readers about the history of cultural interaction between Japan and South Korea.

The *New Story About Iron* storybook

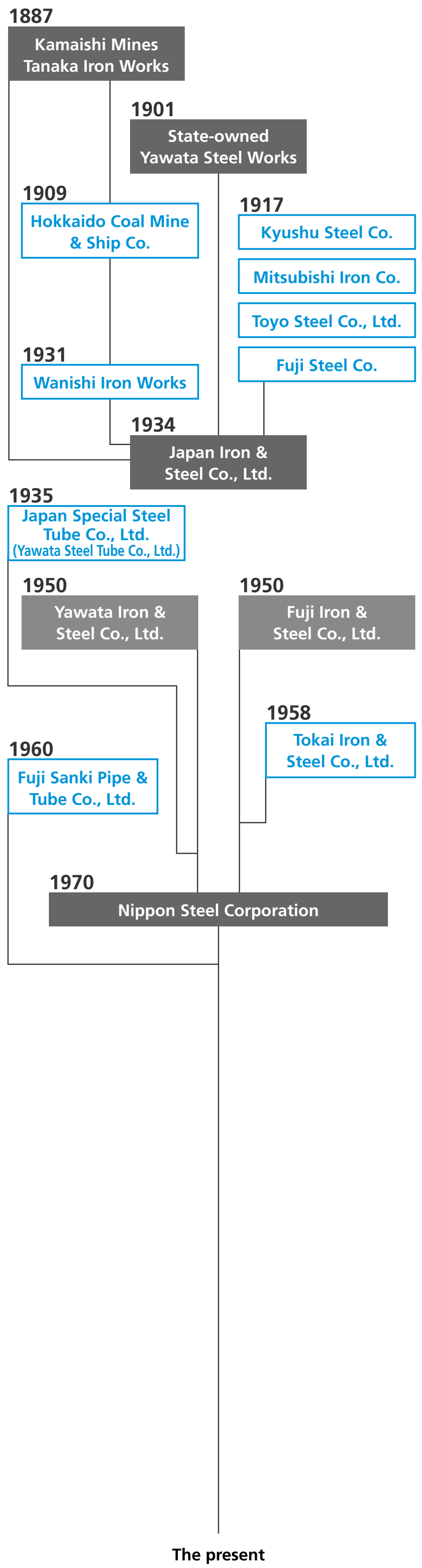
# Principal Subsidiaries and Affiliates (As of March 31, 2007)

| Company | Paid-in Capital (Millions of yen) | Voting Rights (%) | Business Content |
|---|---|---|---|
| **Steelmaking and Steel Fabrication (248 companies)** | | | |
| Consolidated Subsidiaries (196 companies) | | | |
| Nippon Steel & Sumikin Coated Sheet Corporation | 11,019 | 75.0% | Makes and markets galvanized sheets, prepainted galvanized sheets, coated sheets and construction materials |
| Osaka Steel Co., Ltd. | 8,769 | 61.2% | Makes and markets billets, shapes, deformed bars and fabricated products |
| Nippon Steel & Sumikin Metal Products Co., Ltd. | 5,912 | 85.0% | Makes and markets structural materials for buildings and civil engineering work, prepainted galvanized sheets and steel-making fluxes and CC powders |
| Nippon Steel & Sumikin Stainless Steel Corporation | 5,000 | 80.0% | Makes and markets stainless steel |
| Nippon Steel Logistics Co., Ltd. | 4,000 | 100.0% | Undertakes ocean and land transportation and warehousing |
| Nittetsu Steel Pipe Co., Ltd. | 3,497 | 100.0% | Makes, coats and markets steel pipe and tubes |
| Nippon Steel Shipping Co., Ltd. | 2,227 | 78.6% | Undertakes ocean transportation |
| Nippon Steel Welding Products & Engineering Co., Ltd. | 2,200 | 100.0% | Makes and markets welding materials and apparatuses |
| Nippon Steel Drum Co., Ltd. | 1,654 | 55.4% | Makes and markets drums |
| Nippon Steel Blast Furnace Slag Cement Co., Ltd. | 1,500 | 100.0% | Makes and markets cement and slag products |
| Nittetsu Cement Co., Ltd. | 1,500 | 85.0% | Makes and markets cement |
| Nittetsu Elex Co., Ltd. | 1,032 | 90.3% | Designs and installs electrical instrumentation apparatuses |
| Nittetsu Finance Co., Ltd. | 1,000 | 100.0% | Engages in financing and lending operations |
| Nippon Steel Transportation Co., Ltd. | 500 | 87.8% | Undertakes harbor and land transportation and loading and unloading operations |
| NS Preferred Capital Limited | 300,000 | 100.0% | Issues of preferred securities |
| The Siam United Steel (1995) Co., Ltd. | THB9,000 million | 44.7% | Makes and markets cold-rolled sheets |
| Siam Nippon Steel Pipe Co., Ltd. | THB779 million | 60.8% | Makes and markets electric resistance-welded pipe and tubes for mechanical configurations |
| Nippon Steel U.S.A., Inc. | US$22 million | 100.0% | Invests in U.S. companies and gathers information |
| Nippon Steel Australia Pty. Limited | A$21 million | 100.0% | Participates in mine development in Australia and gathers information |
| 177 other companies | | | |
| Affiliates Accounted for by the Equity Method (52 companies) | | | |
| Sanyo Special Steel Co., Ltd. | 20,182 | 15.1% | Makes and markets special steel products |
| Nichia Steel Works Ltd. | 10,700 | 23.3% | Makes and markets bolts, wire products and prepainted galvanized sheets |
| Nippon Steel Trading Co., Ltd. | 8,750 | 39.1% | Buys and sells iron and steel, nonferrous metals, machinery and raw materials |
| Kyushu Oil Co., Ltd. | 6,300 | 36.0% | Undertakes petroleum refining and the sale of petroleum products |
| Japan Casting & Forging Corporation | 6,000 | 42.0% | Makes and markets castings, forgings, ingots and billets |
| Krosaki Harima Corporation | 5,537 | 45.5% | Makes, markets and constructs refractories |
| Taihei Kogyo Co., Ltd. | 5,468 | 37.5% | Undertakes civil engineering and building construction work; makes and mounts machinery and equipment; makes steel |
| Geostr Corporation | 3,352 | 28.0% | Makes and markets concrete products for civil engineering and building construction work |
| Daiwa Can Company | 2,400 | 33.4% | Makes and markets metal, plastic and paper containers |
| Sanko Metal Industrial Co., Ltd. | 1,980 | 17.3% | Makes, processes, installs and sells metal roofs and building materials |
| Suzuki Metal Industry Co., Ltd. | 1,900 | 35.0% | Makes and markets wire products |
| Sanyu Co., Ltd. | 1,028 | 17.3% | Makes and markets cold-finished bars and cold-heading wire |

| Company | Paid-in Capital (Millions of yen) | Voting Rights (%) | Business Content |
|---|---|---|---|
| Affiliates Accounted for by the Equity Method | | | |
| Usinas Siderúrgicas de Minas Gerais S.A. | R5,400 million | 23.4% | Makes and markets steel products |
| Baosteel-NSC/Arcelor Mittal Automotive Steel Sheets Co., Ltd. | RMB3,000 million | 40.0% | Makes and markets steel sheets for automotive bodies |
| UNIGAL Ltda. | R235 million | 20.7% | Makes and markets galvanized sheets |
| Guangzhou Pacific Tinplate Co., Ltd. | US$36 million | 27.3% | Makes and markets tinplate |
| Companhia Nipo-Brasileira De Pelotizaçao | R43 million | 25.4% | Makes and markets pellets |
| 35 other companies | | | |
| **Engineering and Construction (22 companies)** | | | |
| Consolidated Subsidiaries (21 companies) Affiliates Accounted for by the Equity Method (1 company) | | | |
| Nippon Steel Engineering Co., Ltd. | 15,000 | 100.0% | Makes and markets industrial machinery and equipment and steel structures; undertakes civil engineering and building construction work; waste and regeneration treatment business; electricity, gas and heat supply business. |
| 21 other companies | | | |
| **Urban Development (14 companies)** | | | |
| Consolidated Subsidiaries (10 companies) Affiliates Accounted for by the Equity Method (4 companies) | | | |
| Nippon Steel City Produce, Inc. | 5,750 | 100.0% | Buys, sells and rents real estate |
| 13 other companies | | | |
| **Chemicals (18 companies)** | | | |
| Consolidated Subsidiaries (9 companies) Affiliates Accounted for by the Equity Method (9 companies) | | | |
| Nippon Steel Chemical Co., Ltd. | 5,000 | 100.0% | Makes and markets coke, chemicals and electronic components |
| 17 other companies | | | |
| **New Materials (9 companies)** | | | |
| Consolidated Subsidiaries (9 companies) | | | |
| Nippon Steel Materials Co., Ltd. | 3,000 | 100.0% | Makes and markets semiconductor components and materials, ceramics-related products and applications of bonding technology products |
| 8 other companies | | | |
| **System Solutions (14 companies)** | | | |
| Consolidated Subsidiaries (13 companies) Affiliates Accounted for by the Equity Method (1 company) | | | |
| NS Solutions Corporation | 12,952 | 67.0% | Provides engineering and consulting services pertaining to computer systems |
| 13 other companies | | | |

Total Consolidated Subsidiaries (258 companies)
Total Affiliates Accounted for by the Equity Method (67 companies)

# History (As of July 2007)




| | |
|---|---|
| **1857** | Japan's first blast furnace went into operation at Kamaishi. |
| **1875** | The Ministry of Industry started construction of steelworks at Kamaishi. |
| **1886** | Iron was tapped at Kamaishi Mines Tanaka Iron Works (present Kamaishi Works). |
| **1897** | The Ministry of Agriculture and Commerce started construction of a steelworks at Yawata. |
| **1901** | The state-owned Yawata Steel Works began operation (present Yawata Works). |
| **1909** | Wanishi Iron Works of Hokkaido Coal Mine & Ship Co. started operation (present Muroran Works). |
| **1934** | Japan Iron & Steel Co., Ltd. was founded through merger of Yawata Steel Works with Wanishi Iron Works, Kamaishi Mines, Mitsubishi Iron, Fuji Steel, Kyushu Steel and Toyo Steel. |
| **1939** | Hirohata Works of Japan Iron & Steel began operation. |
| **1950** | Japan Iron & Steel was dissolved to form Yawata Iron & Steel Co., Ltd. and Fuji Iron & Steel Co., Ltd. |
| **1955** | Hikari Works of Yawata Iron & Steel began operation. |
| **1958** | Tokai Iron & Steel Co., Ltd. was established. |
| | Yawata Iron & Steel inaugurated the Tobata Area of Yawata Works. |
| **1961** | Sakai Works of Yawata Iron & Steel began operation. |
| **1965** | Kimitsu Works of Yawata Iron & Steel began operation. |
| **1967** | Tokai Iron & Steel became Nagoya Works of Fuji Iron & Steel. |
| **1968** | Yawata Iron & Steel absorbed Yawata Steel Tube Co., Ltd. |
| **1970** | Yawata Iron & Steel and Fuji Iron & Steel merged to form Nippon Steel Corporation. |
| **1971** | Oita Works began operation. |
| | Nippon Steel absorbed Fuji Sanki Pipe & Tube Co., Ltd. |
| **1974** | Engineering Divisions Group was organized. |
| **1984** | New Materials Projects Bureau was organized. |
| **1986** | Electronics Division was organized. |
| **1987** | Electronics & Information Systems Division, New Materials Division and Service Business Division (integrated into Urban Development Division in June 1992) were organized. |
| **1991** | Technical Development Bureau was organized by integrating Central R&D Bureau and Plant Engineering & Technology Bureau, and Research and Engineering Center began operation. |
| **1993** | Semiconductor Division was organized (abolished in April 1999). |
| **1997** | Silicon Wafer Division was organized (abolished in April 2004). |
| **2000** | A divisionally integrated operational system within the Group based on product item or business area was introduced in the Steelmaking and Steel Fabrication Business. |
| **2001** | Operations of Nippon Steel's Electronics & Information Systems Division and its subsidiary Nippon Steel Information & Communication Systems Inc. were integrated to organize NS Solutions Corporation. |
| **2002** | All operations of Nippon Steel's Urban Development Division were integrated into Nippon Steel City Produce, Inc. |
| **2003** | Stainless Business was spun off to Nippon Steel & Sumikin Stainless Steel Corporation. |
| **2006** | Engineering and Construction Business was spun off to Nippon Steel Engineering Co., Ltd. |
| | New Materials Business was spun off to Nippon Steel Materials Co., Ltd. |





# Financial Statements

**Financial Summary**

Consolidated net sales for fiscal year 2006 (Year ended March 31, 2007) rose ¥395.8 billion, to ¥4,302.1 billion. Operating profit grew by ¥3.7 billion, to ¥580.0 billion. Ordinary profit was up ¥50.2 billion, to ¥597.6 billion. Net income increased ¥7.2 billion, to ¥351.1 billion, a record high for a third consecutive year.

**Segment Information**

**(Steelmaking and Steel Fabrication)**

In fiscal year 2006, Nippon Steel responded to the steel market's polarization between medium-high grade and commodity-grade steel. In medium-high grade steel products, the Company launched production on hot-dip galvanizing lines at the Kimitsu, Nagoya, and Hirohata Works while drawing on capacity from Group companies and strategic partners in Japan and abroad. These efforts enabled Nippon Steel to meet robust demand from the automotive, shipbuilding, and energy sectors in terms of quality and volume. Investment highlights in production operations included the launch of the No. 6 continuous casting line at the Kimitsu Works, the completion of relining at the No. 1 blast furnace and steady progress on the installation of a basic oxygen furnace at the Nagoya Works. Construction of the No. 5 coke oven at the Oita Works is also underway. The company also gave the go-ahead for an upgrade to the No. 1 blast furnace at the Oita Works, scheduled to go online in 2009.

In product development, management stepped up efforts aimed at more closely coordinating manufacturing, sales, technologies, and research operations to better serve customer needs. R&D achievements during the term included the co-development of high-strength container ship plates in cooperation with a customer. Nippon Steel also kicked-off investment in the launch of large-scale production of high-strength steel pipes for natural gas pipelines, a product first developed and commercialized by the Company.

In commodity steel products, the Company operated productions lines to closely reflect market inventory fluctuations and demand trends.

To maintain high productivity, Nippon Steel launched a series of companywide initiatives including drives to maintain and improve the quality of equipment, upgrade recruitment and staff training programs, ensure employee morale remains high and promote a corporate culture that encourages the preservation and development of sophisticated skills.

Strategic alliances with domestic and overseas steelmakers remained a top priority. Nippon Steel signed a wide-ranging agreement with POSCO of Korea in which both sides supply each other with steel slabs during scheduled blast furnace repairs, deepening this key strategic alliance. The Company increased its stake in Usinas Siderúrgicas de Minas Gerais S.A. of Brazil and made it an affiliate under the equity method. Sanyo Special Steel Co., Ltd., became an affiliate under the equity method. In addition, Nippon Steel subsidiaries were merged with those of Sumitomo Metal Industries, Ltd. group.

Nippon Steel continued to pursue a strategy of selection and concentration to more effectively deploy Group resources. In line with this strategy, the Company made Thailand-based Siam United Steel (1995) Co., Ltd., a consolidated subsidiary during the term. Underscoring the success of this strategy, Baosteel-NSC/Arcelor Automobile Steel Sheets Co., Ltd., turned profitable in its second year of operations, a full year ahead of schedule.

Nippon Steel also signed a new strategic alliance agreement with Companhia Vale do Rio Doce, a Brazilian raw materials supplier, while stepping up efforts to strengthen and expand ties with steel users.

The Company continued to reduce energy consumption at manufacturing sites as part of its commitment to take voluntary measures to reduce carbon dioxide emissions. It also created and acquired emission rights under the Clean Development Mechanism. At the same time, the Company invested more in equipment aimed at preserving the environments in which it operates.

**(Engineering and Construction)**

The Company's engineering business was spun-off to form Nippon Steel Engineering Co. Ltd. This business segment won a number of new orders during the fiscal year 2006. Nippon Steel Engineering Co., Ltd., did well domestically in marketing steelmaking plants and large logistics facilities, as well as waste treatment equipment for private finance initiatives. Overseas, this subsidiary continued to win orders in Southeast Asia for natural gas development platforms and undersea pipeline construction.

**(Urban Development)**

Nippon Steel City Produce, Inc., continued to redevelop unused Nippon Steel properties in Japan supporting the revitalization of Japan's regional economies such as the Yawata-Higashida development project in Kitakyushu. This subsidiary also redeveloped sites in urban areas in Japan such as the Shibaura Island area development in Tokyo and created asset value through the redevelopment and sale of condominium complexes.

**(Chemicals)**

Nippon Steel Chemical Co., Ltd., actively grew its core businesses in the chemical, coal chemicals, and electronic materials segments. During fiscal year 2006, competition intensified in the electronic materials area. In contrast, the chemical product and coal chemicals businesses both performed strongly with solid demand enabling them to more than offset higher raw materials costs. As a consequence, this business segment generated record-high earnings.

