

# Nippon Steel Corporation

Annual Report 2008

Year ended March 31, 2008

***On the Leading Edge: Nippon Steel***

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Forming Advanced **Value**

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## ... to Make Development Sustainable.

Nippon Steel is dedicated to sustaining growth by raising annual crude steel production capacity to more than 40 million metric tons and pursuing our Global Player Strategy. A competitive edge backed by a superior technological edge and advanced manufacturing skills provides a powerful base for accomplishing these goals.

### Notes:

- The accounting period covers a 12-month period beginning April 1 and ending March 31 the following year. In this annual report, "fiscal 2007" refers to the 12-month period ended March 31, 2008 (April 1, 2007–March 31, 2008), while "fiscal 2006" refers to the 12-month period ended March 31, 2007 (April 1, 2006–March 31, 2007).
- Tonnage figures are in metric tons.
- 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 is raising its annual crude steel production capacity to more than 40 million metric tons and executing a strategy aimed at becoming a global player. Our objectives are to sustain growth and improve corporate value as the No. 1 global steelmaker focusing on medium-high grade steel.**



This is my first letter to our stakeholders as president of Nippon Steel following my appointment to this position on April 1, 2008. As the Company's president, I believe that my primary mission is to improve corporate value based on sustained growth. To accomplish this mission, my highest priority is making Nippon Steel the No. 1 global steelmaker with a focus on medium-high grade steel. I will direct all of the Nippon Steel Group's resources toward raising annual crude steel production capacity to more than 40 million metric tons and toward pursuing our strategy for making Nippon Steel a global player in the steel industry.

**Nippon Steel recorded its fifth consecutive year of net income growth in fiscal 2007 and its fourth consecutive year of record net income. This has enabled us to create an operating framework that can increase earnings and also maintain a sound financial position.**

In fiscal 2007, ended March 31, 2008, real global GDP growth was 4.9%, mainly because of robust economies in Brazil, Russia, India, China (the BRICs), and several other countries. Global economic activity increased despite the impact of a credit crunch linked to the subprime loan crisis and other events. Worldwide crude steel production was more than 1.3 billion metric tons, 7.5% higher than in the previous fiscal year. In Japan, crude steel production climbed to an all-time high of 121,520 thousand metric tons because of moderate domestic economic growth that was fueled mainly by substantial external demand and capital expenditures.

Nippon Steel continued to concentrate on capturing the high volume of demand for medium-high grade steel. In particular, we made large capital expenditures to increase production and shipping capabilities. Increasing our iron and steel making capacity was one objective of these expenditures. At the Nagoya Works, we completed a major project to improve integrated production capabilities by expanding and upgrading the No. 1 blast furnace, building a new basic oxygen furnace, and implementing other measures to enhance production flows. At the Oita Works, we constructed the No. 5 coke oven, which is the first in the world to use the SCOPE21

next-generation coke production technology. Overall, our fiscal 2007 capital expenditures amounted to ¥310 billion, which was ¥40 billion more than in fiscal 2006.

We view strategic alliances with companies in Japan and overseas as an effective means of efficiently increasing production capacity and upgrading and expanding our ability to supply steel worldwide. In Japan, we further strengthened our alliance with Sumitomo Metal Industries, Ltd., and Kobe Steel, Ltd., and worked more closely with these companies toward the cooperative use of mission critical production facilities, the mutual supply of semi-finished products, and other objectives. All three companies also increased their mutual shareholdings.

Overseas, there is strong demand for automotive steel sheets, especially at Japanese automakers. To keep pace with this demand, we are expanding our joint ventures with Baoshan Iron & Steel Co., Ltd., in China, Usinas Siderúrgicas de Minas Gerais S.A. (USIMINAS) in Brazil, and ArcelorMittal in North America. In addition, we will install hot-dip galvanizing lines in each of these regions. We plan to continue forming such alliances on a global scale to execute our strategy of growth in areas where demand for steel is the strongest.

Demand for steel remained high in the market. However, the rapid increase in the price of materials needed to make steel raised expenses for Japan's entire steel industry by approximately ¥1,000 billion in fiscal 2007 compared with the previous fiscal year. At Nippon Steel alone, the cost of raw materials was about ¥165 billion higher. As a result, it was extremely difficult to earn profits in fiscal 2007. We responded by cutting costs and taking all other possible

actions to lower our operating expenses. At the same time, we raised the prices of our products. As a result, the average price of our products was ¥79,800 per ton in fiscal 2007, approximately 30% higher than three years earlier.

To strengthen our performance on a consolidated basis, Nippon Steel Drum Co., Ltd., and Hokkai Koki Co., Ltd., became wholly owned subsidiaries, Oji Steel Co., Ltd., became a consolidated subsidiary, and Godo Steel, Ltd., became an equity-method affiliate. All of these actions were aimed at further improving the corporate value of the entire Nippon Steel Group.

Along with measures to improve earnings, we enhanced our financial soundness. This allowed us to earn a credit rating of A, which was a goal of our medium-term plan, from four credit rating agencies in Japan and overseas as of the end of June 2007.

Thanks to these accomplishments, Nippon Steel was able to achieve its fifth consecutive year of net income growth and fourth consecutive year of record net income, as mentioned previously. This performance demonstrates that we have established an operating framework that will enable us to achieve earnings growth while maintaining a sound financial position.

**We will overcome today's challenges, cut costs further wherever possible, and build a foundation for greater accomplishments in the future.**

In fiscal 2008, we will need to absorb an unprecedented upswing in the cost of raw materials and fuel. For the entire Japanese steel industry, these expenses will probably increase by more than ¥3,500 billion. At Nippon Steel, we anticipate an increase of more than ¥1,100 billion in our raw materials and fuel bills. Obviously, this will be a crucial year for us.

Our goal is to remove approximately ¥100 billion from our annual expenses, three times more than our fiscal 2007 cost savings. To maintain profitability, we have been asking our customers to accept price increases that reflect the magnitude of the difficulties facing all steelmakers.

Additionally, we are taking many actions to build a more powerful base for our production activities for continuous growth. Extensive measures to upgrade our manufacturing capabilities are a top priority. We are determined to make advanced manufacturing skills an integral component of the Nippon Steel Group.

**Aiming for sustained growth by raising annual crude steel production capacity to more than 40 million metric tons and becoming a global player**

Rapid increases in the price of raw materials and slowing economic growth in industrialized nations are making the economic outlook uncertain. However, many countries continue to post strong growth, notably the BRIC nations. We believe that steel will remain a growth industry as global demand for this widely used material continues to climb. We are determined to be part of this growth by establishing the goals of raising annual crude steel production capacity to more than 40 million metric tons and executing a strategy to become a global player in the steel industry. Fulfilling these goals will enable us to continue growing and improving our corporate value.

**Raising annual capacity to more than 40 million metric tons**

To meet rising demand, Nippon Steel will grow through initiatives designed to achieve progress not only in quantity but also in quality.

Our primary target is demand for medium-high grade steel, a market sector where we have a strong position. By making economical and efficient investments, we plan to build a production system that can supply more than 40 million metric tons of crude steel. Our current annual output on a consolidated basis is 36 million metric tons. We plan to add two million metric tons each from the upgraded No. 1 blast furnace at the Oita Works and from the facilities of alliance partners Sumitomo Metal Industries, Kobe Steel, and POSCO. This will give us an annual output of 40 million metric tons by March 2010. In the future, we plan to increase capacity and improve the quality of our 40 million metric tons plus manufacturing infrastructure.