**(New Materials)**

The Company's new materials business was spun-off to form Nippon Steel Materials Co. Ltd. During the year, this subsidiary was affected by some short-term inventory adjustments by electronics companies, a core customer base. However, the company was able to increase sales of semiconductor mounting materials, for which demand remained firm. In 2006, Nippon Steel established NS Solar Material to manufacture and sell polycrystalline silicon for solar batteries. That subsidiary's construction of a new plant proceeded smoothly during the term and is scheduled to commence operation in the second half of 2007.

**(System Solutions)**

NS Solutions Corporation continued to perform well in fiscal year 2006. Demand was particularly favorable from financial institutions. This consolidated subsidiary continued to expand its data center business.

During the term, Nippon Steel strengthened group risk management oversight over the business areas reviewed above by establishing a basic corporate compliance policy. The company also put in place structures to increase the sharing of risk management information between group companies.

**Funding**

In November 2006, Nippon Steel raised ¥300 billion of new capital, a move that received positive appraisals from credit rating agencies. We are using the proceeds to maintain and enhance our financial position while investing for earnings growth.

**Treasury Stock Purchases**

The board of directors approved treasury stock purchases in line with Article 36 of the Company's Articles of Incorporation. In making stock purchase decisions, the board comprehensively assesses group capital requirements and the potential impact on the Company's overall financial position. Following a board resolution on July 4, 2006, Nippon Steel spent about ¥100 billion to repurchase 226,513,000 of its own shares between July 5 and 26. On March 1, 2007, Nippon Steel decided the treasury stock purchases, and spent about ¥100 billion to repurchase 119,934,000 of its own shares between March 22 and June 20.

**Assets, Liabilities, Shareholders' Equity, and Cash Flows**

In fiscal year 2006, Nippon Steel harnessed ¥478.4 billion in net cash provided by operating activities and a ¥300 billion issue of preferred securities to meet buoyant demand for medium-high grade steels and other products.

The Company made ¥227.2 billion in capital investments to drive earnings growth by expanding production capability. Nippon Steel also invested ¥191.6 billion as part of an effort to reinforce ties with domestic and overseas partners, enhance group management, and promote business alliances with users. One key achievement was an alliance with POSCO. Others included making Usinas Siderúrgicas de Minas Gerais S.A. and Sanyo Special Steel Co., Ltd., equity-method affiliates and Siam United Steel (1995) Co., Ltd., a consolidated subsidiary.

Outstanding interest-bearing debt was ¥1,213.0 billion at the close of the term, down ¥10.8 billion from a year earlier, reflecting dividend payments and purchases of treasury stock.

Net worth stood at ¥1,892.8 billion, up ¥214.9 billion. As a result, the ratio of interest-bearing debt to net assets (Debt-to-equity ratio) improved 0.09 percentage points to 0.64.

Total assets were ¥5,344.9 billion at fiscal year-end, compared with ¥4,542.7 a year earlier, an increase of ¥802.1 billion. One contributor to this rise was an increase of ¥124.6 billion in tangible fixed assets. There was also a ¥320.2 billion rise in investments and others because of a ¥81.8 billion increase in unrealized gains on investment securities. Another factor was a ¥144.6 billion increase in inventories because of higher raw materials prices.

Total liabilities amounted to ¥2,975.6 billion, versus ¥2,760.7 billion a year earlier, up ¥214.9 billion, despite a reduction in interest-bearing debt. This reflects a ¥29.1 billion increase in deferred tax liabilities stemming from a rise in unrealized gains on investment securities as well as a ¥215.1 billion increase in liabilities owing to higher raw materials prices and the expansion of Company's overall business activities.

Net assets stood at ¥2,369.2 billion at the fiscal year-end compared with ¥1,782.0 billion, a gain of ¥587.2 billion. Items contributing to this increase include a gain of ¥351.1 billion in net income, a ¥48.8 billion increase in unrealized gains on marketable securities, and a ¥372.2 billion rise in minority interest in consolidated subsidiaries. These factors offset ¥85.5 billion in cash dividend payments (through the appropriation of distributable earnings for the previous fiscal year, of ¥9 per share, and interim dividends of ¥4 per share) and ¥110.2 billion in purchases of treasury stock.

# Consolidated Balance Sheets

Nippon Steel Corporation and Consolidated Subsidiaries
As of March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and bank deposits (Notes 4 and 13) | **¥ 280,117** | ¥ 159,923 | **$ 2,372,868** |
| Marketable securities (Notes 13 and 16) | **8,714** | 252 | **73,819** |
| Receivables: | | | |
| Notes and accounts receivable (Notes 4 and 21) | **659,146** | 585,495 | **5,583,618** |
| Less: Allowance for doubtful accounts | **(12,045)** | (14,116) | **(102,039)** |
| | **647,100** | 571,378 | **5,481,579** |
| Inventories | **789,486** | 644,859 | **6,687,727** |
| Deferred tax assets (Note 7) | **69,533** | 78,604 | **589,013** |
| Other | **55,236** | 49,589 | **467,909** |
| **Total current assets** | **1,850,188** | 1,504,608 | **15,672,918** |
| **Fixed assets:** | | | |
| **Tangible fixed assets:** | | | |
| Buildings and structures (Note 4) | **1,517,433** | 1,483,883 | **12,854,156** |
| Machinery and equipment (Note 4) | **4,933,346** | 4,732,314 | **41,790,309** |
| | **6,450,779** | 6,216,197 | **54,644,465** |
| Less: Accumulated depreciation | **(5,099,989)** | (4,954,679) | **(43,201,945)** |
| | **1,350,789** | 1,261,518 | **11,442,520** |
| Land (Notes 4 and 6) | **324,160** | 320,269 | **2,745,961** |
| Construction in progress | **104,138** | 72,601 | **882,159** |
| | **1,779,089** | 1,654,390 | **15,070,641** |
| **Intangible fixed assets:** | | | |
| Patents and utility rights | **17,963** | 18,006 | **152,168** |
| Software | **1,793** | 955 | **15,193** |
| Goodwill | **10,829** | — | **91,738** |
| | **30,586** | 18,961 | **259,099** |
| **Investments and others:** | | | |
| Investments in securities (Notes 4, 5 and 16) | **1,507,335** | 1,196,837 | **12,768,623** |
| Deferred tax assets (Note 7) | **28,953** | 43,714 | **245,268** |
| Other (Notes 4 and 5) | **154,911** | 131,607 | **1,312,251** |
| Less: Allowance for doubtful accounts | **(6,140)** | (7,353) | **(52,019)** |
| | **1,685,060** | 1,364,806 | **14,274,124** |
| **Total fixed assets** | **3,494,736** | 3,038,158 | **29,603,865** |
| **Total assets** | **¥5,344,924** | ¥4,542,766 | **$45,276,783** |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **LIABILITIES** | | | |
| **Current liabilities:** | | | |
| Short-term loans and portion of long-term loans due within one year (Note 4) | **¥ 338,825** | ¥ 398,996 | **$ 2,870,187** |
| Commercial paper (Note 4) | **163,000** | 150,000 | **1,380,770** |
| Bonds due within one year (Note 4) | **43,050** | 50 | **364,675** |
| Notes and accounts payable (Note 21) | **758,532** | 502,768 | **6,425,519** |
| Accrued expenses | **254,428** | 305,768 | **2,155,260** |
| Advances received | **14,243** | 31,306 | **120,652** |
| Accrued income taxes and enterprise taxes | **130,640** | 148,340 | **1,106,652** |
| Allowance for losses on construction contracts | **5,250** | 721 | **44,477** |
| Provision for environmental remediation | **8,466** | 11,941 | **71,717** |
| Other | **92,616** | 71,478 | **784,554** |
| **Total current liabilities** | **1,809,053** | 1,621,372 | **15,324,468** |
| **Long-term liabilities:** | | | |
| Bonds and notes (Note 4) | **238,614** | 281,688 | **2,021,296** |
| Long-term loans (Note 4) | **429,473** | 392,998 | **3,638,064** |
| Deferred tax liabilities (Note 7) | **265,877** | 236,771 | **2,252,242** |
| Deferred tax liabilities on revaluation of land (Notes 6 and 7) | **9,539** | 9,806 | **80,805** |
| Accrued pension and severance costs (Note 17) | **123,695** | 122,265 | **1,047,826** |
| Reserve for repairs to blast furnaces | **51,211** | 50,921 | **433,812** |
| Allowance for retirement benefits of directors and corporate auditors | **3,744** | 6,597 | **31,720** |
| Excess of the underlying net equity over cost of investments in subsidiaries | **—** | 526 | **—** |
| Other | **44,486** | 37,813 | **376,842** |
| **Total long-term liabilities** | **1,166,642** | 1,139,388 | **9,882,612** |
| **Total liabilities** | **2,975,695** | 2,760,760 | **25,207,081** |
| **MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES** | **—** | 104,117 | **—** |
| Commitments and contingent liabilities (Note 14) | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| **Common stock:** | | | |
| Authorized—9,917,077,000 shares | | | |
| Issued and outstanding—6,806,980,977 shares as of March 31, 2006 | **—** | 419,524 | **—** |
| **Additional paid-in capital** | **—** | 111,671 | **—** |
| **Retained earnings** (Note 12) | **—** | 818,572 | **—** |
| **Unrealized gains on revaluation of land** (Note 6) | **—** | 9,980 | **—** |
| **Unrealized gains on available-for-sale securities** (Note 16) | **—** | 389,209 | **—** |
| **Foreign currency translation adjustments** | **—** | (10,868) | **—** |
| **Less: Treasury stock, at cost*** | **—** | (60,200) | **—** |
| **Total shareholders' equity** | **—** | 1,677,889 | **—** |
| **Total liabilities and shareholders' equity** | **¥ —** | ¥4,542,766 | **$ —** |

* 166,357,226 shares at March 31, 2006.

| | | | |
|---|---|---|---|
| **NET ASSETS** (Note 12) | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| **Common stock:** | | | |
| Authorized—9,917,077,000 shares | | | |
| Issued and outstanding—6,806,980,977 shares as of March 31, 2007 | **419,524** | — | **3,553,790** |
| **Capital surplus** | **111,693** | — | **946,150** |
| **Retained earnings** | **1,087,908** | — | **9,215,658** |
| **Less: Treasury stock, at cost*** | **(170,563)** | — | **(1,444,837)** |
| **VALUATION AND TRANSACTION ADJUSTMENTS** | | | |
| **Unrealized gains on available-for-sale securities** (Note 16) | **438,056** | — | **3,710,767** |
| **Deferred hedge income** | **300** | — | **2,548** |
| **Unrealized gains on revaluation of land** (Note 6) | **9,922** | — | **84,052** |
| **Foreign currency translation adjustments** | **(3,958)** | — | **(33,535)** |
| **MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES** | **476,344** | — | **4,035,107** |
| **Total net assets** | **2,369,228** | — | **20,069,702** |
| **Total liabilities and net assets** | **¥5,344,924** | ¥ — | **$45,276,783** |

* 407,902,358 shares at March 31, 2007.

## Consolidated Statements of Income

Nippon Steel Corporation and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| Net sales | **¥4,302,145** | ¥3,906,301 | ¥3,389,356 | **$36,443,415** |
| Cost of sales (Notes 8 and 10) | **3,408,197** | 3,063,154 | 2,693,603 | **28,870,796** |
| **Gross margin** | **893,947** | 843,147 | 695,753 | **7,572,618** |
| Selling, general and administrative expenses (Notes 8, 9 and 10) | **313,849** | 266,828 | 265,805 | **2,658,617** |
| **Operating profit** | **580,097** | 576,319 | 429,948 | **4,914,000** |
| Non-operating profit: | | | | |
| Interest and dividend income | **23,427** | 14,512 | 9,336 | **198,451** |
| Equity in net income of unconsolidated subsidiaries and affiliates | **43,480** | 28,227 | 22,931 | **368,319** |
| Exchange gain on foreign currency transactions | **—** | 8,523 | — | **—** |
| Miscellaneous | **22,591** | 17,421 | 13,942 | **191,369** |
| | **89,498** | 68,685 | 46,210 | **758,140** |
| Non-operating loss: | | | | |
| Interest expense | **15,218** | 15,787 | 20,278 | **128,915** |
| Loss on disposal of fixed assets | **12,859** | 35,471 | 33,468 | **108,935** |
| Miscellaneous | **43,877** | 46,346 | 50,964 | **371,684** |
| | **71,955** | 97,604 | 104,711 | **609,535** |
| **Ordinary profit** | **597,640** | 547,400 | 371,446 | **5,062,605** |
| Special profit: | | | | |
| Gain on sales of tangible fixed assets (Note 11) | **17,765** | 14,881 | 4,294 | **150,488** |
| Gain on sales of investments in securities and investments in subsidiaries and affiliates | **6,013** | 3,325 | 5,030 | **50,940** |
| | **23,778** | 18,207 | 9,324 | **201,428** |
| Special loss: | | | | |
| Amortization of transition obligation in respect of the new accounting standard for retirement benefits (Note 11) | **—** | — | 4,295 | **—** |
| Loss on accidents at works (Note 11) | **—** | — | 3,066 | **—** |
| Loss on restructuring of subsidiary's business structures (Note 11) | **—** | — | 3,923 | **—** |
| | **—** | — | 11,285 | **—** |
| **Income before income taxes and minority interest** | **621,419** | 565,607 | 369,485 | **5,264,033** |
| **Income taxes—current** (Note 7) | **225,566** | 223,254 | 155,082 | **1,910,768** |
| **Income taxes—deferred** (Note 7) | **23,038** | (17,061) | (17,869) | **195,155** |
| **Minority interest in net income of consolidated subsidiaries** | **21,632** | 15,510 | 11,671 | **183,247** |
| **Net income** | **¥ 351,182** | ¥ 343,903 | ¥ 220,601 | **$ 2,974,862** |
| | | | | |
| **Per share (stated in yen and in U.S. dollars):** | | | | |
| Net income (loss) (Note 20) | **¥54.28** | ¥51.07 | ¥32.73 | **$0.45** |
| Cash dividends applicable to the year (Note 12) | **10.00** | 9.00 | 5.00 | **0.08** |
| **Weighted average number of shares outstanding (in thousands)** | **6,466,591** | 6,731,176 | 6,734,683 | |

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 and 2005

| | Thousands | Millions of yen | | |
|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Additional paid-in capital | Retained earnings |
| Balance at March 31, 2004 | 6,806,980 | ¥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 consolidated companies | — | — | — | (870) |
| Cash dividends | — | — | — | (10,141) |
| Directors' and corporate auditors' bonuses | — | — | — | (37) |
| Increase due to reversal of unrealized gains on revaluation of land | — | — | — | 107 |
| Increase due to disposal of treasury stock | — | — | 3,998 | — |
| Balance at March 31, 2005 | 6,806,980 | ¥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 consolidated companies | — | — | — | 301 |
| Cash dividends | — | — | — | (33,752) |
| Directors' and corporate auditors' bonuses | — | — | — | (45) |
| Decrease due to reversal of unrealized gains on revaluation of land | — | — | — | (227) |
| Increase due to disposal of treasury stock | — | — | 1,823 | — |
| Balance at March 31, 2006 | 6,806,980 | ¥419,524 | ¥111,671 | ¥818,572 |

## Consolidated Statements of Changes in Net Assets (Note 12)

Nippon Steel Corporation and Consolidated Subsidiaries
Year ended March 31, 2007

| | Thousands | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized gains on available-for-sale securities | Deferred hedge income | Unrealized gains on revaluation of land | Foreign currency translation adjustments | Minority interest in consolidated subsidiaries | Total |
| Balance at March 31, 2006 | 6,806,980 | ¥419,524 | ¥111,671 | ¥ 818,572 | ¥ (60,200) | ¥389,209 | ¥ — | ¥9,980 | ¥(10,868) | ¥104,117 | ¥1,782,006 |
| Cash dividends for the previous fiscal year | — | — | — | (59,834) | — | — | — | — | — | — | (59,834) |
| Cash interim dividends for fiscal year 2006 | — | — | — | (25,686) | — | — | — | — | — | — | (25,686) |
| Net income for fiscal year 2006 | — | — | — | 351,182 | — | — | — | — | — | — | 351,182 |
| Acquisition of treasury stock | — | — | — | — | (110,268) | — | — | — | — | — | (110,268) |
| Disposal of treasury stock | — | — | 21 | — | 67 | — | — | — | — | — | 89 |
| Increase due to the change in the number of consolidated companies | — | — | — | 3,651 | (161) | — | — | — | — | — | 3,490 |
| Increase due to reversal of unrealized gains on revaluation of land | — | — | — | 22 | — | — | — | — | — | — | 22 |
| Other change for fiscal year 2006 (net) | — | — | — | — | — | 48,846 | 300 | (57) | 6,909 | 372,227 | 428,226 |
| Total change for this fiscal year 2006 | — | — | 21 | 269,335 | (110,362) | 48,846 | 300 | (57) | 6,909 | 372,227 | 587,221 |
| **Balance at March 31, 2007** | **6,806,980** | **¥419,524** | **¥111,693** | **¥1,087,908** | **¥(170,563)** | **¥438,056** | **¥300** | **¥9,922** | **¥ (3,958)** | **¥476,344** | **¥2,369,228** |

| | Thousands | Thousands of U.S. dollars (Note 3) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized gains on available-for-sale securities | Deferred hedge income | Unrealized gains on revaluation of land | Foreign currency translation adjustments | Minority interest in consolidated subsidiaries | Total |
| Balance at March 31, 2006 | 6,806,980 | $3,553,790 | $945,966 | $6,934,119 | $ (509,958) | $3,296,988 | $ — | $84,540 | $(92,068) | $ 881,976 | $15,095,355 |
| Cash dividends for the previous fiscal year | — | — | — | (506,859) | — | — | — | — | — | — | (506,859) |
| Cash interim dividends for fiscal year 2006 | — | — | — | (217,589) | — | — | — | — | — | — | (217,589) |
| Net income for fiscal year 2006 | — | — | — | 2,974,862 | — | — | — | — | — | — | 2,974,862 |
| Acquisition of treasury stock | — | — | — | — | (934,085) | — | — | — | — | — | (934,085) |
| Disposal of treasury stock | — | — | 183 | — | 571 | — | — | — | — | — | 755 |
| Increase due to the change in the number of consolidated companies | — | — | — | 30,932 | (1,365) | — | — | — | — | — | 29,567 |
| Increase due to reversal of unrealized gains on revaluation of land | — | — | — | 192 | — | — | — | — | — | — | 192 |
| Other change for fiscal year 2006 (net) | — | — | — | — | — | 413,779 | 2,548 | (488) | 58,533 | 3,153,130 | 3,627,503 |
| Total change for this fiscal year 2006 | — | — | 183 | 2,281,538 | (934,879) | 413,779 | 2,548 | (488) | 58,533 | 3,153,130 | 4,974,346 |
| **Balance at March 31, 2007** | **6,806,980** | **$3,553,790** | **$946,150** | **$9,215,658** | **$(1,444,837)** | **$3,710,767** | **$2,548** | **$84,052** | **$(33,535)** | **$4,035,107** | **$20,069,702** |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Nippon Steel Corporation and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| **Cash flows from operating activities:** | | | | |
| Income before income taxes and minority interests | **¥621,419** | ¥565,607 | ¥369,485 | **$5,264,033** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | **192,454** | 183,365 | 180,571 | **1,630,281** |
| Interest and dividend income (accrual basis) | **(23,427)** | (14,512) | (9,609) | **(198,451)** |
| Interest expense (accrual basis) | **15,218** | 15,787 | 20,244 | **128,915** |
| Exchange loss (gain) on foreign currency transactions | **(1,206)** | (4,504) | (1,006) | **(10,218)** |
| 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 | **—** |
| Amortization of goodwill | **(1,069)** | — | — | **(9,056)** |
| Equity in net (income) loss of unconsolidated subsidiaries and affiliates | **(43,480)** | (28,227) | (22,931) | **(368,319)** |
| Loss (gain) on sales of investments in securities | **(6,013)** | (3,335) | (5,004) | **(50,940)** |
| Amortization of transition obligation in respect of the new accounting standard for retirement benefits | **—** | — | 4,295 | **—** |
| Loss on restructuring of subsidiary’s business structures | **—** | — | 4,143 | **—** |
| Loss on disposal of tangible and intangible fixed assets | **9,662** | 9,866 | 17,524 | **81,851** |
| Gain on sales of tangible and intangible fixed assets | **(17,765)** | (13,998) | (3,769) | **(150,488)** |
| Changes in allowance for doubtful accounts | **(3,323)** | 5,302 | 6,129 | **(28,153)** |
| Changes in operating assets and liabilities: | | | | |
| Changes in notes and accounts receivable | **(42,094)** | (131,251) | 9,181 | **(356,578)** |
| Changes in inventories | **(134,603)** | (79,617) | (38,722) | **(1,140,227)** |
| Changes in notes and accounts payable | **122,062** | 15,650 | 38,436 | **1,033,987** |
| Other | **23,669** | 82,505 | 49,501 | **200,508** |
| Interest and dividend income (cash basis) | **27,476** | 17,804 | 10,868 | **232,753** |
| Interest expense (cash basis) | **(15,368)** | (16,596) | (21,696) | **(130,189)** |
| Income taxes (cash basis) | **(245,151)** | (211,760) | (70,708) | **(2,076,677)** |
| **Net cash provided by operating activities** | **487,460** | 392,996 | 539,445 | **4,053,031** |
| **Cash flows from investing activities:** | | | | |
| Acquisition of investments in securities | **(178,130)** | (48,470) | (28,255) | **(1,508,938)** |
| Proceeds from sales of investments in securities | **12,202** | 7,949 | 20,687 | **103,369** |
| Acquisition of cash owned by new subsidiaries, net of payment for purchase of subsidiaries’ shares | **(13,547)** | 1,363 | (1,303) | **(114,763)** |
| Proceeds from sale of subsidiaries’ shares, net of cash owned by those subsidiaries | **(55)** | 1,759 | (65) | **(470)** |
| Acquisition of tangible and intangible fixed assets | **(227,288)** | (201,462) | (189,260) | **(1,925,357)** |
| Proceeds from sales of tangible and intangible fixed assets | **31,650** | 12,875 | 12,699 | **268,113** |
| Payment for loans | **(693)** | (1,383) | (472) | **(5,875)** |
| Proceeds from collections of loans | **2,398** | 4,431 | 11,065 | **20,315** |
| Other | **(1,205)** | (3,958) | (90) | **(10,211)** |
| **Net cash used in investing activities** | **(374,669)** | (226,894) | (174,995) | **(3,173,817)** |
| **Cash flows from financing activities:** | | | | |
| Net increase (decrease) in short-term loans | **(21,124)** | 10,241 | (114,972) | **(178,943)** |
| Net increase (decrease) in commercial paper | **13,000** | 80,000 | 39,000 | **110,122** |
| Proceeds from long-term loans | **124,159** | 60,612 | 74,409 | **1,051,753** |
| Proceeds from issuance of preferred securities | **300,000** | — | — | **2,541,296** |
| Payments of long-term loans | **(192,565)** | (190,088) | (87,119) | **(1,631,217)** |
| Proceeds from issuance of bonds and notes | **—** | — | 34,836 | **—** |
| Redemption of bonds and notes | **(74)** | (10,000) | (238,729) | **(626)** |
| Payments for purchase of treasury stock | **(109,706)** | (50,166) | (16,213) | **(929,323)** |
| Cash dividends | **(85,521)** | (33,752) | (10,141) | **(724,449)** |
| Cash dividends to minority shareholders | **(2,855)** | (830) | (2,218) | **(24,185)** |
| Proceeds from issuance of common stock to minority shareholders | **514** | 1,200 | 374 | **4,358** |
| Other | **(6,439)** | (3,326) | (628) | **(54,550)** |
| **Net cash provided by (used in) financing activities** | **19,387** | (136,110) | (321,402) | **164,234** |
| **Effect of exchange rate changes on cash and cash equivalents** | **3,007** | 3,845 | 1,032 | **25,473** |
| **Net increase in cash and cash equivalents** | **126,186** | 33,837 | 44,079 | **1,068,921** |
| **Cash and cash equivalents at beginning of year** | **156,713** | 124,511 | 80,393 | **1,327,521** |
| **Increase (decrease) from the change in the number of companies consolidated** | **(134)** | (1,634) | 38 | **(1,135)** |
| **Cash and cash equivalents at end of year** (Note 13) | **¥282,766** | ¥156,713 | ¥124,511 | **$2,395,308** |

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 270, 266 and 280 subsidiaries as of March 31, 2007, 2006 and 2005, respectively based on the criterion of exercise of control. The consolidated financial statements include the accounts of Nippon Steel Corporation and 258 of its subsidiaries (March 31 2006: 251 subsidiaries, March 31 2005: 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 in 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 46 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.

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.

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.

Goodwill 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 12 unconsolidated subsidiaries (March 31 2006: 15 unconsolidated subsidiaries, March 31 2005: 22 unconsolidated subsidiaries) and 141 affiliates (March 31 2006: 140 affiliates, March 31 2005: 144 affiliates), the equity method has been applied to the investments in 67 significant affiliates (March 31 2006: 69 affiliates, March 31 2005: 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 in the consolidated financial statements.

***(3) Appropriation of retained earnings***

Consolidated statements of shareholders' equity are based on the appropriations of retained earnings which were approved at the ordinary general meetings of shareholders held in the years ended March 31, 2007, 2006 and 2005.

***(4) Foreign currency translation***

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

***(5) Securities***

Securities held by NIPPON STEEL are classified into three categories:

Held-to-maturity debt securities, which NIPPON STEEL intends to hold to maturity, are valued at cost after accounting for premiums or discounts on acquisition, 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 net assets 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.

Products, semi-finished products and raw materials of one of the subsidiaries, Nippon Steel Chemical Co., Ltd., excluding those in its coke business, which previously had been valued at lower-of-cost-or-market and using last-in-first-out method, are valued at lower-of-cost-or-market and using periodic average method from the year ended March 31, 2007.

This change was made in order to reflect fluctuations of raw material market prices into the valuation of inventories more accurately and to calculate profit more appropriately.

Compared to the results that would have been obtained applying the same procedure as that for the previous period, gross margin and operating profit increased by ¥1,243 million ($10,537 thousand), and ordinary profit and income before income taxes and minority interests increased by ¥1,246 million ($10,557 thousand) for the year ended March 31, 2007.

The effects on Segment Information are described in Note 15.

***(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".

Depreciation of a part of property, plant and equipment of one of the subsidiaries, Nippon Steel Chemical Co., Ltd., which previously had been computed using straight line method, is computed using declining balance method from the year ended March 31, 2007.

This change was made in order to ensure early recovery of invested capital and improvement of financial structure, considering the relatively short life-cycle of products in the high-performance material sector, particularly in the electronic material sector, where Nippon Steel Chemical Co., Ltd. is developing its business.

Compared to the results that would have been obtained applying the same procedure as that for the previous period, gross margin decreased by ¥1,111 million ($9,413 thousand), operating profit decreased by ¥1,139 million ($9,650 thousand) and ordinary profit and income before income taxes and minority interests decreased by ¥1,125 million ($9,537 thousand) for the year ended March 31, 2007.

The effects on Segment Information are described in Note 15.

***(8) Intangible fixed assets***
Amortization is generally computed using the straight-line method.

Software which is purchased and leased to customers under usage contracts is 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 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 the 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 adopts the percentage-of-completion method for recognition of revenues and costs relating to certain construction contracts which are large scale (Mainly contract amounts of ¥1 billion or more) and long-term (Mainly construction periods of 12 months or more). 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 ¥165,823 million ($1,404,684 thousand), ¥118,749 million and ¥57,453 million for the years ended March 31, 2007, 2006 and 2005, respectively.

NIPPON STEEL changed its policy for recognizing sales and costs of construction contracts ranging from ¥3,000 million to ¥1,000 million from the completion-of-contract method to the percentage-of-completion method 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 this retirement allowance is determined by reference to their 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 for retirement benefits 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 that in which they occur.

***Additional information (Year ended March 31, 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 million.

***(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.

On April 28, 2006, the Board of Directors of the Company resolved to abolish the retirement benefit plan for directors and corporate auditors. On June 28, 2006, the general meeting of shareholders of the Company resolved to make lump-sum payments of their retirement benefits for duties performed up to the date of abolition of the retirement plan (June 28, 2006) at the time of their retirement.

In the accompanying Consolidated Balance Sheet, the amounts due to directors and corporate auditors are presented as "Other" in "long-term liabilities".

***Additional information (Year ended March 31, 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 year 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 deferred 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.

***(21) Procedure for deferred assets***

Bond issue costs are not deferred and are recognized as costs when they are paid.

***Change to Summary of Significant Accounting Policies (Year ended March 31, 2007)***

***(1) Accounting standard for presentation of net assets in the balance sheet***

Effective from the year ended March 31, 2007, NIPPON STEEL has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Guidance No.8)" both issued by the Accounting Standards Board of Japan on December 9, 2005.

The amount corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥1,892,583 million ($ 16,032,045 thousand).

"Net assets" in the balance sheets for this year are presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated April 25, 2006.

***(2) Accounting standard for business combinations and accounting standard for business divestitures and the related implementation guidance***

Effective from the year ended March 31, 2007, NIPPON STEEL applied "Accounting standard for business combinations" (Accounting Standards issued on October 31, 2003 by the Business Accounting Council in Japan), "Accounting standard for business divestitures" (Accounting Standards Board of Japan Statement No.7 issued on December 27, 2005) and "Implementation guidance on accounting standard for business combinations and accounting standard for business divestitures" (Accounting Standards Board of Japan Guidance No.10 issued on December 22, 2006)

***(3) Change to accounting procedure***

NIPPON STEEL reorganized subsidiaries which operate in the transportation sector.

With a view to providing a more accurate report of the company's cost of sales and selling, general and administrative expenses, the transportation costs (transportation and storage) of the subsidiaries which operate in the transportation sector, previously included within cost of sales, are now included within selling, general and administrative expenses.

Compared to the results that would have been obtained applying the same procedure as that for the previous period, cost of sales decreased by ¥42,200 million ($357,477 thousand), and gross margin and selling, general and administrative expenses increased by the same amount for the year ended March 31, 2007. And this had no effect on the segment information.

***Changes to presentation (Year ended March 31, 2007)***

*(Consolidated balance sheets)*

The amounts which had been presented as "Excess of cost over the underlying net equity of investments in subsidiaries" until the year ended March 31, 2006, is presented as "Goodwill" from the year ended March 31, 2007.

*(Consolidated statements of income)*

As the "Exchange gain on foreign currency transactions" represented less than 10% of the non-operating profit, (¥2,010 million, $17,033 thousand), it has been included in "Miscellaneous" in non-operating profit for the year ended March 31, 2007.

*(Consolidated statements of cash flows)*

The amounts which had been presented as "Amortization of excess of cost over the underlying net equity (the underlying net equity over cost) of investments in subsidiaries and affiliates" and the amounts of amortization of goodwill which had been presented included in "Depreciation and amortization" until the year ended March 31, 2006, are presented as "Amortization of goodwill" from the year ended March 31, 2007.

***Changes to presentation (Year ended March 31, 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 of ¥1,357 million on foreign currency transactions was included in "Miscellaneous" in non-operating profit for the year ended March 31, 2005.

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

Nippon Steel Corporation and its domestic subsidiaries maintain their accounting records in yen. Yen amounts included in the financial statements are stated in millions of yen, and fractions of less than ¥1 million are omitted. Therefore, total or subtotal amounts presented in the financial statements may not equal the exact 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 ¥118.05 = U.S.$1, the effective exchange rate prevailing at the latest balance sheet date of March 31, 2007. These translations should not be construed as representations that the yen amounts actually 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, 2007 and 2006 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Bonds and Notes:** | | | |
| ***Nippon Steel Corporation*** | | | |
| 3.3% SB due March 2017 | **¥ 10,000** | ¥ 10,000 | **$ 84,709** |
| 3.175% SB due September 2017 | **10,000** | 10,000 | **84,709** |
| 2.55% SB due December 2009 | **10,000** | 10,000 | **84,709** |
| 2.60% SB due April 2008 | **15,000** | 15,000 | **127,064** |
| 2.27% SB due May 2008 | **10,000** | 10,000 | **84,709** |
| 2.50% SB due July 2008 | **30,000** | 30,000 | **254,129** |
| 0.54% SB due November 2007 | **30,000** | 30,000 | **254,129** |
| 0.80% SB due November 2009 | **10,000** | 10,000 | **84,709** |
| 1.36% SB due November 2012 | **10,000** | 10,000 | **84,709** |
| 0.62% SB due February 2009 | **30,000** | 30,000 | **254,129** |
| 1.18% SB due February 2013 | **15,000** | 15,000 | **127,064** |
| 0.80% SB due June 2013 | **20,000** | 20,000 | **169,419** |
| 0.78% SB due June 2009 | **20,000** | 20,000 | **169,419** |
| 1.67% SB due March 2014 | **15,000** | 15,000 | **127,064** |
| Floating rate SB without call option due December 2007*[1] | **10,000** | 10,000 | **84,709** |
| Floating rate PN with call option due April 2023*[2, 5] | **5,000** | 5,000 | **42,354** |
| Floating rate SB with call option due June 2015*[3, 6] | **15,000** | 15,000 | **127,064** |
| Mandatorily acquirable interest-bearing deeply subordinated CB due 2012*[7] | **300,000** | — | **2,541,296** |
| ***Nippon Steel City Produce, Inc.*** | | | |
| Floating rate SB without call option due March 2008*[4] | **3,000** | 3,000 | **25,412** |
| Floating rate SB without call option due March 2009*[4] | **3,000** | 3,000 | **25,412** |
| Floating rate SB without call option due March 2010*[4] | **3,250** | 3,250 | **27,530** |
| Floating rate SB without call option due March 2009*[4] | **2,300** | 2,300 | **19,483** |
| Floating rate SB without call option due March 2009*[4] | **1,900** | 1,900 | **16,094** |
| Floating rate SB without call option due March 2009*[4] | **1,700** | 1,700 | **14,400** |
| Floating rate SB without call option due March 2009*[4] | **1,300** | 1,300 | **11,012** |
| Subsidiaries' ordinary bond*[8] | **214** | 288 | **1,812** |
| Subtotal | **581,664** | 281,738 | **4,927,268** |
| Elimination of intra-group transaction | **(300,000)** | — | **(2,541,296)** |
| Total | **¥281,664** | ¥281,738 | **$2,385,972** |
| (Less: portion due within one year) | **(43,050)** | (50) | **(364,675)** |

**(Interest rate)**

*[1] The floating rate is generally determined by reference to the interest rate in Tokyo applicable to 10-year yen term swaps with 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).