**Implementing our strategy of becoming a global player in the steel industry**

Nippon Steel has already supplied medium-high grade steel to customers in Japan and overseas. We use our steel works in Japan along with the resources of our global alliance partners to function as a global supplier. Looking ahead, there will be enormous opportunities for growth outside Japan. To capitalize on these opportunities, we must transform ourselves into a truly global organization. We cannot retain our core position in the steel industry and sustain growth without directly linking our operations to global economic expansion. We will execute a growth strategy that involves manufacturing and selling steel in regions where economies are growing while increasing our capacity to manufacture and supply steel. Our activities will continue to support the overseas operations of our Japanese customers, but we will also aggressively promote our medium-high grade steel products to overseas companies. We are already active in Brazil and are extending assistance to USIMINAS for all aspects of its activities, including measures to increase capacity at existing facilities and construct new steel resource and production facilities. USIMINAS is a key partner in our strategy for becoming a global player.

USIMINAS and Nippon Steel are now considering the use of semi-finished and finished steel products

### Building an infrastructure with an annual crude steel production capacity of more than 40 million metric tons

Fiscal 2007

36 million  
metric tons

Fiscal 2009

More than  
40 million  
metric tons

Increase output of  
medium-high grade steel

**+ 2 million metric tons**

Enlarge the No. 1 blast furnace at the Oita Works

Forge more alliances

**+ 2 million metric tons**

Establish a cooperative production system with Sumitomo Metal Industries, Kobe Steel, Nisshin Steel, and POSCO  
Jointly operate business with POSCO for the supply of reduced iron

made by USIMINAS to extend operations beyond South America. Eventually, we hope to promote these products to customers in North and Central America, Europe, and Africa. In Asia, we are moving ahead with research for the construction of a hot-dip galvanizing line in Thailand and a high-grade steel cold-rolling line in India. Moreover, we are holding discussions with government officials in Thailand regarding the provision of support for an integrated steel manufacturing project.

These activities illustrate how we are linking our growth directly to global economic expansion. Accomplishing this will require diligent measures that include the reallocation of employees and other corporate resources in line with our strategy of becoming a global player.



### Raising Nippon Steel's profile in Japan and overseas by leveraging a superior technological edge and manufacturing skills

In implementing the aforementioned two core strategies, our superior technological edge and manufacturing skills are two of our greatest strengths. Leveraging these two strengths will be vital to increasing our profile in markets worldwide.

Our superior technological edge underpins the superiority of our comprehensive technical expertise. This expertise includes our people as well as our skills in manufacturing, the development of processes and products, and technology for production equipment. Collectively, our superior technological edge allows us to differentiate ourselves from other steelmakers and maintain our competitive edge. By drawing on our technical superiority effectively, we can retain a position at the core of the global steel industry and form business relationships with important customers. However, we must never be satisfied. Nippon Steel must constantly seek to maintain and improve its superior technological edge. This aggressive approach will enable us to gain an even greater advantage over other steelmakers.

Manufacturing skills enable us to transform this superior technological edge into products and, ultimately, into profits. In this context, manufacturing skills is a broad term that covers sales, manufacturing, technology, logistics, purchasing, funding, and other activities. A superior technological edge is incomplete and ineffective without manufacturing skills. There would be no products or profits, and worse still, our customers would be dissatisfied. Our ability to constantly review and refine these skills is a major reason for our ability to grow. We will continue to enhance our superior technological edge and manufacturing skills to establish a more prominent position in Japan and other countries.

### Aiming for further evolution through our relentless drive to tackle difficult problems

If Nippon Steel is to achieve sustained growth, it must deal with the following three issues, all of which are critical to its operations:

The first is developing the skills of our employees.

I believe that our people are our greatest strength. We need outstanding people to develop, manufacture, and sell outstanding products. Nippon Steel must remain a company that can recruit, educate, and utilize talented individuals. This is why we do everything necessary to give our people the skills they need to succeed, and to pass that knowledge on to the next generation of workers.

The second issue is global warming.

Japan's steel industry has established a voluntary action plan that calls for a 10% reduction in total energy consumption by fiscal 2010 compared with fiscal 1990. Companies are using many different approaches in working toward this goal. For example, we are working to conserve energy and purchasing CO<sub>2</sub> emission rights based on our technological capabilities. We are also developing such innovative technologies as CO<sub>2</sub> separation and recovery, and hydrogen ironmaking process. We are working actively on a global scale to reduce CO<sub>2</sub> emissions, and our efforts include the transfer of our environmental technologies to companies in China and India.

The third issue involves natural resources.

We are placing emphasis on improving the procurement of raw materials. For example, we are increasing our interests in overseas iron ore and coal mines to ensure stable procurement of these materials. Another initiative is the development and application of plant operating technologies that permit the use of less expensive, lower-grade materials. We are also working to make the marine transport of raw materials more cost-competitive. In December 2007, BRASIL MARU, the world's largest



class iron ore carrier, was launched. It is one of four ultra-large vessels that will be in service by the end of 2010. We will continue to take measures that will give us a stronger long-term transportation infrastructure and cut the costs of transporting raw materials. All of these activities will allow us to build a resource procurement infrastructure that can adapt quickly to changes in raw material prices.

We are firmly committed to making progress in addressing all three of these issues while overcoming the enormous challenges that we currently face. Doing so will give us a sound base for fulfilling our strategic goals of raising annual crude steel output capacity to more than 40 million metric tons and becoming a global player. I am confident that the Nippon Steel Group has the resources, knowledge, and passion to sustain growth and advance to the next step as the No. 1 global steelmaker focusing on medium-high grade steel.

October 2008

*S. Muneoka*

Shoji Muneoka  
Representative Director and President



# The Evolution of Nippon Steel

The Evolution of Nippon Steel

## The transition from a global supplier to a global player— Evolution at Nippon Steel is a never-ending process

For many years, we have been a global supplier, serving customers worldwide by supplying steel products manufactured primarily in Japan. Now, we are seeing shifts in the sources of growth in global demand for steel. In response, we aim to link our operations directly to global economic expansion, primarily in countries with emerging economies. This will enable us to achieve sustained growth as a global player in the steel industry.

### NORTH AMERICA



#### Double Production of Automotive Hot-Dip Galvanized Steel Sheets

To become more competitive in North America, Japanese automakers have asked us to double production of automotive hot-dip galvanized steel sheets. In response, we have planned construction of a hot-dip galvanizing line at I/N Kote, our joint venture with ArcelorMittal. Incorporating state-of-the-art technology, this new line will produce annual output of 540,000 short tons of high-grade, high-quality galvanized steel sheets, including higher tensile strength sheets.