**(Call option)**

*[5] Call options are available on the day of interest payment after April 14, 2008.

*[6] Call options are available on June 4, 2010.

*[7] Mandatorily acquirable interest-bearing deeply subordinated convertible bonds

| Bonds and notes | Mandatorily acquirable interest-bearing deeply subordinated CB due 2012 |
|---|---|
| Kind of stock | common stock |
| Issue price of acquisition rights | no cost |
| Issue price of stock | ¥740 |
| Total amount of issue | ¥300,000,000,000 |
| Total amount of stock acquisition rights exercised | — |
| Percentage of stock acquisition right granted | 100 |
| Exercisable during | November 9, 2006 – January 13, 2012 |

Exercise of a stock acquisition right causes the corresponding bond to be cancelled in lieu of a cash payment of purchase of shares.
The amount of the convertible yen-bond type bonds with stock acquisition rights is the same as the amount of issuance.

**(Other)**

*[8] Those issued by two domestic subsidiaries, Tokai Steel Industries Co., Ltd. and Tokyo Econ Kentetsu Co., Ltd., are selectively combined.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **Loans:** | | | |
| Short-term loans | **¥219,477***[2] | ¥215,947 | **$1,859,194** |
| Loans principally from banks and insurance companies due 2008-2031 for 2007 (2007-2031 for 2006)*[1] | **548,821***[3] | 576,047 | **4,649,057** |
| Commercial paper | **163,000***[4] | 150,000 | **1,380,770** |
| | **¥931,299** | ¥941,994 | **$7,889,022** |

*[1] Including a portion due within one year of ¥119,347 million ($1,010,992 thousand) for 2007 and ¥183,049 million for 2006.
*[2] Average interest-rate at March 31, 2007 is 1.4 %.
*[3] Average interest-rate at March 31, 2007 is 1.8 %.
*[4] Average interest-rate at March 31, 2007 is 0.6 %.

The aggregate annual maturities of long-term debt as of March 31, 2007 were as follows:

Years ending March 31

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Bonds and notes and convertible bonds | ¥ 43,050 | ¥ 95,300 | ¥ 43,314 | ¥ — | ¥300,000*[1] |
| Loans | 119,347 | 85,025 | 60,355 | 65,215 | 74,835 |
| Total | ¥162,397 | ¥180,325 | ¥103,669 | ¥65,215 | ¥374,835 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Bonds and notes and convertible bonds | $ 364,675 | $ 807,285 | $366,912 | $ — | $2,541,296 |
| Loans | 1,010,992 | 720,247 | 511,266 | 552,436 | 633,928 |
| Total | $1,375,668 | $1,527,532 | $878,179 | $552,436 | $3,175,224 |

*[1] Eliminated for intra-group transaction

NIPPON STEEL's assets pledged as collateral primarily to secure long-term loans, short-term loans and others totaled ¥38,154 million ($323,209 thousand ) at March 31, 2007 and ¥39,769 million at March 31, 2006. These are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| (Industrial foundation) | | | |
| Buildings and structures | **¥14,328** | ¥15,472 | **$121,380** |
| Machinery and equipment | **37,838** | 39,562 | **320,528** |
| Land | **18,989** | 20,189 | **160,857** |
| | **¥71,156** | ¥75,224 | **$602,766** |
| (Pledged assets) | | | |
| Cash and bank deposits | **¥ 298** | ¥ 284 | **$ 2,531** |
| Notes and accounts receivable | **28** | 30 | **238** |
| Current assets other | **4,577** | — | **38,773** |
| Buildings and structures | **12,028** | 18,293 | **101,892** |
| Machinery and equipment | **5,138** | 5,579 | **43,531** |
| Land | **8,683** | 9,367 | **73,556** |
| Investments in securities | **—** | 54 | **—** |
| Other | **13,742** | — | **116,411** |
| | **¥44,497** | ¥33,610 | **$376,935** |

In addition, out of the above secured liabilities, ¥262 million ($2,226 thousand) of long-term advances (credit), etc. are pledged as collateral against ¥1,188 million ($10,069 thousand) of loans of consolidated subsidiaries and ¥1,082 million ($9,166 thousand) of shares of affiliates are pledged as collateral against the loans of those affiliates.

## 5. Unconsolidated Subsidiaries and Affiliates

Items relevant to unconsolidated subsidiaries and affiliates are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Investments in securities | **¥347,690** | ¥263,552 | **$2,945,281** |
| Other investments | **16,182** | 16,477 | **137,085** |

## 6. Revaluation of Land

***(Year ended March 31, 2007)***

Revaluation of land used for business purposes was carried out in accordance with the "Law concerning Revaluation of Land" and related amendments for certain of Nippon Steel Corporation's consolidated subsidiaries and affiliates to which the equity method is applied.

Revaluation differences computed by consolidated subsidiaries, net of tax and minority interest, which were charged to "deferred tax assets and liabilities on revaluation of land" and "minority interest in consolidated subsidiaries", respectively, were recorded as a separate component of net assets as "unrealized gains on revaluation of land".

Additionally, revaluation differences accounted for by affiliates were recorded as a separate component of net assets 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)
- The excess of the carrying amounts of the revalued land over its fair value at the end of March 31, 2007 was ¥3,617 million ($30,640 thousand).

(Revaluation done on March 31, 2000)
- The excess of the carrying amounts of the revalued land over its fair value at the end of March 31, 2007 was ¥14,122 million ($119,630 thousand).

***(Year ended March 31, 2006)***

Revaluation of land used for business purposes was carried out in accordance with the "Law concerning Revaluation of Land" and related amendments for certain of Nippon Steel Corporation's consolidated subsidiaries and affiliates to which the equity method is applied.

Revaluation differences computed by consolidated subsidiaries, net of tax and minority interest, which were charged to "deferred tax assets and liabilities on revaluation of land" and "minority interest in consolidated subsidiaries", respectively, were recorded as a separate component of shareholders' equity as "unrealized gains on revaluation of land".

Additionally, revaluation differences accounted for by affiliates were recorded as a separate component of shareholders' equity as "unrealized gains on revaluation of land" in proportion to the equity rate.

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

(Revaluation done on March 31, 2002)
- The excess of the carrying amounts of the revalued land over its fair value at the end of March 31, 2006 was ¥2,890 million.

(Revaluation done on March 31, 2000)
- The excess of the carrying amounts of the revalued land over its fair value at the end of March 31, 2006 was ¥14,868 million.

## 7. Deferred Tax Accounting

***(1) The components of deferred tax assets and liabilities at March 31, 2007, 2006 and 2005, are as follows:***

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| **Deferred tax assets** | | | | |
| Reserve for accrued bonuses | **¥ 26,339** | ¥ 25,053 | ¥ 23,647 | **$ 223,121** |
| Accrued pension and severance costs | **21,739** | 24,227 | 26,383 | **184,152** |
| Reserve for repairs to blast furnaces | **19,862** | 19,853 | 14,750 | **168,253** |
| Loss on impairment of fixed assets | **12,262** | 14,478 | 15,762 | **103,879** |
| Business tax payable | **9,986** | 11,683 | 10,281 | **84,592** |
| Depreciation in excess of limit | **29,161** | 28,255 | 24,012 | **247,028** |
| Tax losses carried forward | **10,602** | 15,087 | 14,017 | **89,811** |
| Unrealized gain on tangible fixed assets | **47,895** | 50,340 | 53,176 | **405,722** |
| Other | **46,883** | 54,161 | 58,627 | **397,150** |
| Subtotal | **224,733** | 243,141 | 240,659 | **1,903,711** |
| Valuation allowance | **(14,364)** | (16,208) | (25,351) | **(121,682)** |
| Total | **210,368** | 226,933 | 215,308 | **1,782,029** |
| **Deferred tax liabilities** | | | | |
| Special tax purpose reserve | **(79,939)** | (78,442) | (81,792) | **(677,169)** |
| Revaluation of available-for-sale securities | **(293,271)** | (260,060) | (113,847) | **(2,484,299)** |
| Net unrealized gain on assets and liabilities of consolidated subsidiaries acquired after the adoption of the new consolidation standard | **(4,591)** | (2,892) | (2,891) | **(38,890)** |
| Total | **(377,802)** | (341,395) | (198,531) | **(3,200,359)** |
| Net deferred tax assets | **¥(167,433)** | ¥(114,462) | ¥ 16,777 | **$(1,418,330)** |

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

| Years ended March 31 | **2007***[1] | 2006 | 2005 |
|---|---|---|---|
| Effective tax rate | — | 40.4% | 40.4% |
| Equity in net income of unconsolidated subsidiaries and affiliates | — | (2.0) | (2.5) |
| Permanent non-deductible expenses | — | 0.5 | 0.8 |
| Permanent non-taxable income | — | (0.5) | (0.4) |
| Other | — | (1.9) | (1.2) |
| Actual tax rate | — | 36.5% | 37.1% |

*[1] Since the difference between the effective tax rate and the actual tax rate is not significant (less than 5% of the actual tax rate), in accordance with the revised Regulation concerning Consolidated Financial Statements, no reconciliation of these two rates is presented.

## 8. The Distribution of Provision for Allowance Reserve

The main distribution of provision for allowance reserve for the years ended March 31, 2007, 2006 and 2005 is as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2007** | **2007** |
| Provision for accrued pension and severance costs | | |
| Cost of sales | **¥20,523** | **$173,855** |
| Selling, general and administrative expenses | **6,855** | **58,074** |
| Provision for reserve for repairs to blast furnaces | | |
| Cost of sales | **1,233** | **10,448** |
| Provision for allowance for doubtful accounts | | |
| Selling, general and administrative expenses | **360** | **3,057** |
| Provision for allowance for losses on construction contracts | | |
| Cost of sales | **5,393** | **45,688** |

| | Millions of yen |
|---|---|
| | 2006 |
| Provision for accrued pension and severance costs | |
| Cost of sales | ¥27,615 |
| Selling, general and administrative expenses | 10,609 |
| Provision for allowance for retirement benefits of directors | |
| Selling, general and administrative expenses | 2,024 |
| Provision for reserve for repairs to blast furnaces | |
| Cost of sales | 1,916 |
| Provision for allowance for doubtful accounts | |
| Selling, general and administrative expenses | 10,871 |
| Non-operating loss | 453 |
| Provision for environmental remediation | |
| Cost of sales | 6,631 |
| Non-operating loss | 4,987 |

| | Millions of yen |
|---|---|
| | 2005 |
| Provision for accrued pension and severance costs | |
| Cost of sales | ¥24,439 |
| Selling, general and administrative expenses | 10,317 |
| Non-operating loss | 103 |
| Special loss | 4,295 |
| Provision for allowance for retirement benefits of directors | |
| Selling, general and administrative expenses | 4,148 |
| Non-operating loss | 379 |
| Provision for reserve for repairs to blast furnaces | |
| Cost of sales | 1,657 |
| Provision for allowance for doubtful accounts | |
| Selling, general and administrative expenses | 3,542 |
| Non-operating loss | 1,213 |

## 9. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| Transportation and storage | **¥ 87,563** | ¥ 41,416 | ¥ 54,460 | **$ 741,745** |
| Salaries | **79,738** | 80,781 | 80,099 | **675,461** |
| Depreciation and amortization | **3,153** | 3,253 | 3,441 | **26,715** |
| Research and development expenses | **31,397** | 29,103 | 26,926 | **265,967** |
| Amortization of goodwill | **5,098** | — | — | **43,192** |
| Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates | — | 3,016 | 2,803 | — |
| Other | **106,898** | 109,256 | 98,073 | **905,534** |
| | **¥313,849** | ¥266,828 | ¥265,805 | **$2,658,617** |

## 10. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2007, 2006 and 2005 are ¥41,229 million ($349,250 thousand), ¥37,881 million, and ¥36,352 million respectively.

## 11. Explanatory Notes on Special Profit and Loss

*(Year ended March 31, 2007)*
***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, 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.

## 12. Changes in Net Assets and Shareholders' Equity

Notes on consolidated statements of changes in net assets at March 31, 2007 are as follows:

***(1) Information on shares outstanding at year-end***

| Kind of stock | Year ended March 31, 2006 | Increase | Decrease | Year ended March 31, 2007 |
|---|---|---|---|---|
| common stock (Thousands) | 6,806,980 | — | — | 6,806,980 |

***(2) Information on treasury stock***

| Kind of stock | Year ended March 31, 2006 | Increase | Decrease | Year ended March 31, 2007 |
|---|---|---|---|---|
| common stock (Thousands) | 166,357 | 241,688 | 142 | 407,902 |

*(Reason for increase or decrease treasury stock)*

| | |
|---|---|
| • Increase (Thousands) | |
| 1.Treasury stock purchases | 234,513 |
| 2.Purchases of stock from unidentified shareholders | 4,986 |
| 3.Odd lot stock purchases | 595 |
| 4.Purchased by equity method affiliates | 1,593 |
| • Decrease (Thousands) | |
| 1.Odd lot stock sales | 89 |
| 2.Sold by subsidiaries | 53 |

***(3) Information on acquisition rights***

| | | Number of stocks issued when acquisition rights are exercised. | | | | Balance for year ended March 31, 2007 (millions of yen) |
|---|---|---|---|---|---|---|
| Bonds and notes | Kind of stock | Year ended March 31, 2006 | Increase | Decrease | Year ended March 31, 2007 | |
| Mandatorily Acquirable Interest-Bearing Deeply Subordinated CB due 2012 (Nippon Steel Corporation) | common stock | — | 405,405,000<br>[405,405,000] | — | 405,405,000<br>[405,405,000] | — |
| Total | | — | 405,405,000<br>[405,405,000] | — | 405,405,000<br>[405,405,000] | — |

1. [ ]: Possession by subsidiaries
2. Reason for increase and decrease "Number of stocks issued when acquisition rights are exercised"
 : Issuance of mandatorily acquirable interest-bearing deeply subordinated CB due 2012 (Nippon Steel Corporation)





***(4) Information on dividends***
Amount of dividend payments

| Decision | Kind of stock | Total payments (Millions of yen) | Cash dividends per share (yen) | Record date | Operative date |
|---|---|---|---|---|---|
| At the ordinary general meeting of shareholders held on June 28, 2006. | common stock | 59,834 | 9 | March 31, 2006 | June 29, 2006 |
| At the board of Directors' meeting held on October 26, 2006. | common stock | 25,686 | 4 | September 30, 2006 | December 1, 2006 |

Dividends which record date belong to the years ended March 31,2006, the operative date is the years ended March 31, 2007 are as follows:

| Decision | Kind of stock | Source of dividends | Total payments (Millions of yen) | Cash dividends per share (yen) | Record date | Operative date |
|---|---|---|---|---|---|---|
| At the ordinary general meeting of shareholders held on June 25, 2007. | common stock | retained earnings | 38,449 | 6 | March 31, 2007 | June 26, 2007 |

Notes on Consolidated Statements of Shareholders' Equity at March 31, 2006 and 2005 are as follows:

*(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 have been recorded in those for the year ending March 31, 2007.

| | Millions of yen |
|---|---|
| Appropriations for: | |
| Cash dividends at ¥9 per share | ¥59,834 |
| Transfer to special reserve | 7,770 |

*(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 were 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 |

## 13. Notes on Consolidated Statements of Cash Flows

Cash and cash equivalents consists of:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| Cash and bank deposits | **¥280,117** | ¥159,923 | ¥127,629 | **$2,372,868** |
| Less—Time deposits with original maturity over 3 months | **(5,617)** | (3,210) | (3,276) | **(47,586)** |
| Securities due within 3 months | **8,266** | 1 | 158 | **70,026** |
| Cash and cash equivalents | **¥282,766** | ¥156,713 | ¥124,511 | **$2,395,308** |

Details of assets and liabilities of The Siam United Steel (1995) Co., Ltd. and Nippon Usiminas Co., Ltd., which were newly included in the consolidation in the year ended March 31, 2007 as a result of the additional acquisition of shares by NIPPON STEEL as at the date of consolidation, are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2007** | **2007** |
| Current assets | **¥ 26,690** | **$ 226,096** |
| Fixed assets | **91,910** | **778,575** |
| | **¥118,601** | **$1,004,671** |

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2007** | **2007** |
| Current liabilities | **¥30,162** | **$255,506** |
| Long-term liabilities | **27,769** | **235,232** |
| | **¥57,931** | **$490,739** |

## 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 used for operating leases.

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2007 and 2006 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Lease rental expenses | **¥4,541** | ¥5,221 | **$38,472** |

The amount of outstanding future lease payments due at March 31, 2007 and 2006, which included the portion of interest thereon, is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Future lease payments | | | |
| Within one year | **¥ 3,257** | ¥ 4,031 | **$27,592** |
| Over one year | **7,074** | 7,468 | **59,927** |
| | **¥10,331** | ¥11,499 | **$87,519** |

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, 2007 and 2006.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Acquisition cost | **¥29,263** | ¥34,848 | **$247,886** |
| Accumulated depreciation | **(18,931)** | (23,348) | **(160,367)** |
| Net book value | **¥10,331** | ¥11,499 | **$ 87,519** |
| Depreciation | **¥ 4,541** | ¥ 5,221 | **$ 38,472** |

### *(2) Operating leases*

The amount of outstanding future lease payments due at March 31, 2007 and 2006, is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Future lease payments | | | |
| Within one year | **¥1,407** | ¥2,266 | **$11,926** |
| Over one year | **2,083** | 3,320 | **17,646** |
| | **¥3,491** | ¥5,586 | **$29,573** |

The amount of outstanding future lease income due at March 31, 2007 and 2006, is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Future lease income | | | |
| Within one year | **¥ 1,325** | ¥ 707 | **$ 11,229** |
| Over one year | **15,834** | 7,303 | **134,133** |
| | **¥17,160** | ¥8,010 | **$145,362** |

### *(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 |
| | **2007** | **2007** | **2007** | **2007** |
| Contingent liabilities for: | | | | |
| Guarantee of loans | | | | |
| Frontier Energy Niigata Co., Ltd. | **¥2,952** | **$25,012** | **¥2,952** | **$25,012** |
| UNIGAL Ltda. | **2,699** | **22,863** | **1,437** | **12,172***[1] |
| I/N Tek | **1,061** | **8,988** | **1,061** | **8,988** |
| Other | **1,547** | **13,111** | **937** | **7,939***[1] |
| | **¥8,260** | **$69,977** | **¥6,388** | **$54,114** |

| | Outstanding amounts for the year ended | | Substantial amounts | |
|---|---|---|---|---|
| | Millions of yen | Thousands of U.S. dollars | Millions of yen | Thousands of U.S. dollars |
| | **2007** | **2007** | **2007** | **2007** |
| Contingent liabilities for: | | | | |
| Reserved guarantee of loans | | | | |
| Yutaka Electric Mfg. Co., Ltd. | **¥1,700** | **$14,400** | **¥1,700** | **$14,400** |
| Hibikinada Development Co., Ltd. | **1,063** | **9,013** | **1,063** | **9,013** |
| Other | **2,836** | **24,025** | **2,836** | **24,025** |
| | **¥5,600** | **$47,439** | **¥5,600** | **$47,439** |

*[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.

| | Outstanding amounts for the year ended | Substantial amounts |
|---|---|---|
| | Millions of yen | Millions of yen |
| | 2006 | 2006 |
| Contingent liabilities for: | | |
| Guarantee of loans | | |
| The Siam United Steel (1995) Co., Ltd. | ¥12,683 | ¥12,683 |
| UNIGAL Ltda. | 3,709 | 2,034*[1] |
| Frontier Energy Niigata Co., Ltd. | 3,390 | 3,390 |
| I/N Tek | 3,023 | 3,023 |
| I/N Kote | 2,059 | 2,059 |
| Other | 1,211 | 563*[1] |
| | ¥26,077 | ¥23,755 |

| | Outstanding amounts for the year ended | Substantial amounts |
|---|---|---|
| | Millions of yen | Millions of yen |
| | 2006 | 2006 |
| Contingent liabilities for: | | |
| Reserved guarantee of loans | | |
| Yutaka Electric Mfg. Co., Ltd. | ¥1,700 | ¥1,700 |
| H.C.M SHIPPING S.A. | 1,666 | 1,666 |
| Hibikinada Development Co., Ltd. | 1,237 | 1,237 |
| Nippon Techno-Carbon Co., Ltd. | 1,200 | 1,200 |
| PUISSANT SHIPPING ENTERPRISE S. A. | 1,063 | 1,063 |
| Other | 1,253 | 1,253 |
| | ¥8,121 | ¥8,121 |

*[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.

*2) 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 | | Thousands of U.S. dollars |
| | **2007** | 2006 | **2007** |
| Accepting parties : SUMITOMO MITSUI BANKING CORPORATION | | | |
| Nippon Steel Corporation | | | |
| 2.35% SB due December 2007 | **¥40,000** | ¥40,000 | **$338,839** |
| 2.75% SB due February 2008 | **20,000** | 20,000 | **169,419** |
| 2.23% SB due June 2008 | **30,000** | 30,000 | **254,129** |
| | **¥90,000** | ¥90,000 | **$762,388** |

* "SB" = straight bond

*3) Notes and bills discounted and endorsed*

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Notes and bills discounted | **¥ 94** | ¥ 104 | **$ 800** |
| Notes and bills endorsed | **344** | 1,123 | **2,918** |
| | **¥439** | ¥1,228 | **$3,719** |

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

## 15. Segment Information

The segment information of NIPPON STEEL for 2007, 2006 and 2005, is as follows:

***(1) Information on business segments***

NIPPON STEEL operates in the following six business segments.

| Business segment | Major products and businesses |
|---|---|
| Steelmaking and steel fabrication | Bars; plates and sheets; pipes and tubes; specialty steels; fabricated and processed steels; pig iron and ingots; slag products; transportation; technical cooperation; titanium products; aluminum products; electricity supply |
| Engineering and construction | Plant and machinery; civil engineering and marine construction; building construction |
| Urban development | Urban development; real estate; rental of buildings |
| Chemicals | Chemicals; electronic materials; coal chemicals |
| New materials | Ceramic coated products |
| System solutions | Engineering and consulting on computer systems |



| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| **Sales** | | | | |
| Steelmaking and steel fabrication | | | | |
| Customers | **¥3,449,304** | ¥3,111,638 | ¥ — | **$29,219,016** |
| Intersegment | **33,073** | 32,231 | — | **280,160** |
| Total sales | **3,482,377** | 3,143,870 | — | **29,499,177** |
| Engineering and construction | | | | |
| Customers | **310,367** | 297,791 | — | **2,629,120** |
| Intersegment | **57,600** | 38,387 | — | **487,935** |
| Total sales | **367,968** | 336,179 | — | **3,117,055** |
| Urban development | | | | |
| Customers | **88,696** | 98,149 | — | **751,342** |
| Intersegment | **5,651** | 5,895 | — | **47,870** |
| Total sales | **94,347** | 104,045 | — | **799,213** |
| Chemicals | | | | |
| Customers | **257,678** | 223,005 | — | **2,182,793** |
| Intersegment | **61,076** | 75,494 | — | **517,380** |
| Total sales | **318,755** | 298,499 | — | **2,700,174** |
| New materials | | | | |
| Customers | **64,578** | 53,666 | — | **547,040** |
| Intersegment | **1,022** | 1,281 | — | **8,664** |
| Total sales | **65,601** | 54,948 | — | **555,705** |
| System solutions | | | | |
| Customers | **131,519** | 122,049 | — | **1,114,101** |
| Intersegment | **24,986** | 26,290 | — | **211,657** |
| Total sales | **156,505** | 148,339 | — | **1,325,759** |
| Elimination of intersegment transactions | **(183,410)** | (179,580) | — | **(1,553,670)** |
| Consolidated total | **¥4,302,145** | ¥3,906,301 | ¥ — | **$36,443,415** |
| **Operating profit (loss)** | | | | |
| Steelmaking and steel fabrication | **¥ 514,562** | ¥ 517,687 | ¥ — | **$ 4,358,851** |
| Engineering and construction | **13,031** | 9,517 | — | **110,388** |
| Urban development | **14,301** | 13,039 | — | **121,146** |
| Chemicals | **23,645** | 19,381 | — | **200,299** |
| New materials | **3,129** | 2,990 | — | **26,508** |
| System solutions | **13,992** | 11,806 | — | **118,528** |
| Elimination of intersegment transactions | **(2,564)** | 1,896 | — | **(21,721)** |
| Consolidated total | **¥ 580,097** | ¥ 576,319 | ¥ — | **$ 4,914,000** |
| **Identifiable assets** | | | | |
| Steelmaking and steel fabrication | **¥4,639,856** | ¥3,892,829 | ¥ — | **$39,304,159** |
| Engineering and construction | **282,413** | 249,944 | — | **2,392,318** |
| Urban development | **189,547** | 150,404 | — | **1,605,655** |
| Chemicals | **229,606** | 230,717 | — | **1,944,996** |
| New materials | **35,875** | 23,478 | — | **303,899** |
| System solutions | **114,961** | 104,442 | — | **973,839** |
| Elimination of intersegment transactions | **(147,336)** | (109,049) | — | **(1,248,085)** |
| Consolidated total | **¥5,344,924** | ¥4,542,766 | ¥ — | **$45,276,783** |
| **Depreciation of identifiable assets** | | | | |
| Steelmaking and steel fabrication | **¥ 175,278** | ¥ 167,823 | ¥ — | **$ 1,484,783** |
| Engineering and construction | **1,811** | 1,954 | — | **15,347** |
| Urban development | **1,981** | 1,876 | — | **16,783** |
| Chemicals | **10,972** | 9,799 | — | **92,949** |
| New materials | **1,246** | 1,003 | — | **10,559** |
| System solutions | **1,857** | 1,360 | — | **15,731** |
| Elimination of intersegment transactions | **(693)** | (452) | — | **(5,872)** |
| Consolidated total | **¥ 192,454** | ¥ 183,365 | ¥ — | **$ 1,630,281** |

| | | | | |
|---|---|---|---|---|
| **Capital expenditure on identifiable assets** | | | | |
| Steelmaking and steel fabrication | **¥ 249,725** | ¥ 186,700 | ¥ — | **$ 2,115,417** |
| Engineering and construction | **4,169** | 1,949 | — | **35,320** |
| Urban development | **6,751** | 796 | — | **57,191** |
| Chemicals | **5,355** | 12,000 | — | **45,364** |
| New materials | **3,063** | 1,199 | — | **25,950** |
| System solutions | **6,641** | 1,653 | — | **56,257** |
| Elimination of intersegment transactions | **(2,265)** | (327) | — | **(19,195)** |
| Consolidated total | **¥ 273,440** | ¥ 203,973 | ¥ — | **$ 2,316,307** |

*(Year ended March 31, 2007)*

(1) Change in valuation method of inventories

As stated in Note 2, products, semi-finished products and raw materials of one of the subsidiaries, Nippon Steel Chemical Co., Ltd., excluding those in its coke business, which previously had been valued at lower-of-cost-or-market and using last-in-first-out method, are valued at lower-of-cost-or-market and using periodic average method from the year ended March 31, 2007. This change was made in order to reflect fluctuations of raw material market prices into the valuation of inventories more accurately and to calculate profit more appropriately. Compared to the results that would have been obtained applying the same procedure as that for the previous period, operating costs decreased by ¥1,243 million ($10,537 thousand), and operating profit increased by the same amount in the chemicals business for the year ended March 31, 2007.

(2) Change in valuation method of tangible fixed assets

As stated in Note 2, depreciation of a part of property, plant and equipment of one of the subsidiaries, Nippon Steel Chemical Co., Ltd., which previously had been computed using straight line method, is computed using declining balance method from the year ended March 31, 2007. This change was made in order to ensure early recovery of invested capital and improvement of financial structure, considering the relatively short life-cycle of products in the high-performance material sector, particularly in the electronic material sector, where Nippon Steel Chemical Co., Ltd. is developing its business. Compared to the results that would have been obtained applying the same procedure as that for the previous period, operating costs increased by ¥1,189 million ($10,080 thousand), and operating profit decreased by the same amount in the chemicals business, operating costs decreased by ¥50 million ($429 thousand), and operating profit increased by the same amount in the elimination of intersegment transactions business.

*Before change in business segments*

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| **Sales** | | | | |
| Steelmaking and steel fabrication | | | | |
| Customers | ¥ — | ¥3,025,896 | ¥2,592,476 | $ — |
| Intersegment | — | 31,614 | 28,256 | — |
| Total sales | — | 3,057,510 | 2,620,732 | — |
| Engineering and construction | | | | |
| Customers | — | 297,791 | 239,369 | — |
| Intersegment | — | 38,387 | 40,496 | — |
| Total sales | — | 336,179 | 279,866 | — |
| Urban development | | | | |
| Customers | — | 98,149 | 83,669 | — |
| Intersegment | — | 5,895 | 5,606 | — |
| Total sales | — | 104,045 | 89,275 | — |
| Chemicals and nonferrous materials | | | | |
| Customers | — | 298,309 | 282,399 | — |
| Intersegment | — | 74,763 | 48,768 | — |
| Total sales | — | 373,072 | 331,168 | — |
| System solutions | | | | |
| Customers | — | 122,049 | 121,641 | — |
| Intersegment | — | 26,290 | 24,889 | — |
| Total sales | — | 148,339 | 146,531 | — |
| Other businesses | | | | |
| Customers | — | 64,105 | 69,800 | — |
| Intersegment | — | 4,952 | 6,444 | — |
| Total sales | — | 69,057 | 76,244 | — |
| Elimination of intersegment transactions | — | (181,903) | (154,463) | — |
| Consolidated total | ¥ — | ¥3,906,301 | ¥3,389,356 | $ — |





| | | | | |
|---|---|---|---|---|
| **Operating profit (loss)** | | | | |
| Steelmaking and steel fabrication | ¥ — | ¥ 513,977 | ¥ 376,926 | $ — |
| Engineering and construction | — | 9,517 | 6,696 | — |
| Urban development | — | 14,155 | 8,503 | — |
| Chemicals and non-ferrous materials | — | 27,037 | 26,374 | — |
| System solutions | — | 11,806 | 11,384 | — |
| Other businesses | — | (1,185) | 384 | — |
| Elimination of intersegment transactions | — | 1,010 | (321) | — |
| Consolidated total | ¥ — | ¥ 576,319 | ¥ 429,948 | $ — |
| **Identifiable assets** | | | | |
| Steelmaking and steel fabrication | ¥ — | ¥3,669,594 | ¥3,031,222 | $ — |
| Engineering and construction | — | 249,944 | 222,714 | — |
| Urban development | — | 152,152 | 156,841 | — |
| Chemicals and non-ferrous materials | — | 275,432 | 277,962 | — |
| System solutions | — | 104,442 | 99,129 | — |
| Other businesses | — | 275,163 | 244,741 | — |
| Elimination of intersegment transactions | — | (183,962) | (160,500) | — |
| Consolidated total | ¥ — | ¥4,542,766 | ¥3,872,110 | $ — |
| **Depreciation of identifiable assets** | | | | |
| Steelmaking and steel fabrication | ¥ — | ¥ 160,204 | ¥ 153,965 | $ — |
| Engineering and construction | — | 1,954 | 2,285 | — |
| Urban development | — | 1,876 | 1,933 | — |
| Chemicals and non-ferrous materials | — | 10,802 | 10,946 | — |
| System solutions | — | 1,360 | 1,359 | — |
| Other businesses | — | 7,509 | 9,109 | — |
| Elimination of intersegment transactions | — | (343) | 971 | — |
| Consolidated total | ¥ — | ¥ 183,365 | ¥ 180,571 | $ — |
| **Capital expenditure on identifiable assets** | | | | |
| Steelmaking and steel fabrication | ¥ — | ¥ 185,814 | ¥ 172,954 | $ — |
| Engineering and construction | — | 1,949 | 1,877 | — |
| Urban development | — | 796 | 5,669 | — |
| Chemicals and non-ferrous materials | — | 13,199 | 13,608 | — |
| System solutions | — | 1,653 | 865 | — |
| Other businesses | — | 899 | 1,128 | — |
| Elimination of intersegment transactions | — | (341) | (876) | — |
| Consolidated total | ¥ — | ¥ 203,973 | ¥ 195,228 | $ — |

(*) Change in business segments (Fiscal year 2006~)

1) "Chemicals" and "new materials", which were included in the chemicals and non-ferrous materials sector, are now positioned as independent businesses, and "titanium and aluminum operations", which were part of the chemicals and non-ferrous materials sector, have been transferred to "steelmaking and steel fabrication."

2) "Other businesses" (electric power supply, services, and others) have been transferred to "steelmaking and steel fabrication."

*(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.

As a consequence, compared to the case of applying the same procedure as that for the previous period, operating expenses increased by ¥5,320 million in the steel business, by ¥500 million in the engineering business, by ¥23 million in the urban development business, by ¥34 million in the chemical and non-ferrous materials business, and by ¥22 million 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 materials business and by ¥80 million in the other businesses.