I/N Tek I/N Kote



#### NORTH AMERICA

|                   |                                 |
|-------------------|---------------------------------|
| I/N Tek           |                                 |
| Ownership         | 40.0%                           |
| Cold-rolling mill | 1,700 (thousands of short tons) |

|                          |                                       |
|--------------------------|---------------------------------------|
| I/N Kote                 |                                       |
| Ownership                | 50.0%                                 |
| Hot-dip galvanizing line | 500 → 1,040 (thousands of short tons) |
| Electrocoating line      | 450 (thousands of short tons)         |

### SOUTH AMERICA



#### Alliance with USIMINAS

Usinas Siderúrgicas de Minas Gerais S.A. (USIMINAS) of Brazil is one of the largest steelmakers in South America and an equity-method affiliate of Nippon Steel, which is currently moving forward with a ¥1,500 billion development plan. Investments include additional capacity at existing facilities, new steelmaking facilities, and other projects. USIMINAS will play a central role in our ability to achieve the goals of our Global Player Strategy. We are cooperating with this partner in every aspect of studies and construction for the ongoing expansion investment program. Many growth possibilities exist by using this collaboration with USIMINAS, including the potential of using this partner to supply steel to customers in North America, Europe and Africa.

USIMINAS

Europe/  
Africa

#### SOUTH AMERICA

|                          |                                        |
|--------------------------|----------------------------------------|
| UNIGAL Ltda.             |                                        |
| Ownership                | 20.7%                                  |
| Hot-dip galvanizing line | 480 → 1,030 (thousands of metric tons) |

Ipatinga Works Usiminas



Courtesy of USIMINAS

UNIGAL



#### USIMINAS Development Plan (as of July 2008)

**New steel making facilities:** Increase in crude steel output by 5 million metric tons; considering a further increase of 3 million metric tons

**Expansion of rolling mill capacity:** Increase in output of heavy plates by 500,000 metric tons and hot-rolled sheets by 4.95 million metric tons

**Purchase and expansion of mine:** Purchase of mine with an output of 5 million metric tons, raising annual production to 29 million metric tons



#### Higher Production of Hot-Dip Galvanized Steel Sheets for Automobiles

In order to meet the rapidly rising demand for galvanized steel sheets for automobiles, a second production line for these sheets will be constructed at UNIGAL, which is operated jointly by Nippon Steel and USIMINAS. As the largest producer of galvanized steel sheets in South America, UNIGAL will use this line to boost annual output to more than one million metric tons. This will reinforce UNIGAL's position as the leading supplier of galvanized steel sheets in South America (additional output of 550,000 metric tons by 2010).

Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd.



#### CHINA

|                                                              |                                        |
|--------------------------------------------------------------|----------------------------------------|
| Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA) |                                        |
| Ownership                                                    | 38%                                    |
| Cold-rolling mill                                            | 1,760 (thousands of metric tons)       |
| Hot-dip galvanizing line                                     | 800 → 1,250 (thousands of metric tons) |

#### Guangzhou Pacific Tinplate Co., Ltd. (PATIN)

|           |                                |
|-----------|--------------------------------|
| Ownership | 25%                            |
| Tinplate  | 200 (thousands of metric tons) |

#### Guangzhou You-Ri Automotive Parts Co., Ltd.

|                           |                               |
|---------------------------|-------------------------------|
| Ownership                 | 15%                           |
| Automotive pipe and tubes | 18 (thousands of metric tons) |

#### Nippon Steel Bar & CH Wire (China) Co., Ltd.

|                         |                              |
|-------------------------|------------------------------|
| Ownership               | 28.0%                        |
| Cold-heading steel wire | 7 (thousands of metric tons) |

Asia

#### THAILAND

|                                          |                                  |
|------------------------------------------|----------------------------------|
| Siam United Steel (1995) Co., Ltd. (SUS) |                                  |
| Ownership                                | 44.7%                            |
| Cold-rolling mill                        | 1,000 (thousands of metric tons) |

#### Siam Tinplate Co., Ltd. (STP)

|                              |                                |
|------------------------------|--------------------------------|
| Ownership                    | 15.6%                          |
| Tin plate and tin free steel | 150 (thousands of metric tons) |

#### Siam Nippon Steel Pipe Co., Ltd. (SNP)

|                                           |                               |
|-------------------------------------------|-------------------------------|
| Ownership                                 | 60.8%                         |
| Electric resistance-welded pipe and tubes | 60 (thousands of metric tons) |

#### Nippon Steel Bar & CH Wire (Thailand) Co., Ltd.

|                         |                               |
|-------------------------|-------------------------------|
| Ownership               | 28.0%                         |
| Cold-heading steel wire | 40 (thousands of metric tons) |

Siam United Steel



### INDIA



#### Considering the Launch of an Automotive Steel Sheet Business to Capitalize on Opportunity in India

Many other foreign companies are rapidly setting up operations in India. Significant growth in demand for steel is foreseen along with economic expansion. To capitalize on this opportunity, we are holding discussions with Tata Steel, India's largest steelmaker, concerning the establishment of a joint operation to manufacture automotive steel sheets. In March 2008, we established a representative office in New Delhi. This office enhances information-gathering ability, the Group's business deployment and sales activities, and provides technical services for steel product marketing.

### SOUTHEAST ASIA



#### Assisting in an Integrated Steel Manufacturing Project in Thailand

Thailand is the largest steel market in Southeast Asia, with annual demand of 10 million metric tons or more. This country is also home to many factories of Japanese companies that manufacture automobiles, electrical machinery, and other products made of steel. Furthermore, Thailand is ideally situated to export customer products to the Middle East, India, and Australia. Nippon Steel views this country as an extremely important market for medium-high grade steel, a category in which Nippon Steel is highly competitive. We already have production sites in Thailand for cold-rolled sheets, tinplate, pipe and tubes, bars and wire rods, and other products. Looking ahead, we want to further heighten our profile in Thailand as its importance as a steel market and supply base increases. Our assistance in Thailand's first integrated steel manufacturing project will be a key means of accomplishing this goal.



#### Considering the Addition of the First Production Line for Automotive Hot-Dip Galvanized Steel Made in Thailand

Demand in Thailand for automotive steel sheets is growing. Furthermore, rising orders for high-grade steel are accompanying this growth in demand. We are currently considering the construction of a production line for automotive hot-dip galvanizing line (CGL) in Thailand to supply automakers with the steel they need. We remain dedicated to making the necessary investments as our customers' needs become more advanced and diverse.

# The Intrinsic Value of Nippon Steel

The Intrinsic Value of Nippon Steel

With a competitive edge backed by a superior technological edge, Nippon Steel is continuing to prove the worth of its intrinsic value

Automotive steel sheets combining strength with light weight; pipe and tubes with the durability and flexibility to withstand use under punishing conditions; steel plates with outstanding corrosion resistance and environmentally responsible properties—our advanced technologies play a pivotal role in all of these revolutionary products. We remain devoted to creating more advanced technologies and innovations during our transition from a global supplier to a global player. We will also be a global leader with respect to our superior technological edge. By continuing to leverage these intrinsic values, Nippon Steel will continue to build on its position as the No. 1 global steel-maker with a focus on medium-high grade steel.

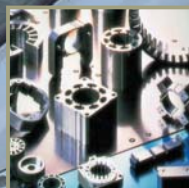
## The World Leader in Automotive Steel Sheets

### Higher Tensile Strength Steel: Lower Weight Along with Greater Safety during Collisions

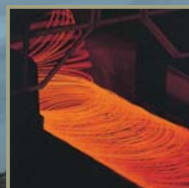
About 30% to 50% of an automobile body is made of higher tensile strength steel. Automakers demand two conflicting qualities in this steel: light weight for a lower environmental impact and the strength to protect occupants from collisions. Additionally, this steel must be easy to shape, a property critical to ease of processing. Nippon Steel provides all these properties by using exclusive shaping, processing and analytic technologies. By crafting steel solutions that use know-how in many fields other than steel, we can supply products boasting the world's highest quality products in their category.