### *(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 |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| Overseas sales | **¥1,166,090** | ¥ 977,391 | ¥ 818,340 | **$ 9,877,941** |
| Consolidated net sales | **4,302,145** | 3,906,301 | 3,389,356 | **36,443,415** |
| Overseas sales as a proportion of consolidated net sales | **27.1%** | 25.0% | 24.1% | **27.1%** |

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

## 16. Securities

*(Year ended March 31, 2007)*

Information regarding marketable securities and investments in securities at March 31, 2007 is as follows:

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

| | Millions of yen | | |
|---|---|---|---|
| | 2007 | | |
| | Cost | Carrying amount | Unrealized gain (loss) |
| Available-for-sale securities whose carrying amounts on the balance sheet are in excess of the related cost: | | | |
| Corporate shares | **¥276,591** | **¥ 871,724** | **¥595,132** |
| Other | **80,368** | **216,071** | **135,702** |
| Subtotal | **356,959** | **1,087,795** | **730,835** |
| Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost: | | | |
| Corporate shares | **29,666** | **28,395** | **(1,271)** |
| Other | **184** | **142** | **(41)** |
| Subtotal | **29,850** | **28,537** | **(1,312)** |
| Total | **¥386,809** | **¥1,116,333** | **¥729,523** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2007 | | |
| | Cost | Carrying amount | Unrealized gain (loss) |
| Available-for-sale securities whose carrying amounts on the balance sheet are in excess of the related cost: | | | |
| Corporate shares | **$2,343,002** | **$7,384,364** | **$5,041,361** |
| Other | **680,798** | **1,830,336** | **1,149,537** |
| Subtotal | **3,023,801** | **9,214,700** | **6,190,899** |
| Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost: | | | |
| Corporate shares | **251,301** | **240,534** | **(10,767)** |
| Other | **1,558** | **1,208** | **(350)** |
| Subtotal | **252,860** | **241,742** | **(11,117)** |
| Total | **$3,276,662** | **$9,456,443** | **$6,179,781** |

### *(2) Available-for-sale securities sold in the year ended March 31, 2007*

| Millions of yen | | |
|---|---|---|
| 2007 | | |
| Amount of sales | Gain on sales | Loss on sales |
| **¥4,300** | **¥930** | **¥(162)** |

| Thousands of U.S. dollars | | |
|---|---|---|
| 2007 | | |
| Amount of sales | Gain on sales | Loss on sales |
| **$36,431** | **$7,882** | **$(1,372)** |

### *(3) Securities without available market quotations are summarized as follows:*

| | Millions of yen |
|---|---|
| | 2007 |
| Held-to-maturity debt securities | |
| Commercial paper, etc. | **¥ 8,265** |
| Available-for-sale securities | |
| Shares of private companies, etc. | **¥43,731** |

| | Thousands of U.S. dollars |
|---|---|
| | 2007 |
| Held-to-maturity debt securities | |
| Commercial paper, etc. | **$ 70,017** |
| Available-for-sale securities | |
| Shares of private companies, etc. | **$370,451** |

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

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2007 | | | |
| | 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. | **¥ 331** | **¥93** | **¥21** | **¥—** |
| Commercial paper | **7,995** | **—** | **—** | **—** |
| Other | **424** | **—** | **—** | **—** |
| Total | **¥8,751** | **¥93** | **¥21** | **¥—** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2007 | | | |
| | 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. | **$ 2,810** | **$788** | **$181** | **$—** |
| Commercial paper | **67,730** | **—** | **—** | **—** |
| Other | **3,595** | **—** | **—** | **—** |
| Total | **$74,136** | **$788** | **$181** | **$—** |

### *(5) Financial assets with the right of free disposal*

Nippon Steel holds pledged financial assets (mainly securities) with the right of free disposal whose current market value is ¥4,138 million ($35,055 thousand) at the end of this consolidated fiscal year.

*(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 quotations are summarized as follows:***

| | Millions of yen | | |
|---|---|---|---|
| | 2006 | | |
| | Cost | Carrying amount | Unrealized gain (loss) |
| Available-for-sale securities whose carrying amounts on the balance sheet are in excess of the related cost: | | | |
| Corporate shares | ¥212,740 | ¥796,253 | ¥583,513 |
| Bonds and debentures | | | |
| Government bonds and municipal bonds, etc. | 6 | 6 | 0 |
| Other | 25,489 | 86,954 | 61,464 |
| Subtotal | 238,236 | 883,213 | 644,977 |
| Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost: | | | |
| Corporate shares | 1,077 | 854 | (222) |
| Other | 184 | 148 | (36) |
| Subtotal | 1,261 | 1,003 | (258) |
| Total | ¥239,498 | ¥884,216 | ¥644,718 |

***(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 | Amount of sales | Gain (loss) on sales |
| Other | ¥1 | ¥1 | ¥0 |

***(3) Available-for-sale securities sold in the year ended March 31, 2006***

| Millions of yen | | |
|---|---|---|
| 2006 | | |
| Amount of sales | Gain on sales | Loss on sales |
| ¥3,028 | ¥2,322 | ¥(45) |

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

| | Millions of yen |
|---|---|
| | 2006 |
| Available-for-sale securities | |
| Shares of private companies, etc. | ¥49,290 |

***(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 | | | |
|---|---|---|---|---|
| | 2006 | | | |
| | 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 | ¥— |

***(6) Financial assets with the right of free disposal***

Nippon Steel holds pledged financial assets (mainly securities) with the right of free disposal whose current market value is ¥3,902 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 tax-qualified pension scheme, a defined benefits enterprise pension plan and a lump-sum retirement payment plan.

NIPPON STEEL may pay special retirement allowances on voluntary retirement which are not included in the projected benefit obligations. In addition to the above, certain domestic consolidated subsidiaries operate a defined contribution pension plan.

Projected benefit obligations as of March 31, 2007, 2006 and 2005 are analyzed as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| Projected benefit obligations | **¥(580,307)** | ¥(598,192) | ¥(614,470) | **$(4,915,776)** |
| Plan assets | **583,510** | 560,728 | 465,396 | **4,942,910** |
| Accrued pension and severance costs | **123,695** | 122,265 | 122,398 | **1,047,826** |
| Prepaid pension cost | **(89,911)** | (73,996) | (88,809) | **(761,640)** |
| Balance | **36,987** | 10,805 | (115,484) | **313,320** |
| Consisting of: | | | | |
| Unrecognized balance of the transition obligation | **—** | (1,060) | (1,481) | **—** |
| Unrecognized actuarial differences | **18,664** | (9,548) | (126,046) | **158,109** |
| Unrecognized balance of prior service costs*1 | **18,322** | 21,414 | 12,043 | **155,211** |
| | **¥ 36,987** | ¥ 10,805 | ¥(115,484) | **$ 313,320** |

*1 Due to the decrease in the expected rate and annuity benefit ratio used in the tax-qualified pension scheme and welfare pension plan for Nippon Steel Corporation and certain consolidated subsidiaries, an unrecognized balance of prior service costs arose.
*2 The projected benefit obligations for certain consolidated subsidiaries are determined by the simplified method.

The net pension expense relating to retirement benefits for the years ended March 31, 2007, 2006 and 2005 is as follows :

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** |
| Service costs*2,4 | **¥17,071** | ¥16,572 | ¥16,603 | **$144,613** |
| Interest costs | **12,209** | 12,654 | 12,998 | **103,422** |
| Expected return on plan assets | **(9,211)** | (7,806) | (7,760) | **(78,026)** |
| Amortization of transition obligation | **1,064** | 529 | 4,256 | **9,021** |
| Amortization of actuarial differences | **9,500** | 19,640 | 13,743 | **80,477** |
| Amortization of prior service costs*3 | **(3,165)** | (3,111) | (691) | **(26,812)** |
| Net pension expense | **27,469** | 38,480 | 39,149 | **232,695** |
| Other*5 | **446** | 353 | 324 | **3,783** |
| | **¥27,916** | ¥38,834 | ¥39,474 | **$236,479** |

*1 In addition to the net pension expense above, special benefits for early retirement of ¥9,558 million ($ 80,974 thousand), ¥10,445 million and ¥12,174 million were paid for the year ended March 31, 2007, 2006 and 2005, respectively.
*2 This amount excludes contributions to welfare pension plans made by employees.
*3 This amount represents amortization of prior service costs.
*4 All pension expenses except amortization of the transition obligation of consolidated subsidiaries, for which the simplified method is applied, are included in "service costs".
*5 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, 2007** | As of March 31, 2006 | As of March 31, 2005 |
|---|---|---|---|
| Method of attributing the projected benefits to periods of service | **Mainly straight-line basis** | Mainly straight-line basis | Mainly straight-line basis |
| Discount rate | **1.5%-2.5% (mainly 2.1%)** | 1.5%-2.5% (mainly 2.1%) | 1.5%-3.5% (mainly 2.1%) |
| Expected rate of return on plan assets | **0.0%-3.5% (mainly 2.1%)** | 0.0%-4.0% (mainly 2.1%) | 0.0%-4.0% (mainly 2.1%) |
| Amortization of unrecognized prior service costs*1 | **1-15 years (mainly 10 years)** | 1-15 years (mainly 10 years) | 1-15 years (mainly 14 years) |
| Amortization of unrecognized actuarial differences*2 | **1-15 years (mainly 10 years)** | 1-15 years (mainly 10 years) | 1-15 years (mainly 14 years) |
| Amortization of transition obligation*3 | **1-15 years** | 1-15 years | 1-15 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 5 years for the remaining entities as of March 31, 2005.

## 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 or 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 or currency prices, it does not anticipate significant losses because all of the counter parties are trading companies or financial institutions with high credit ratings and the use of derivatives is limited to hedging purposes as described above.

All derivative financial instruments held by NIPPON STEEL are for hedging purposes and are 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, 2007)*

| (a) Name of director<br>(b) Title of related parties<br>(c) Equity ownership percentage of Nippon Steel Corporation | Millions of yen<br>Transactions during the year ended March 31, 2007<br>Description of transaction | Amount | Resulting account balances<br>Account | Amount | Thousands of U.S. dollars<br>Transactions during the year ended March 31, 2007<br>Amount | Resulting account balances<br>Amount | Notes |
|---|---|---|---|---|---|---|---|
| (a) Akira Chihaya<br>[Representative Director and Chairman of Nippon Steel Corporation]<br>(b) Chairman of The Nippon Steel Arts Foundation<br>(At the time of conclusion of the contract)<br>(c) 0.0% | Contribution | ¥210 | — | — | $1,778 | — | (1) |
| (a) Akio Mimura<br>[Representative Director and President]<br>(b) Chairman of The Nippon Steel Arts Foundation<br>(c) 0.0% | Contribution | ¥2,500 | — | — | $21,177 | — | (1) |
| (a) Akira Chihaya<br>[Representative Director and Chairman of Nippon Steel Corporation]<br>(b) Chairman of The Japan-China Economic Association<br>(At the time of conclusion of the contract)<br>(c) 0.0% | Special membership fees | ¥2 | — | — | $16 | — | (2) |
| (a) Bunyuu Futamura<br>[Director of Nippon Steel Corporation]<br>(b) Chairman of the Board of Directors of Tokai Industrial Medical Cure Corps<br>(At the time of conclusion of the contract)<br>(c) 0.0% | Contribution to clinic expenses | ¥13 | Accrued expenses | ¥9 | $112 | $79 | (3) |
| (a) Shigemitsu Miki<br>[Corporate Auditor of Nippon Steel Corporation] | Long-term loans | ¥10,000 | Long-term loans | ¥10,000 | $84,709 | $84,709 | (4) |
| (b) Representative Director and Chairman of the Board of Directors of The Bank of Tokyo-Mitsubishi UFJ, Ltd. | Interest payment on long-term loans | ¥321 | Accrued expenses | ¥81 | $2,724 | $687 | (4) |
| (c) 0.0% | Short-term loans | ¥23,575 | Short-term loans | ¥21,097 | $199,705 | $178,712 | (4)(5) |
| | Interest payment on short-term loans | ¥129 | Accrued expenses | ¥16 | $1,101 | $135 | (4) |
| | Commercial paper | ¥82,780 | Commercial paper | ¥27,000 | $701,235 | $228,716 | (5)(6) |
| | Interest payment on commercial paper | ¥222 | Accrued expenses | ¥1 | $1,881 | $16 | (6) |
| | Guarantee of obligation for loans borrowed by the joint venture | ¥77 | — | — | $660 | — | (7) |

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 amount of the contribution was determined considering the description of the business and fees of the association.
(3) Nippon Steel Corporation bears the expenses of the related party to the extent considered reasonable for the health care of its personnel. Bunyuu Futamura (Director of Nippon Steel Corporation) resigned Director and appointed Managing Director at the ordinary general meeting of shareholders held on June 28, 2006. Therefore, Bunyuu Futamura and Tokai Industrial Medical Cure Corps were no longer related parties, and the amount at the time of his resignation is shown in the column titled "Resulting account balances".
(4) The interest rate was determined with reference to market interest rates. No guarantee was set by Nippon Steel Corporation.
(5) The average balance of loans is shown in the column titled "Transactions during the year ended March 31, 2007".
(6) The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.
(7) This is a guarantee of obligation for loans that the joint venture borrowed for equipment funds and working-capital from The Bank of Tokyo-Mitsubishi UFJ, Ltd..

*(Year ended March 31, 2006)*

| (a) Name of director<br>(b) Title of related parties<br>(c) Equity ownership percentage of Nippon Steel Corporation | Millions of yen<br>Transactions during the year ended March 31, 2006<br>Description of transaction | Amount | Resulting account balances<br>Account | Amount | Notes |
|---|---|---|---|---|---|
| (a) Akira Chihaya<br>[Representative Director and Chairman of Nippon Steel Corporation]<br>(b) Chairman of The Nippon Steel Arts Foundation<br>(c) 0.0% | Contribution | ¥184 | — | — | (1) |
| (a) Akira Chihaya<br>[Representative Director and Chairman of Nippon Steel Corporation]<br>(b) Chairman of The Japanese Society of Steel Construction<br>(c) 0.0% | Contract investigation concerning steel utilizing technologies | ¥30 | — | — | (2) |
| (a) Bunyuu Futamura<br>[Director of Nippon Steel Corporation]<br>(b) Chairman of the Board of Directors of Tokai Industrial Medical Cure Corps<br>(c) 0.0% | Contribution to clinic expenses | ¥48 | Accrued expenses | ¥4 | (3) |
| (a) Shigemitsu Miki<br>[Corporate Auditor of Nippon Steel Corporation] | Short-term loans | ¥24,597 | Short-term loans | ¥24,597 | (4) |
| (b) Representative Director and Chairman of the Board of Directors of The Bank of Tokyo-Mitsubishi UFJ, Ltd. | Interest payment on short-term loans | ¥35 | Accrued expenses | ¥7 | (4) |
| (c) 0.0% | Commercial paper | ¥204,000 | Commercial paper | ¥74,000 | (2) |
| | Interest payment on commercial paper | ¥19 | — | — | (2) |
| | Guarantee of obligation for loans borrowed by the joint venture | ¥15 | — | — | (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 were determined on an arm's length basis and with 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 by Nippon Steel Corporation.
(5) This is a guarantee of obligation for loans that the joint venture borrowed for as the equipment funds and working-capital from The Bank of Tokyo-Mitsubishi UFJ, Ltd.

*(Year ended March 31, 2005)*

| (a) Name of director<br>(b) Title of related parties<br>(c) Equity ownership percentage of Nippon Steel Corporation | Millions of yen<br>Transactions during the year ended March 31, 2005<br>Description of transaction | Amount | Resulting account balances<br>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 | Acceptance of air-conditioning work for Kioi Hall | 3 | — | — | (2) |
| (c) 0.0% | Acceptance of repair work for Kioi Hall | 1 | — | — | (2) |
| (a) Bunyuu Futamura [Director of Nippon Steel Corporation]<br>(b) Chairman of the Board of Directors of Tokai Industrial Medical Cure Corps<br>(c) 0.0% | Contribution to clinic expenses | ¥39 | Accrued expenses | ¥39 | (3) |
| (a) Josei Ito [Corporate Auditor of Nippon Steel Corporation]<br>(b) Representative Director and Chairman of the Board of Directors of Nippon Life Insurance Company<br>(c) 0.0% | Borrowing long-term loans | ¥8,000 | Long-term loans | ¥8,000 | (4)(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 were determined on an arm's length basis and with 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 by Nippon Steel Corporation.
(5) Mr. Josei Ito, auditor of Nippon Steel, passed away on April 21 of this year.

## 20. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007, 2006 and 2005 is as follows:

*(Year ended March 31, 2007)*

| | Millions of yen | Thousands of shares | Yen | Thousands of U.S. dollars |
|---|---|---|---|---|
| | Net income | Weighted average shares | EPS | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥351,050 | 6,466,591 | ¥54.28 | $0.45 |
| Effect of dilutive securities | | | | |
| Minority interest in net income of consolidated subsidiaries | 1,571 | 157,719 | | |
| Equity in net income of unconsolidated subsidiaries and affiliates | (281) | | | |
| Diluted EPS | | | | |
| Net income for computation | 352,340 | 6,624,311 | 53.18 | 0.45 |

*(Year ended March 31, 2006)*

| | Millions of yen | Thousands of shares | Yen |
|---|---|---|---|
| | Net income | Weighted average shares | EPS |
| Basic EPS | | | |
| Net income available to common shareholders | ¥343,814 | 6,731,176 | ¥51.07 |
| Effect of dilutive securities | | | |
| Equity in net income of unconsolidated subsidiaries and affiliates | (193) | — | |
| Diluted EPS | | | |
| Net income for computation | 343,620 | 6,731,176 | 51.04 |

*(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 | | | |
| Equity in net income of unconsolidated subsidiaries and affiliates | (163) | — | |
| Diluted EPS | | | |
| Net income for computation | 220,293 | 6,734,683 | 32.71 |

## 21. Notes Receivable and Payable due on the Balance Sheet Date

In accordance with customary business practices in Japan, while notes receivable and payable are often issued with a month-end due date, actual settlement of the notes is postponed to the first business day of the next month in the event that the month-end date is a bank holiday. In such cases, settlement of notes is recorded on the date that actual settlement is made for NIPPON STEEL. Since March 31, 2007 was a bank holiday, the following balances are included in the respective balances on the consolidated balance sheet at that date.