Higher tensile strength steel



A motor core made of electrical sheets



High-strength wire rods used to make steel cord

### High-Strength Wire Rods Used to Make Steel Cord: The Ultimate in Strength and Quality

Strength and flexibility are both essential properties of steel cord used for tire reinforcement. Meeting these requirements is important, as steel cord influences a vehicle's fuel consumption and safety. Nippon Steel is the undisputed leader in wire rods for higher tensile strength steel cord. One reason is our skill in controlling molecular structures at the atomic level. Impurities in our steel cord are equivalent to a single baseball in a baseball dome. With this level of technology, it should come as no surprise that one out of every four cars in the world runs on tires reinforced with higher tensile strength wire rods made by Nippon Steel.



UO pipeline pipe

## UO Pipeline Pipe: Deep Sea Natural Gas Transmission

A 226-kilometer natural gas transport pipeline connecting Spain and Algeria, crossing the bottom of the Mediterranean Sea, will reach a maximum depth of 2,160 meters. Water pressure is 220 times higher than ordinary atmospheric pressure. This is equivalent to 380 six-ton elephants per square meter. Nippon Steel has fabricated steel pipes that can stand up to this pressure and other challenges. Our UO-pipes have the strength to withstand high-pressure, high-volume gas transmission. Additionally, our pipes have the flexibility to endure punishment, yet are easy to weld during installation. We have succeeded in providing all of these conflicting characteristics, all at a very high level. By providing technology like this, we are making an important contribution to resource and energy projects the world over.

## Highly Corrosion-Resistant Steel Plate for Supertankers NSGP®-1: Steel Plate Requiring No Coating Sets a New Global Standard

Crude oil tankers demand the highest level of safety of any type of cargo vessel. Corrosion in the bottom of tanks has been an especially critical issue for many years. To solve this problem, Nippon Steel recreated the corrosive conditions at the bottom of a crude oil tank and tested steel with many additives in various amounts. This lengthy process led to the invention of a revolutionary steel plate called NSGP®-1 (Nippon Steel's Green Protect-1). This heavy plate's corrosion resistance is about five times greater than that of conventional steel plates. Better still, this material reduces the environmental impact of tankers because it requires no anticorrosion coating. Vessel owners also appreciate the lower cost of construction and maintenance due to the absence of expensive coating. We will continue seeking advances that offer advantages for ship owners and operators as well as environmental and other benefits for the world.



Heavy plate production line





# Consolidated Operating Highlights

Nippon Steel Corporation and Consolidated Subsidiaries  
Years ended March 31

In fiscal 2007, ended March 31, 2008, consolidated net sales totaled ¥4,826.9 billion, operating profit was ¥545.5 billion, ordinary profit was ¥564.1 billion, and net income was ¥354.9 billion. Net income has increased for five consecutive years and set a new record in each of the past four years. Sales and net income per share also rose to all-time highs. Prices of natural resources in global markets increased sharply along with worldwide growth in demand for steel, primarily in countries with emerging economies. Demand was particularly strong for medium-high grade steel used in the automobile, shipbuilding and energy industries. We were able to meet this demand by making efficient capital expenditures and drawing on the manufacturing facilities of our Group companies and alliance partners in Japan and other countries. Our performance also benefited from measures to raise the price of steel products to reflect changes in the operating environment. We met our increasing demand for funds to support earnings growth, and yet were able to improve our financial soundness. In particular, by using growth in equity to lower our debt-to-equity ratio, we achieved our medium-term

|                                                                          | Millions of yen |            |            | Change (%)  | Millions of U.S. dollars <sup>(1)</sup> |
|--------------------------------------------------------------------------|-----------------|------------|------------|-------------|-----------------------------------------|
|                                                                          | 2008            | 2007       | 2006       | 2008 / 2007 | 2008                                    |
| <b>Operating Results (for the year)</b>                                  |                 |            |            |             |                                         |
| Net sales                                                                | ¥4,826,974      | ¥4,302,145 | ¥3,906,301 | 12.2%       | \$48,178                                |
| Operating profit                                                         | 545,580         | 580,097    | 576,319    | (6.0)       | 5,445                                   |
| Ordinary profit                                                          | 564,119         | 597,640    | 547,400    | (5.6)       | 5,630                                   |
| Net income                                                               | 354,989         | 351,182    | 343,903    | 1.1         | 3,543                                   |
| <b>Financial Position (at year-end)</b>                                  |                 |            |            |             |                                         |
| Total assets                                                             | ¥5,193,498      | ¥5,344,924 | ¥4,542,766 | (2.8)%      | \$51,836                                |
| Total net assets                                                         | 2,413,954       | 2,369,228  | 1,677,889  | 1.8         | 24,093                                  |
| Interest-bearing debt                                                    | 1,192,027       | 1,213,057  | 1,223,837  | (1.7)       | 11,897                                  |
| <b>Per Share Data (yen/U.S. dollars)</b>                                 |                 |            |            |             |                                         |
| Net income                                                               | ¥56.33          | ¥54.28     | ¥51.07     | 3.8%        | \$0.56                                  |
| Cash dividends                                                           | 11.00           | 10.00      | 9.00       | 10.0        | 0.11                                    |
| Dividend payout ratio                                                    | 19.5%           | 18.4%      | 17.6%      |             |                                         |
| <b>Ratios</b>                                                            |                 |            |            |             |                                         |
| Return on sales <sup>(2)</sup>                                           | 11.7%           | 13.9%      | 14.0%      |             |                                         |
| Return on assets <sup>(3)</sup>                                          | 10.7            | 12.1       | 13.0       |             |                                         |
| Return on equity <sup>(4)</sup>                                          | 18.6            | 19.7       | 24.0       |             |                                         |
| Ratio of net worth <sup>(5)</sup>                                        | 36.8            | 35.4       | 36.9       |             |                                         |
| Debt-to-equity ratio <sup>(6)</sup> (times)                              | 0.62            | 0.64       | 0.73       |             |                                         |
| <b>Reference</b>                                                         |                 |            |            |             |                                         |
| Crude steel production (consolidated, thousands of tons <sup>(7)</sup> ) | 36,230          | 34,520     | 33,950     |             |                                         |
| Price of steel (non-consolidated, thousands of yen per ton)              | 79.8            | 75.3       | 74.3       |             |                                         |
| Export ratio (non-consolidated, value basis, %)                          | 33.4            | 32.3       | 30.9       |             |                                         |

Notes: (1) U.S. dollar amounts are translated, for convenience only, at the rate of ¥100.19 = \$1, at the latest balance sheet date of March 31, 2008.

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

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

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

(5) Ratio of net worth = (Shareholders' equity / Total assets) × 100

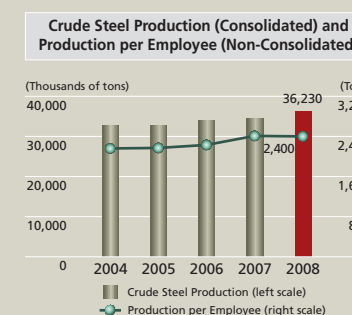
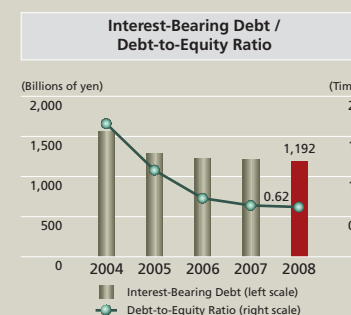
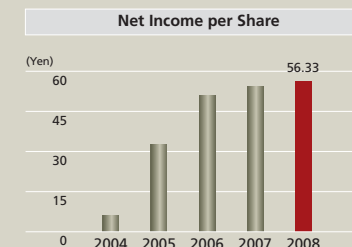
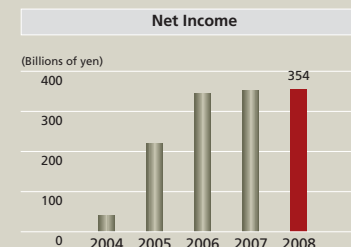
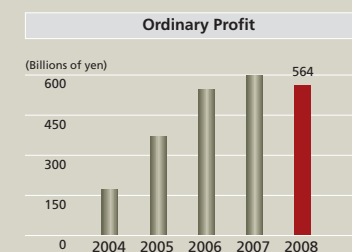
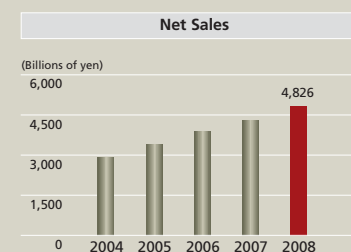
(6) Debt-to-equity ratio = Interest-bearing debt / Shareholders' equity

(7) Tonnage figures are in metric tons.

Consolidated Operating Highlights







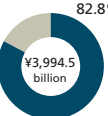
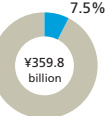

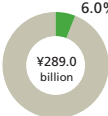
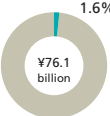
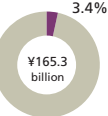
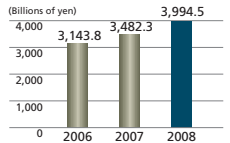
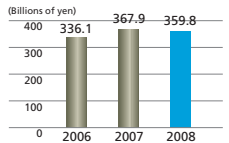
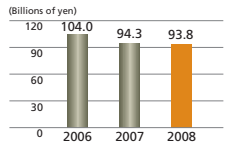
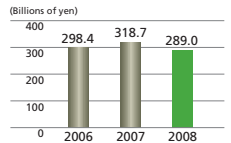
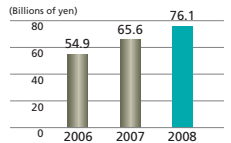
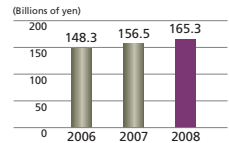
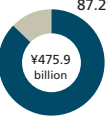
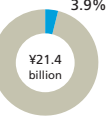
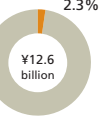
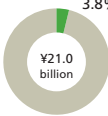
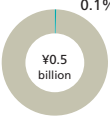
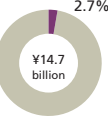
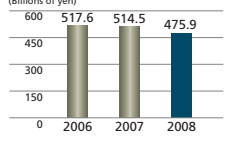
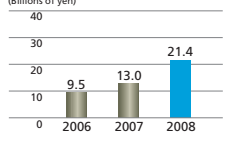
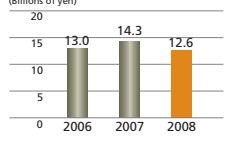
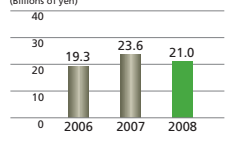
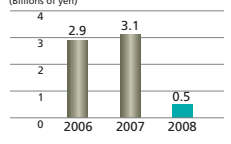
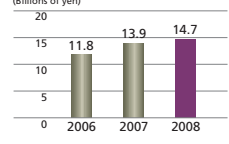
consolidated business plan goal of earning an A credit rating. We succeeded in establishing an operating framework that can increase earnings while maintaining a sound financial position. In accordance with our dividend policy, we raised the annual dividend applicable to fiscal 2007 by ¥1, to ¥11 per share.

[Dividend Policy] Since fiscal 2005, 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%).





The Nippon Steel Group views Nippon Steel as a holding company for the steelmaking business, and we are promoting the operations of our six business segments, both independently and concurrently, within a structure that encourages self-sustaining development.

|                                                                 | Steelmaking and Steel Fabrication                                                                                                                                                                                                                                                                                                                                                                                                                              | Engineering and Construction                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Urban Development                                                                                                                                                                                                                                                                                                                                                                                                                                        | Chemicals                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | New Materials                                                                                                                                                                                                                                                                                                                                                                                                                        | System Solutions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                 |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
|                                                                 |                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                 |
| Composition of Consolidated Net Sales <sup>(Notes)</sup>        |                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Composition of Consolidated Net Sales <sup>(Notes)</sup>        |
| Consolidated Net Sales                                          |                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Consolidated Net Sales                                          |
| Composition of Consolidated Operating Profit <sup>(Notes)</sup> |                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Composition of Consolidated Operating Profit <sup>(Notes)</sup> |
| Consolidated Operating Profit                                   |                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Consolidated Operating Profit                                   |
| Business Highlights                                             | <p>Nippon Steel increased production and shipping capacity in response to very strong demand in Japan and overseas for steel, especially medium-high grade steel, while raising sales prices to offset the higher cost of raw materials.</p> <p>Segment sales increased for the sixth consecutive year, climbing 14.7% to ¥3,994.5 billion. Operating profit decreased 7.5% to ¥475.9 billion, but earnings were higher after excluding one-time expenses.</p> | <p>Substantial capital expenditures in Japan along with a large volume of energy and natural resource development projects overseas, chiefly in Southeast Asia, created a favorable operating climate. Nippon Steel Engineering succeeded in translating opportunities in all business sectors into orders while upgrading risk management capabilities.</p> <p>Segment sales decreased slightly to ¥359.8 billion, but operating profit was up 64.6% to a new record of ¥21.4 billion.</p> | <p>The central goals of fiscal 2007 were further improving profitability while building a new profit structure and base of operations. One means of achieving these goals was participation in such large-scale redevelopment projects as Shibaura Island and Kasumigaseki Common Gate in Tokyo.</p> <p>Segment sales decreased 0.5% to ¥93.8 billion, and operating profit decreased 11.9% to ¥12.6 billion, but earnings remained at a high level.</p> | <p>Coal tar chemicals performed well due to solid demand on a global scale. However, starting in the second half of the fiscal year, the chemicals business was negatively impacted by the much higher costs of crude oil, naphtha, and other raw materials and fuel. Worsening supply-demand dynamics also held back performance. Furthermore, there was only a small increase in the sales volume of material for flexible printed circuit board materials due to intense competition.</p> <p>The result was a 9.3% decrease in segment sales to ¥289.0 billion and an 11.0% decrease in operating profit to ¥21.0 billion.</p> | <p>Challenges in this segment included a longer than expected downturn in the semiconductor industry, a major source of sales, and a delay in starting operations at NS Solar Materials, which manufactures poly-silicon for solar cells. The result was a decline in earnings.</p> <p>Segment sales increased 16.0% to ¥76.1 billion because of appreciating gold assets, and operating profit decreased 83.9% to ¥0.5 billion.</p> | <p>By leveraging the strengths of the entire Nippon Steel Group, this segment provides integrated system life cycle (SLC) solutions that encompass system planning, installation, operation and maintenance. This segment was able to use relationships rooted in trust to capture a steady stream of orders from customers. At the same time, progress was made in capitalizing on opportunities for developing ties with new customers.</p> <p>Segment sales increased 5.6% to ¥165.3 billion and operating profit increased 5.8% to ¥14.7 billion.</p> | Business Highlights                                             |
| More Information                                                | pages 16–25                                                                                                                                                                                                                                                                                                                                                                                                                                                    | pages 26–27                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | page 28                                                                                                                                                                                                                                                                                                                                                                                                                                                  | page 29                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | page 30                                                                                                                                                                                                                                                                                                                                                                                                                              | page 31                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | More Information                                                |