Notes receivable with a March 31, 2007 due date:
¥3,729 million ($31,588 thousand)
Notes payable with a March 31, 2007 due date:
¥8,003 million ($67,796 thousand)

## 22. Business Combinations and Business Divestitures

*(Year ended March 31, 2007)*

In July 1, 2007, the Company's engineering business and new materials business were spun-off to two of the 100% owned subsidiaries. The aim of this spin-off is to enable the companies in each segment to be able to work independently to strengthen profitability and business foundation while maintaining and developing Group synergy with the steel segment and to enhance consolidated corporate value.

(1) The company which succeeded the engineering business:
Name: Nippon Steel Engineering Co., Ltd.
Scope of business: Engineering and construction

(2) The company which succeeded the new materials business:
Name: Nippon Steel Materials Co., Ltd.
Scope of business: New materials

Outline of accounting procedures.
The assets and liabilities which Nippon Steel Corporation transferred to these two subsidiaries, were accounted for appropriately based on the book value of Nippon Steel Corporation on the day before the spin-off date.

## 23. 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.

To the Shareholders and Board of Directors of
Nippon Steel Corporation

We have audited the accompanying consolidated balance sheet of Nippon Steel Corporation and consolidated subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 audit provides 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 consolidated subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
As discussed in Note 2 to the consolidated financial statements, effective for the year ended March 31, 2007, Nippon Steel Corporation and consolidated subsidiaries changed their method of accounting for the transportation costs of the subsidiaries which operate in the transportation sector.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.
Tokyo, Japan

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan

June 25, 2007





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 the related consolidated statements of income, shareholders' equity, and cash flows for each of the two 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 the consolidated results of their operations and their cash flows for each of the two 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.

Misuzu Audit Corporation

Misuzu Audit Corporation
(formerly ChuoAoyama PricewaterhouseCoopers)
Tokyo, Japan

June 28, 2006

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

Nippon Steel Corporation
As of March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and bank deposits | **¥ 174,513** | ¥ 90,655 | **$ 1,478,303** |
| Receivables: | | | |
| Notes receivable | **3** | 10,689 | **26** |
| Accounts receivable—trade | **175,689** | 284,651 | **1,488,267** |
| Accounts receivable | **69,626** | 74,981 | **589,801** |
| Less: Allowance for doubtful accounts | **(13,488)** | (16,626) | **(114,256)** |
| | **231,831** | 353,696 | **1,963,839** |
| Inventories | **430,809** | 404,922 | **3,649,383** |
| Deferred tax assets | **36,300** | 50,500 | **307,496** |
| Other | **26,277** | 39,570 | **222,596** |
| **Total current assets** | **899,732** | 939,344 | **7,621,619** |
| **Fixed assets:** | | | |
| **Tangible fixed assets:** | | | |
| Buildings and structures | **1,081,440** | 1,066,325 | **9,160,869** |
| Machinery and equipment | **3,811,521** | 3,752,692 | **32,287,347** |
| | **4,892,961** | 4,819,018 | **41,448,216** |
| Less: Accumulated depreciation | **(3,971,871)** | (3,934,452) | **(33,645,672)** |
| | **921,090** | 884,565 | **7,802,543** |
| Land | **191,636** | 195,486 | **1,623,350** |
| Construction in progress | **74,416** | 64,839 | **630,379** |
| | **1,187,143** | 1,144,891 | **10,056,273** |
| **Intangible fixed assets:** | | | |
| Patents and utility rights | **653** | 998 | **5,535** |
| Software | **249** | 304 | **2,114** |
| | **903** | 1,303 | **7,650** |
| **Investments and others:** | | | |
| Investments in securities | **1,064,936** | 883,413 | **9,021,059** |
| Investments in subsidiaries and affiliates | **454,190** | 381,349 | **3,847,440** |
| Other | **109,420** | 100,377 | **926,902** |
| Less: Allowance for doubtful accounts | **(2,415)** | (4,121) | **(20,465)** |
| | **1,626,131** | 1,361,019 | **13,774,937** |
| **Total fixed assets** | **2,814,177** | 2,507,214 | **23,838,860** |
| **Total assets** | **¥3,713,909** | ¥3,446,558 | **$31,460,480** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| **LIABILITIES** | | | |
| **Current liabilities:** | | | |
| Short-term loans and long-term loans due within one year | **¥ 202,299** | ¥ 263,264 | **$ 1,713,679** |
| Bonds and notes due within one year | **40,000** | — | **338,839** |
| Commercial paper | **163,000** | 150,000 | **1,380,770** |
| Payables: | | | |
| Notes payable | **—** | 2,731 | **—** |
| Accounts payable—trade | **217,316** | 196,139 | **1,840,885** |
| Accounts payable | **107,895** | 88,678 | **913,984** |
| | **325,212** | 287,549 | **2,754,870** |
| Accrued income taxes and enterprise taxes | **77,993** | 113,511 | **660,681** |
| Accrued expenses | **210,852** | 286,404 | **1,786,125** |
| Advances received | **482** | 19,163 | **4,083** |
| Allowance for bonus of directors and corporate auditors | **270** | 410 | **2,287** |
| Allowance for losses on construction contracts | **—** | 286 | **—** |
| Provision for environmental remediation | **8,190** | 11,638 | **69,380** |
| Other | **4,694** | 11,018 | **39,765** |
| **Total current liabilities** | **1,032,994** | 1,143,245 | **8,750,484** |
| **Long-term liabilities:** | | | |
| Bonds and notes | **225,000** | 265,000 | **1,905,972** |
| Convertible bonds | **300,000** | — | **2,541,296** |
| Long-term loans | **304,669** | 281,851 | **2,580,850** |
| Deferred tax liabilities | **255,300** | 237,300 | **2,162,642** |
| Accrued pension and severance costs | **53,865** | 65,197 | **456,295** |
| Allowance for retirement benefits of directors and corporate auditors | **—** | 2,780 | **—** |
| Reserve for repairs to blast furnaces | **48,916** | 49,011 | **414,372** |
| Other | **18,265** | 10,185 | **154,726** |
| **Total long-term liabilities** | **1,206,017** | 911,326 | **10,216,156** |
| **Total liabilities** | **2,239,011** | 2,054,572 | **18,966,640** |
| **SHAREHOLDERS' EQUITY** | | | |
| **Common stock:** | | | |
| Authorized—9,917,077,000 shares | | | |
| Issued and outstanding—6,806,980,977 shares as of March 31, 2006 | **—** | 419,524 | **—** |
| **Additional paid-in capital** | **—** | 111,556 | **—** |
| **Special tax-purpose reserve** | **—** | 86,953 | **—** |
| **Voluntary reserves** | **—** | 160,000 | **—** |
| **Retained earnings** | **—** | 308,288 | **—** |
| **Unrealized gains on available-for-sale securities** | **—** | 364,252 | **—** |
| **Less: Treasury stock, at cost** | **—** | (58,589) | **—** |
| **Total shareholders' equity** | **—** | 1,391,985 | **—** |
| **Total liabilities and shareholders' equity** | **¥ —** | ¥3,446,558 | **$ —** |
| **NET ASSETS** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| **Common stock:** | | | |
| Authorized—9,917,077,000 shares | | | |
| Issued and outstanding—6,806,980,977 shares as of March 31, 2007 | **419,524** | — | **3,553,790** |
| **Capital surplus** | **111,564** | — | **945,063** |
| **Special tax-purpose reserve** | **81,591** | — | **691,164** |
| **Accumulated earnings carried forward** | **636,973** | — | **5,395,790** |
| **Less: Treasury stock, at cost** | **(168,261)** | — | **(1,425,340)** |
| **VALUATION AND TRANSACTION ADJUSTMENTS** | | | |
| **Unrealized gains on available-for-sale securities** | **393,813** | — | **3,335,989** |
| **Deferred hedge income (loss)** | **(309)** | — | **(2,618)** |
| **Total net assets** | **1,474,897** | — | **12,493,839** |
| **Total liabilities and net assets** | **¥3,713,909** | ¥ — | **$31,460,480** |

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

Nippon Steel Corporation
Years ended March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| Net sales | **¥2,562,899** | ¥2,591,388 | **$21,710,284** |
| Cost of sales | **1,994,216** | 1,971,069 | **16,892,982** |
| **Gross margin** | **568,682** | 620,319 | **4,817,302** |
| Selling, general and administrative expenses | **166,405** | 186,386 | **1,409,615** |
| **Operating profit** | **402,277** | 433,933 | **3,407,687** |
| Non-operating profit: | | | |
| Interest and dividend income | **28,831** | 17,722 | **244,227** |
| Miscellaneous | **11,914** | 16,756 | **100,928** |
| | **40,745** | 34,479 | **345,155** |
| Non-operating loss: | | | |
| Interest expenses | **13,207** | 11,497 | **111,882** |
| Miscellaneous | **40,038** | 68,174 | **339,167** |
| | **53,246** | 79,671 | **451,049** |
| **Ordinary profit** | **389,776** | 388,740 | **3,301,793** |
| Special profit: | | | |
| Gain on sales of tangible fixed assets | **11,254** | 10,295 | **95,332** |
| Gain on sales of investments in securities and investments in subsidiaries and affiliates | **8,013** | 2,997 | **67,882** |
| | **19,267** | 13,293 | **163,215** |
| **Income before income taxes and minority interests** | **409,044** | 402,034 | **3,465,009** |
| **Income taxes—current** | **145,900** | 166,600 | **1,235,916** |
| **Income taxes—deferred** | **14,300** | (8,600) | **121,135** |
| **Net income** | **¥ 248,844** | ¥ 244,034 | **$ 2,107,957** |
| **Per share (stated in yen and in U.S. dollars):** | | | |
| Net income | **¥38.42** | ¥36.21 | **$0.325** |
| Cash dividends applicable to the year | **10.00** | 9.00 | **0.085** |
| **Weighted average number of shares outstanding (in thousands)** | **6,475,447** | 6,738,560 | |

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

Nippon Steel Corporation
Years ended March 31, 2006 and 2005

| | Thousands | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Additional paid-in capital | Legal reserve | Special tax-purpose reserve | Voluntary reserve | Retained earnings |
| Balance at March 31, 2004 | 6,806,980 | ¥419,524 | ¥105,820 | ¥— | ¥ 98,321 | ¥— | ¥110,955 |
| Net income for the year ended March 31, 2005 | — | — | — | — | — | — | 145,824 |
| Year-end cash dividends | — | — | — | — | — | — | (10,141) |
| Transfer to legal reserve | — | — | — | — | — | — | — |
| Transfer to special tax-purpose reserve | — | — | — | — | (14,274) | — | 14,274 |
| Transfer to voluntary reserve | — | — | — | — | 81,221 | — | (81,221) |
| Effect of share exchange, etc. | — | — | 3,991 | — | — | — | — |
| Balance at March 31, 2005 | 6,806,980 | ¥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 | 6,806,980 | ¥419,524 | ¥111,556 | ¥— | ¥246,953 | ¥— | ¥308,288 |

## Non-Consolidated Statements of Changes in Net Assets *(Reference-Unaudited)*

Nippon Steel Corporation
Year ended March 31, 2007

| | Thousands | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Capital surplus | Special tax purpose reserve | Voluntary reserve | Accumulated earnings carried forward | Treasury stock, at cost | Unrealized gains on available-for-sale securities | Deferred hedge income (loss) | Total |
| Balance at March 31, 2006 | 6,806,980 | ¥419,524 | ¥111,556 | ¥86,953 | ¥160,000 | ¥308,288 | ¥ (58,589) | ¥364,252 | ¥ — | ¥1,391,985 |
| Withdrawal of voluntary reserve | — | — | — | (21,252) | (160,000) | (181,252) | — | — | — | — |
| Reserve of voluntary reserve | — | — | — | 15,890 | — | 15,890 | — | — | — | — |
| Cash dividends for the previous fiscal year | — | — | — | — | — | (59,834) | — | — | — | (59,834) |
| Cash interim dividends for fiscal year 2006 | — | — | — | — | — | (25,686) | — | — | — | (25,686) |
| Net income for fiscal year 2006 | — | — | — | — | — | 248,844 | — | — | — | 248,844 |
| Acquisition of treasury stock | — | — | — | — | — | — | (109,706) | — | — | (109,706) |
| Disposal of treasury stock | — | — | 8 | — | — | — | 34 | — | — | 43 |
| Other change for fiscal year 2006 (net) | — | — | — | — | — | — | — | 29,560 | (309) | 29,251 |
| Total change for this fiscal year 2006 | — | — | 8 | (5,363) | (160,000) | 328,684 | (109,671) | 29,560 | (309) | 82,911 |
| **Balance at March 31, 2007** | **6,806,980** | **¥419,524** | **¥111,564** | **¥81,591** | **¥ —** | **¥636,973** | **¥(168,261)** | **¥393,813** | **¥(309)** | **¥1,474,897** |

| | Thousands | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Capital surplus | Special tax purpose reserve | Voluntary reserve | Accumulated earnings carried forward | Treasury stock, at cost | Unrealized gains on available-for-sale securities | Deferred hedge income (loss) | Total |
| Balance at March 31, 2006 | 6,806,980 | $3,553,790 | $944,990 | $736,581 | $1,355,357 | $2,611,506 | $ (496,313) | $3,085,579 | $ — | $11,791,494 |
| Withdrawal of voluntary reserve | — | — | — | (180,025) | (1,355,357) | (1,535,383) | — | — | — | — |
| Reserve of voluntary reserve | — | — | — | 134,608 | — | 134,608 | — | — | — | — |
| Cash dividends for the previous fiscal year | — | — | — | — | — | (506,859) | — | — | — | (506,859) |
| Cash interim dividends for fiscal year 2006 | — | — | — | — | — | (217,589) | — | — | — | (217,589) |
| Net income for fiscal year 2006 | — | — | — | — | — | 2,107,957 | — | — | — | 2,107,957 |
| Acquisition of treasury stock | — | — | — | — | — | — | (929,323) | — | — | (929,323) |
| Disposal of treasury stock | — | — | 73 | — | — | — | 296 | — | — | 296 |
| Other change for fiscal year 2006 (net) | — | — | — | — | — | — | — | 250,409 | (2,618) | 247,791 |
| Total change for this fiscal year 2006 | — | — | 73 | (45,417) | (1,355,357) | 2,784,283 | (929,027) | 250,409 | (2,618) | 702,345 |
| **Balance at March 31, 2007** | **6,806,980** | **$3,553,790** | **$945,063** | **$691,164** | **$ —** | **$5,395,790** | **$(1,425,340)** | **$3,335,989** | **$(2,618)** | **$12,493,839** |

## CONSOLIDATED

| As of or for the years ended March 31 | Millions of yen | Thousands of U.S. dollars | Millions of yen | | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Net sales | **4,302,145** | **36,443,415** | 3,906,301 | 3,389,356 | 2,925,878 | 2,749,306 | 2,581,399 | 2,750,418 | 2,680,611 | 2,759,409 | 3,076,531 | 3,061,288 |
| Operating profit (loss) | **580,097** | **4,914,000** | 576,319 | 429,948 | 224,475 | 142,961 | 73,044 | 162,644 | 120,296 | 92,396 | 181,640 | 142,090 |
| Ordinary profit (loss) | **597,640** | **5,062,605** | 547,400 | 371,446 | 172,851 | 68,879 | 16,746 | 111,374 | 64,687 | 15,282 | 86,537 | 80,753 |
| Income (loss) before income taxes and minority interests | **621,419** | **5,264,033** | 565,607 | 369,485 | 73,642 | (37,386) | (25,079) | 49,403 | 2,171 | 14,096 | 39,234 | (25,148) |
| Net income (loss) | **351,182** | **2,974,862** | 343,903 | 220,601 | 41,515 | (51,686) | (28,402) | 26,494 | 11,173 | 11,478 | 5,945 | 3,450 |
| Net income (loss) per share (yen/U.S. dollars) | **¥54.28** | **$0.45** | ¥51.07 | ¥32.73 | ¥6.15 | ¥(7.69) | ¥(4.17) | ¥3.89 | ¥1.64 | ¥1.68 | ¥0.86 | ¥0.50 |
| Net assets | **2,369,228** | **20,069,702** | — | — | — | — | — | — | — | — | — | — |
| Shareholders' equity | **—** | **—** | 1,677,889 | 1,188,409 | 938,581 | 789,443 | 907,150 | 979,695 | 889,220 | 878,849 | 878,702 | 891,134 |
| Total assets | **5,344,924** | **45,276,783** | 4,542,766 | 3,872,110 | 3,705,917 | 3,757,175 | 4,030,596 | 4,232,011 | 4,172,459 | 4,489,753 | 4,670,669 | 4,509,536 |
| Capital expenditure | **273,440** | **2,316,307** | 203,973 | 195,228 | 149,593 | 163,318 | 195,801 | 157,348 | 226,954 | 234,833 | 232,490 | 241,377 |
| Depreciation | **192,454** | **1,630,281** | 183,365 | 180,571 | 183,510 | 196,653 | 197,336 | 206,987 | 214,186 | 221,359 | 241,003 | 232,543 |
| Research and development costs | **41,229** | **349,250** | 37,881 | 36,352 | 35,349 | 35,866 | 35,183 | 39,364 | 40,575 | — | — | — |
| Interest-bearing debt | **1,213,057** | **10,275,795** | 1,223,837 | 1,282,266 | 1,561,228 | 1,871,875 | 2,016,175 | 2,101,686 | 2,277,938 | 2,549,064 | 2,640,750 | 2,484,261 |