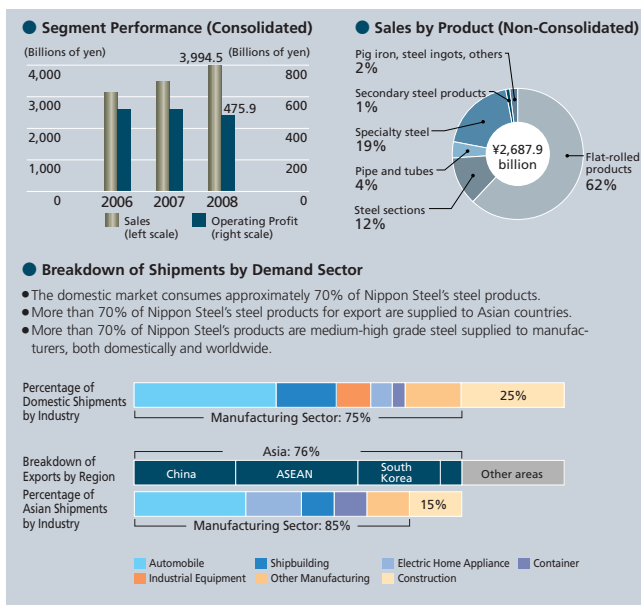
Note: Segment sales and operating profit (including intersegment transactions) as percentages of consolidated net sales and consolidated operating profit (eliminating intersegment transactions), respectively



## Steelmaking and Steel Fabrication

### 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.



### Strategic Objective

Our objective is to be the No. 1 global steelmaker focusing on medium-high grade steel. To accomplish this, we are reinforcing our 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. Fifth is enhancing and expanding alliances.

### Fiscal Summary

Demand for steel remained very strong in fiscal 2007 as the growth of emerging economies, mainly in the BRIC nations, offset soft demand in some sectors of the U.S. steel market. Additionally, the supply-demand balance remained stable. One major reason was measures by the Chinese government to hold down steel exports, which had been climbing rapidly in recent years along with China's higher production capacity.

In Japan, there was a downturn in construction activity because of the enactment of stricter building standards. However, healthy external demand kept orders for steel consistently high, particularly for medium-high grade steel used by manufacturers of automobiles, ships and industrial machinery. As a result, fiscal 2007 crude steel production in Japan increased 3% to a record high 121.52 million metric tons, surpassing the previous record of 120.02 million metric tons set in 1973.

Nippon Steel continued making a large volume of capital expenditures to meet the high level of orders for steel in Japan and other countries. Increasing capacity at facilities used to manufacture and supply steel was a primary goal. These activities resulted in an increase of 1.4 million metric tons in steel shipments compared with fiscal 2006, mainly for medium-high grade steel. We foresee a further increase in steel demand over the long term as the global economy expands. To keep pace with this demand, we will continue raising our production capacity in two ways. The first is by realigning Group companies to reinforce our performance as a cohesive corporate group. The second is by working with alliance partners in Japan and overseas to conduct joint businesses and establish cooperative production systems.

Our operating environment became more difficult in the second half of the fiscal year as prices of crude oil, scrap iron, freight and other commodities rose rapidly. We also had to deal with an upturn in the cost of coking coal, a vital material for the production of steel. Heavy rain in Australia, a major supplier of this coal, along with export restrictions by China due to a cold winter combined to push prices up. We responded by cutting costs wherever possible while raising prices to reflect our higher operating expenses, but the cost of raw materials increased even faster and by a greater amount than we had anticipated.

In fiscal 2007, our shipments of steel products increased 1.39 million metric tons to 32.90 million metric tons, and sales increased ¥512.2 billion, or 14.7%, to ¥3,994.5 billion. Operating profit was down ¥38.6 billion to ¥475.9 billion. Earnings were reduced by one-time charges totaling approximately ¥70.0 billion for inventory valuation differences, revisions to Japan's tax system and other issues. Operating profit after excluding these charges was higher than in fiscal 2006.



The Nagoya Works No. 1 blast furnace has been expanded and upgraded



The new No. 6 basic oxygen furnace at the Nagoya Works

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

In April 2007, we completed the expansion and upgrade of the No. 1 blast furnace at the Nagoya Works. The project raised the furnace's internal volume by about 20%, which is proportional to production capacity. In another step to raise output at Nagoya, we constructed an additional basic oxygen furnace, which is the next step in steelmaking following the blast furnace. At the Oita Works, we plan to finish improvements to the No. 1 blast furnace in the spring of 2009. As this work proceeds,



In the first half of 2009, the Oita Works plans to have two identical blast furnaces that are the largest in the world.

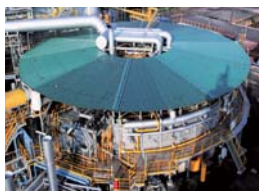
we have completed the installation of a highly sophisticated, next-generation coke oven with annual capacity of one million metric tons. As for the blast furnace, we are investing ¥46.0 billion to increase volume by about 20% to 5,775m<sup>3</sup>. This will match the volume of the No. 2 blast furnace at this works, which is the largest in the world. Once the upgraded No. 1 blast furnace is operating, Nippon Steel's consolidated annual crude steel output will rise to 38 million metric tons. Along with the use of production facilities at alliance partners, we expect to have a steel supply infrastructure with annual output of 40 million metric tons in 2009.

### Realignment of Group Companies to Improve Consolidated Performance

Our operating environment is changing with unprecedented speed due to costly raw materials and other developments. To become more profitable and competitive, we decided to deepen ties with several Group companies. Specifically, Nippon Steel Drum Co., Ltd., has become a wholly owned subsidiary. Steel drums, the company's main product, are a major source of demand for steel sheets. In addition, we made Oji Steel Co., Ltd., which is Japan's largest producer of flat bars, a consolidated subsidiary. At Godo Steel, Ltd., we increased our equity investment to make this company an equity-method affiliate. This will facilitate more mutual cooperation to make Godo Steel and Nippon Steel more competitive.