### Sales and operating profit (loss) by industry segment*[1] *[2]

***Sales***

| For the years ended March 31 | Millions of yen | Thousands of U.S. dollars | Millions of yen | | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Steelmaking and steel fabrication | **3,482,377** | **29,499,177** | 3,057,510 | 2,620,732 | 2,156,946 | 1,980,809 | 1,828,206 | 1,962,019 | 1,877,582 | 1,743,018 | 2,040,444 | 2,015,666 |
| Engineering and construction | **367,968** | **3,117,055** | 336,179 | 279,866 | 293,137 | 274,903 | 294,323 | 280,929 | 300,054 | 419,841 | 426,852 | 490,165 |
| Urban development | **94,347** | **799,213** | 104,045 | 89,275 | 120,811 | 105,188 | 130,808 | 141,979 | 164,428 | 146,406 | 126,218 | — |
| Chemicals and non-ferrous materials | **—** | **—** | 373,072 | 331,168 | 275,797 | 346,232 | 326,164 | 359,123 | 338,631 | 415,285 | 451,573 | 440,289 |
| Chemicals | **318,755** | **2,700,174** | — | — | — | — | — | — | — | — | — | — |
| New materials | **65,601** | **555,705** | — | — | — | — | — | — | — | — | — | — |
| System solutions | **156,505** | **1,325,759** | 148,339 | 146,531 | 150,850 | 153,143 | 149,398 | 143,670 | 136,198 | 160,954 | 151,111 | 156,261 |
| Other businesses | **—** | **—** | 69,057 | 76,244 | 73,615 | 79,059 | 61,251 | 59,440 | 56,491 | 222,908 | 239,616 | 314,403 |
| Elimination of intersegment transactions | **(183,410)** | **(1,553,670)** | (181,903) | (154,463) | (145,280) | (190,031) | (208,754) | (196,745) | (192,776) | (349,005) | (359,284) | (355,498) |
| Consolidated total | **4,302,145** | **36,443,415** | 3,906,301 | 3,389,356 | 2,925,878 | 2,749,306 | 2,581,399 | 2,750,418 | 2,680,611 | 2,759,409 | 3,076,531 | 3,061,288 |

***Operating profit (loss)***

| For the years ended March 31 | Millions of yen | Thousands of U.S. dollars | Millions of yen | | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Steelmaking and steel fabrication | **514,562** | **4,358,851** | 513,977 | 376,926 | 189,717 | 112,816 | 23,482 | 115,536 | 73,257 | 65,397 | 168,659 | 109,639 |
| Engineering and construction | **13,031** | **110,388** | 9,517 | 6,696 | 4,359 | 2,460 | 9,913 | 7,287 | 12,209 | 11,972 | 10,610 | 35,510 |
| Urban development | **14,301** | **121,146** | 14,155 | 8,503 | 13,526 | 4,469 | 15,576 | 16,320 | 20,787 | 16,975 | 15,766 | — |
| Chemicals and non-ferrous materials | **—** | **—** | 27,037 | 26,374 | 12,667 | 13,458 | 10,379 | 11,574 | 8,378 | 5,263 | 8,140 | 11,806 |
| Chemicals | **23,645** | **200,299** | — | — | — | — | — | — | — | — | — | — |
| New materials | **3,129** | **26,508** | — | — | — | — | — | — | — | — | — | — |
| System solutions | **13,992** | **118,528** | 11,806 | 11,384 | 9,182 | 9,776 | 10,504 | 9,770 | 5,311 | (19,333) | (26,491) | (26,504) |
| Other businesses | **—** | **—** | (1,185) | 384 | (4,310) | (2,155) | 1,457 | 772 | (911) | 11,000 | 9,782 | 17,796 |
| Elimination of intersegment transactions | **(2,564)** | **(21,721)** | 1,010 | (321) | (668) | 2,135 | 1,731 | 1,384 | 1,262 | 1,120 | (4,826) | (6,159) |
| Consolidated total | **580,097** | **4,914,000** | 576,319 | 429,948 | 224,475 | 142,961 | 73,044 | 162,644 | 120,296 | 92,396 | 181,640 | 142,090 |

## NON-CONSOLIDATED

| As of or for the years ended March 31 | Millions of yen | Thousands of U.S. dollars | Millions of yen | | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Net sales | **2,562,899** | **21,710,284** | 2,591,388 | 2,147,863 | 1,861,829 | 1,789,706 | 1,681,406 | 1,848,710 | 1,810,842 | 1,918,538 | 2,205,019 | 2,184,805 |
| Ordinary profit (loss) | **389,776** | **3,301,793** | 388,740 | 247,826 | 117,678 | 48,359 | 702 | 78,776 | 42,606 | 50,238 | 103,954 | 84,711 |
| Net income (loss) | **248,844** | **2,107,957** | 244,034 | 145,824 | 31,184 | (20,447) | (28,129) | 18,355 | 266 | 522 | 35,393 | 19,906 |
| Net income (loss) per share (yen/U.S. dollars) | **¥38.42** | **$0.32** | ¥36.21 | ¥21.63 | ¥4.62 | ¥(3.02) | ¥(4.13) | ¥2.69 | ¥0.03 | ¥0.07 | ¥5.13 | ¥2.88 |
| Cash dividends per share (yen/U.S. dollars) | **¥10.00** | **$0.08** | ¥9.00 | ¥5.00 | ¥1.50 | ¥1.50 | ¥1.50 | ¥1.50 | ¥1.50 | ¥1.50 | ¥2.50 | ¥2.50 |
| Net assets | **1,474,897** | **12,493,839** | — | — | — | — | — | — | — | — | — | — |
| Shareholders' equity | **—** | **—** | 1,391,985 | 1,019,186 | 845,099 | 713,772 | 793,557 | 866,757 | 773,981 | 783,925 | 861,828 | 843,659 |
| Total assets | **3,713,909** | **31,460,480** | 3,446,558 | 2,819,991 | 2,652,353 | 2,588,698 | 2,738,973 | 2,884,547 | 2,793,067 | 3,051,391 | 3,150,110 | 3,145,249 |
| Capital expenditure | **200,000** | **1,694,197** | 165,000 | 140,000 | 120,000 | 85,000 | 175,000 | 135,000 | 180,000 | 135,000 | 100,000 | 100,000 |
| Depreciation | **134,177** | **1,136,612** | 130,619 | 129,903 | 134,314 | 148,106 | 144,363 | 150,904 | 153,327 | 139,441 | 148,111 | 149,319 |
| Research and development costs | **29,074** | **246,285** | 28,003 | 27,349 | 27,290 | 29,091 | 28,705 | 35,598 | 35,727 | 41,900 | 47,500 | 51,100 |
| Interest-bearing debt | **1,234,969** | **10,461,407** | 960,115 | 909,370 | 1,075,872 | 1,188,209 | 1,240,474 | 1,205,352 | 1,273,687 | 1,464,531 | 1,457,895 | 1,509,132 |

| **Shares** | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shares outstanding at year-end (in thousands) | **6,806,980** | 6,806,980 | 6,806,980 | 6,806,980 | 6,806,980 | 6,806,980 | 6,806,980 | 6,806,980 | 6,806,980 | 6,889,903 | 6,889,903 |
| Common stock price range (high/low: yen) | **900 / 370** | 479 / 242 | 294 / 203 | 253 / 127 | 217 / 119 | 230 / 145 | 270 / 165 | 314 / 215 | 272 / 177 | 392 / 146 | 388 / 283 |

| **Production and shipment** | Thousands of tons | Thousands of tons | | Thousands of tons | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| For the years ended March 31 | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Crude steel output | **31,596** | 31,200 | 29,879 | 30,146 | 29,902 | 26,140 | 27,837 | 25,620 | 23,201 | 26,619 | 25,706 |
| Steel products shipments*[3] | **31,514** | 29,595 | 29,514 | 29,388 | 29,171 | 26,312 | 26,789 | 25,633 | 24,026 | 26,580 | 25,871 |

| **Employees** | Persons | Persons | | Persons | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| As of March 31 | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Number of employees*[4] | **14,346** | 15,212 | 15,081 | 15,138 | 16,481 | 17,370 | 18,918 | 19,816 | 21,414 | 22,560 | 24,527 |

*[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".

*[2] On July 1, 2006, Nippon Steel spun off two business sectors, engineering and construction, and new materials.
At the same time, the company positioned as the operating domain its six business sectors, steelmaking and steel fabrication, engineering and construction, urban development, chemicals, new materials, and system solutions."Chemicals" and "new materials," which were included in the chemicals and non-ferrous materials segment, are now positioned as independent businesses, and "titanium and aluminum operations,"which were part of the chemicals and non-ferrous materials sector, have been transferred to"steelmaking and steel fabrication." "Other businesses" (electric power supply, services, and others) have been transferred to "steelmaking and steel fabrication."

*[3] Including sub-products

*[4] Excluding employees seconded to subsidiaries and other organizations. The number of such employees at March 31, 2007 and 2006, was 3,387 and 4,668, respectively.

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=¥118.05 at the latest balance sheet date.

# Directory

## Head Office
6-3, Otemachi 2-chome, Chiyoda-ku,
Tokyo 100-8071, Japan
Phone: 81-3-3242-4111 Fax: 81-3-3275-5607

## Sales Offices
**Chiba Sales Office**
Phone: 81-43-227-2281 Fax: 81-43-221-2646

**Yokohama Sales Office**
Phone: 81-45-212-4069 Fax: 81-45-201-0845

**Nagano Sales Office**
Phone: 81-26-228-2190 Fax: 81-26-228-6317

● **Osaka Sales Office**
Phone: 81-6-6202-2201 Fax: 81-6-6223-6200

**Shikoku Sales Office**
Phone: 81-87-862-2201 Fax: 81-87-862-2206

● **Nagoya Sales Office**
**(Nagoya Office)**
Phone: 81-52-581-2111 Fax: 81-52-581-4713

**(Tokai Office)**
Phone: 81-52-689-3103 Fax: 81-52-689-3159

**Shizuoka Sales Office**
Phone: 81-54-255-2511 Fax: 81-54-255-2518

● **Kyushu Sales Office**
Phone: 81-92-273-7001 Fax: 81-92-273-7083

**Nagasaki Sales Office**
Phone: 81-95-822-2281 Fax: 81-95-822-8598

**Kumamoto Sales Office**
Phone: 81-96-319-0371 Fax: 81-96-319-0373

**Oita Sales Office**
Phone: 81-97-558-4110 Fax: 81-97-558-4114

**Minamikyushu Sales Office**
Phone: 81-99-250-9501 Fax: 81-99-250-9503

**Okinawa Sales Office**
Phone: 81-98-867-4145 Fax: 81-98-867-6926

● **Chugoku Sales Office**
Phone: 81-82-225-5212 Fax: 81-82-225-5297

**Okayama Sales Office**
Phone: 81-86-292-6751 Fax: 81-86-292-6752

● **Hokkaido Sales Office**
Phone: 81-11-222-8260 Fax: 81-11-251-2791

**Muroran Sales Office**
Phone: 81-143-47-2168 Fax: 81-143-47-2676

● **Tohoku Sales Office**
Phone: 81-22-227-2661 Fax: 81-22-264-1031

**Morioka Sales Office**
Phone: 81-19-623-6341 Fax: 81-19-651-7445

**Akita Sales Office**
Phone: 81-18-862-3054 Fax: 81-18-862-3113

**Aomori Sales Office**
Phone: 81-17-775-3980 Fax: 81-17-723-1589

● **Niigata Sales Office**
Phone: 81-25-246-3111 Fax: 81-25-246-1062

**Hokuriku Sales Office**
Phone: 81-76-431-8347 Fax: 81-76-433-1047

## Steelworks
● **Yawata Works**
Phone: 81-93-872-6111 Fax: 81-93-872-6849

● **Bar & Wire Rod Division:**
**Muroran Works**
Phone: 81-143-47-2111 Fax: 81-143-47-2701

● **Bar & Wire Rod Division:**
**Kamaishi Works**
Phone: 81-193-24-2332 Fax: 81-193-22-0158

● **Hirohata Works**
Phone: 81-79-236-1001 Fax: 81-79-237-2600

● **Pipe & Tube Division:**
**Hikari Pipe & Tube Div.**
Phone: 81-833-71-5251 Fax: 81-833-71-5161

● **Nagoya Works**
Phone: 81-52-603-7028 Fax: 81-52-603-7025

● **Structurals Division:**
**Sakai Works**
Phone: 81-72-233-1108 Fax: 81-72-233-1106

● **Kimitsu Works**
Phone: 81-439-50-2013 Fax: 81-439-54-1660

● **Oita Works**
Phone: 81-97-553-2305 Fax: 81-97-553-2353

● **Pipe & Tube Division:**
**Tokyo Works**
Phone: 81-3-3968-6801 Fax: 81-3-3968-6810

## Research Laboratory
● **Technical Development Bureau**
Phone: 81-439-80-2111 Fax: 81-439-80-2740

## Major Consolidated Subsidiaries
● **Nippon Steel Engineering Co., Ltd.**
Phone: 81-3-3275-5111

● **Nippon Steel City Produce, Inc.**
Phone: 81-3-3276-8800

● **Nippon Steel Chemical Co., Ltd.**
Phone: 81-3-5207-7600

● **Nippon Steel  Materials Co., Ltd.**
Phone: 81-3-3275-6111

● **NS Solutions Corporation**
Phone: 81-3-5117-4111

## Overseas
● **NIPPON STEEL U.S.A., INC.**
**New York Office**
780 Third Avenue, 34th Floor,
New York, N.Y. 10017, U.S.A.
Phone: 1-212-486-7150
Fax: 1-212-593-3049

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

**Mexico Office**
Calle de Ruben Dario 281,
No. 2101, Colonia Bosque de Chapultepec,
Mexico, D.F. 11580, Mexico
Phone: 52-55-5281-6123
Fax: 52-55-5280-0501

● **NIPPON STEEL CORPORATION**
**European Office (Düsseldolf)**
Am Seestern 8, 40547 Düsseldorf,
Federal Republic of Germany
Phone: 49-211-5306680
Fax: 49-211-5961163

● **NIPPON STEEL AUSTRALIA PTY. LIMITED**
**Sydney Office**
Level 24, No. 1 York Street,
Sydney, N.S.W. 2000, Australia
Phone: 61-2-9252-2077
Fax: 61-2-9252-2082

**Perth Office**
Level 29, The Forrest Centre,
221 St. Georges Terrace,
Perth, WA 6000, Australia
Phone: 61-8-9480-3777
Fax: 61-8-9481-3177

● **NIPPON STEEL SOUTHEAST ASIA PTE. LTD. (Singapore)**
16 Raffles Quay #35-01,
Hong Leong Building,
Singapore 048581
Phone: 65-6223-6777
Fax: 65-6224-4207

● **NIPPON STEEL CORPORATION**
**Bangkok Representative Office**
Thosapol Land 3 Building, 4th Floor,
947 Moo 12 Bangna-Trad Road, Km3 Bangna,
Bangkok 10260, Thailand
Phone: 66-2-744-1480
Fax: 66-2-744-1485

● **NIPPON STEEL EMPREENDIMENTOS SIDERÚRGICOS LTDA. (São Paulo)**
Av. Paulista, 1048-10 andar Conj. 101,
Bela Vista, São Paulo-SP, CEP 01310-100, Brazil
Phone: 55-11-3371-4040
Fax: 55-11-3371-4041

● **NIPPON STEEL CORPORATION**
**Beijing Representative Office**
5th Floor, Chang Fu Gong Center,
Jian Guo Men Wai Da Jie,
Beijing 100022, P.R. China
Phone: 86-10-6513-8593
Fax: 86-10-6513-7197

● **NIPPON STEEL CORPORATION**
**Shanghai Representative Office**
Room No. 807, UNITED PLAZA,
1468 Nanjing Road West,
Shanghai 200040, P.R. China
Phone: 86-21-6247-9900
Fax: 86-21-6247-1858

● **NIPPON STEEL CORPORATION**
**Guangzhou Representative Office**
Room No. 1236, The Garden Tower,
368 Huanshi Dong Lu,
Guangzhou 510064, P.R. China
Phone: 86-20-8386-8178
Fax: 86-20-8386-7066

# Investor Information (As of March 31, 2007)

**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**
412,484

**Ten Major Shareholders**

| | |
|---|---|
| Japan Trustee Services Bank, Ltd. | 6.5% |
| State Street Bank & Trust Company | 6.2% |
| The Master Trust Bank of Japan, Ltd. | 4.0% |
| Nippon Life Insurance Co. | 3.2% |
| Trust & Custody Services Bank, Ltd. | 3.0% |
| 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 | 1.5% |

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

**Transfer Agent**
The Chuo Mitsui Trust & Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan
Phone: 81-3-3323-7111

Printed in Japan on recycled paper