Nippon Steel and POSCO agreed to strengthen their strategic alliance



Equipment for recycling dust and making reduced iron

### Moving Forward with Our Alliance Strategy

In Japan, we cooperate in many ways with two prominent alliance partners: Sumitomo Metal Industries, Ltd., and Kobe Steel, Ltd. Discussions are now under way to strengthen and enhance this alliance, particularly by increasing joint use of iron and steelmaking facilities at the Wakayama Works of Sumitomo Metals. Overseas, we have a strategic alliance with POSCO in South Korea. One element of this cooperation is the joint ownership of a company that recycles dry dust at works and supplies direct reduced iron. The Nippon Steel Group used its environmental technologies to build a dry dust recycling and direct reduced iron production facility at POSCO steel works. With these facilities, the new company serves as a new source of iron for both companies. In Brazil, we are extending a full line of support to equity-method affiliate USIMINAS for its massive expansion program, which will require a total investment of approximately ¥1,500 billion. In China, North America and Brazil, we have decided to expand joint ventures that produce medium-high grade steel for automobiles. These measures demonstrate the multitude of ways in which we are pursuing our strategy of becoming a global player in the steel industry (See feature section on pages 8-9 for more information).

## Actions Regarding Energy and Resources

### Oita Works No. 5 Coke Oven for Low-Grade Coal



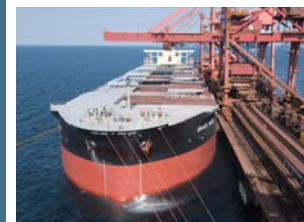
Oita Works No. 5 Coke Oven

Investment amount: ¥37 billion

Production capacity: 1 million metric tons / year

Nippon Steel began operations in May 2008 of the world's first coke oven using the next-generation coke production technology SCOPE21 (Super Coke Oven for Productivity and Environmental Enhancement toward the 21st century). Located at the Oita Works, the oven uses advanced technology to allow up to half of the coal processed to be low-grade coking coal. Compared with the previous maximum of 20%, this revolutionary technique cuts energy consumption by roughly one-fifth.

### Super Iron Ore Carrier *Brasil Maru* Launched



*Brasil Maru*

Cargo capacity: 327,180 tons

Length: 340m

Transportation amount: 1.4 million metric tons / year

*Brasil Maru*, which carries Nippon Steel's Brazilian iron ore, was launched in December 2007. This ultra-large vessel is the first iron ore carrier used for transport between Asia and Brazil that has a dead-weight tonnage in excess of 300,000 tons. The Nippon Steel Oita Works is the only works that can accommodate vessels the size of the *Brasil Maru*. We plan to take deliveries from three more of these highly efficient vessels by 2010. With this fleet, we will have an even more reliable supply of iron ore along with a lower cost of transportation.

### Investments in Mines Lock in Long-Term Supplies



Percentage of Raw Materials from Mines with Nippon Steel Equity Interest

Iron ore 35% Coking coal 25%

For many years, Nippon Steel has invested in mines as one way to ensure long-term access to supplies of raw materials for steelmaking. Currently, we purchase 35% of our iron ore and 25% of our coking coal from mines in which we have an equity stake. Major projects have been approved to increase production in mines in Australia: the expansion of production at the Moranbah North Coal Mine (Nippon Steel Group has 5% ownership), the development of a new iron ore mine at the Robe River Joint Venture (10.5% ownership), and the expansion of production capacity at the Carborough Downs Coal Mine (5% ownership).

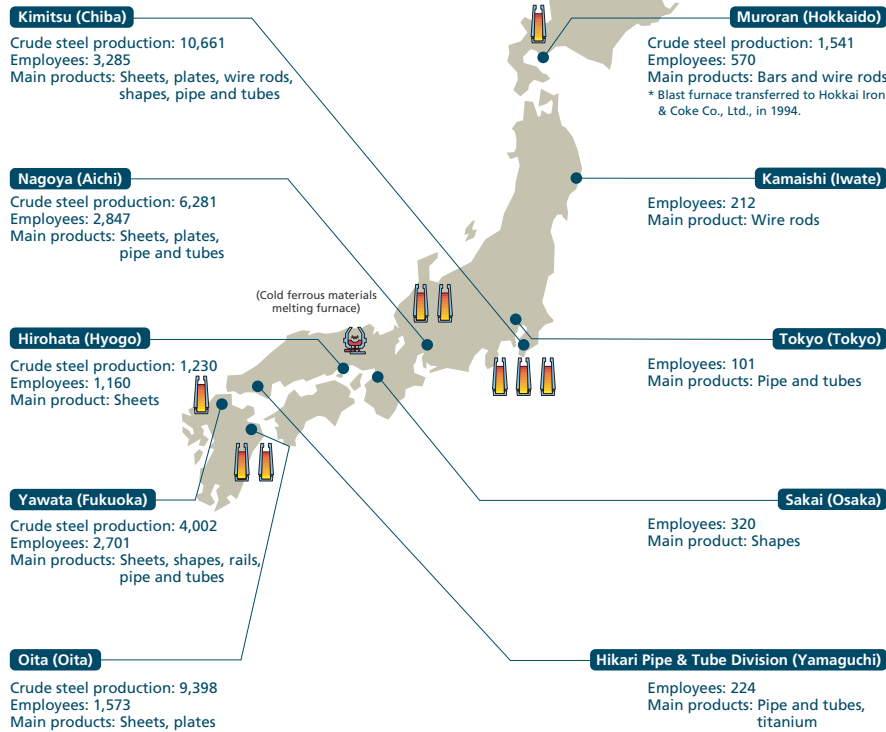
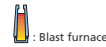
Total investments in the three mines will be about ¥160 billion, with the Nippon Steel Group providing approximately ¥13.5 billion of this amount.



## 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

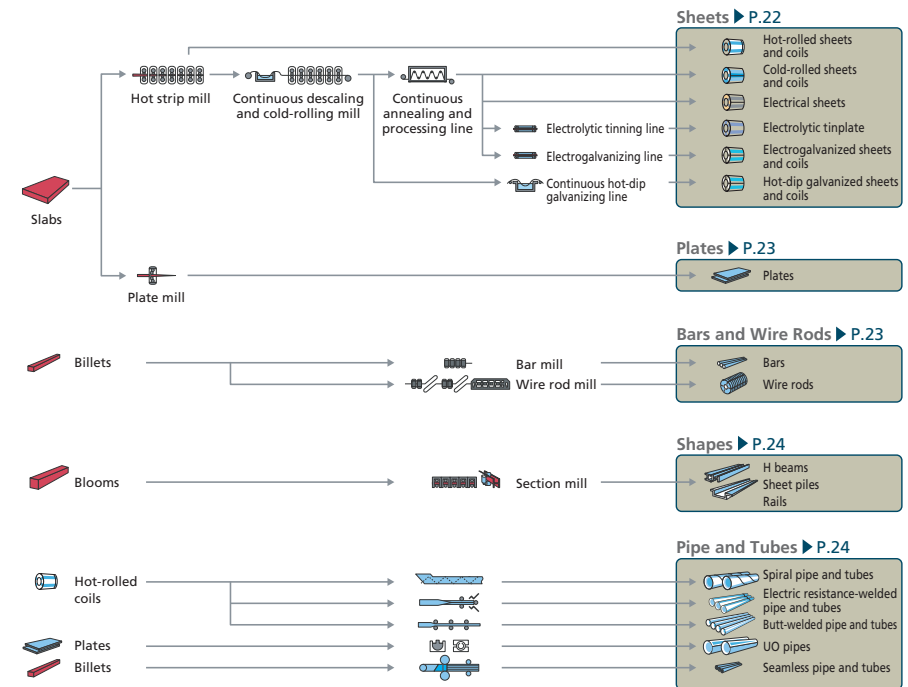
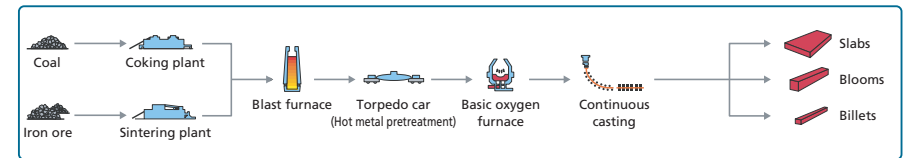
(Crude steel production units: Thousands of metric tons)



\* Crude steel production (Fiscal 2007)

\* Employees and main products (as of March 31, 2008)

## Steelmaking Flow



## Sheets

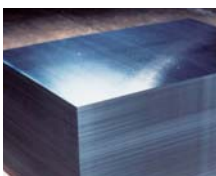


### Main Products

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

### Uses

Automotive bodies, appliances, electrical machinery, steel furniture, office equipment, construction materials, steel cans, drums, motors, and transducers



Tinplate



Electrical sheets

## Features of and Strategies for Nippon Steel's Sheets

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.

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.

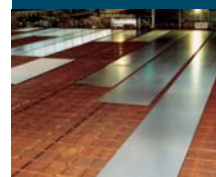
In order to strengthen our ability to supply medium-high grade steel sheets, new hot-dip galvanizing lines were constructed at the Kimitsu, Nagoya, and Hirohata works in 2006. Additionally, we plan to construct hot-dip galvanizing lines overseas in the United States, China and Brazil.

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 sheets help conserve electricity in home appliances and other products. Laminated sheets for cans and pre-coated sheets, mainly for home appliances, eliminate the need for manufacturers to paint products by themselves. Additionally, we meet customer demands by supplying products conforming to such regulations as 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.

It is characteristic of Nippon Steel that our main customers are Japanese companies that have long-term relationships with us. In Japan, we have a supply network closely linked to the factories of our customers. What makes 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 customers' demands.

In addition, we are trying to promote the use of our Nittetsu Super Frame® Method, a proprietary technique that employs thin and light structural steel components.

## Plates



### Main Products

Heavy plates and medium plates

### Uses

Shipbuilding, civil engineering and construction machines, industrial machines, bridges and iron frames, energy plants (electric generation, tanks and pressure vessels), and offshore structures

## Features of and Strategies for Nippon Steel's Plates

Heavy plates are widely used in applications with uncompromising safety standards. Primary uses include structural components of ships, bridges, offshore structures and other very large structures. Ensuring safety over many years even under punishing conditions demands excellence in strength and toughness. Environmental protection and resource conservation are also important. Infrastructure of all types requires greater size in order to improve efficiency, reduce weight and last longer. To meet these demands, users are increasingly asking for steel plates that are even thicker, stronger and tougher.

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 Cooling Process. Our plates contribute to the structural safety of buildings. They also enable customers to improve productivity and make their products more competitive.

Nippon Steel has developed many innovative heavy plates for the shipbuilding industry. One is EH47, a higher tensile strength steel plate for super-sized containerships, a breakthrough that received an Okouchi Production Award. Another advance is NSGP®-1, a highly corrosion-resistant plate for crude oil tankers that won a 2007 Nikkei Superior Products and Services Award. Other innovations include a rugged steel plate that can withstand the extremely low temperatures of liquefied natural gas (LNG) tanks, and ultra-thick plates for energy plants and large machinery. With expertise in developing and supplying these steel plates, we look forward to meeting the increasing demand for steel in the energy industry.

## Bars and Wire Rods



### Main Products

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

### Uses

Automobile sectors (shafts and gears, and steel cord for tires)  
Construction sectors (tensile strength cable for suspension bridges, concrete reinforcing rebar, wires, and nails)

## Features of and Strategies for Nippon Steel's Bars and Wire Rods

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, drive train 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.

Demand for bars and wire rods made by 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 to increase production capacity of cold-heading steel wire was the establishment of Nittetsu Tokai Steel Wire Co., Ltd., 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.

## Construction Materials



### Main Products

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

## Features of and Strategies for Nippon Steel's Construction Materials

Demand for construction materials depends on trends in the civil engineering and building construction markets. For civil engineering, shrinking public works expenditures make a significant recovery in demand unlikely. However, brief rebounds are expected when large projects begin, such as the construction of a new runway at Tokyo International Airport (Haneda). In the building construction sector, demand is backed by large-scale urban redevelopment projects and the return of manufacturers to Japan. Furthermore, we foresee substantial demand for our building materials due to the need to replace buildings that were constructed 40–50 years ago when Japan's economy was growing rapidly.

JIS standards were recently revised in a step to improve the reliability of buildings and other structures. Nippon Steel recognized this need several years ago, and has been working since then on methods to make buildings safer, such as by increasing the dimensional accuracy of H beams. We have introduced numerous innovative products: the NITTETSUHYPER BEAM® lineup of value-added H beams with constant outer dimensions, of which we now offer a larger selection; hat-shaped steel sheet piles to lower material and installation costs; TN-X pipe piles which offer many advantages for building foundations; a material for building bridges with reliability and speed; and YP400, a 490N/mm<sup>2</sup> steel product for yield points of building construction.

## 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

Chemical plants and power plants (heat exchangers, pipes, and other applications), automobile components (exhaust parts and other applications), consumer products (golf clubs, IT appliances, and other applications), building construction and civil engineering applications (roofs, walls, and other applications)

## Features of and Strategies for Nippon Steel's Titanium

Demand for titanium is continuously strong in both dominant markets for this material: general industrial applications and aerospace. In the global titanium market, an increase in the supply of the raw material sponge titanium is enabling the supply of this metal to move closer to reaching demand. Nevertheless, manufacturers continue to produce and ship a large volume of titanium products. 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 chemical plants, ships and for automobile parts.

The ability to use the expertise of its highly competitive steelmaking facility, equipment and laboratories enable Nippon Steel to win advantages over its competitors. For example, our titanium operations can make full use of our rolling technologies and various know-how. To produce our titanium sheets and plates which are mainstream, we utilize the world's largest titanium slabbing mill. This facility allows us to fabricate, with outstanding quality and reliability, titanium mill products ranging from wide, thin-gauge cold-rolled materials to heavy plates. In addition to serving the plate heat exchanger sector as a dominant field, we are steadily making inroads in new markets for titanium like automobiles, IT appliances and architectural materials. We are planning to increase our integrated production capacity by strengthening ties with suppliers of titanium raw materials. We also aim to develop new sources of demand in order to continue expanding our titanium operations. By concentrating on these strategic activities, we are determined to retain our position as the world's leading supplier of titanium mill products for general industrial use.

## Pipe and Tubes



### Main Products

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

### Uses

Energy-related industries (pipelines and oil well sites), the automobile, construction, and industrial equipment industries (such as propeller shafts for mechanical structures), and the building construction and civil engineering industries (distribution and general construction pipes for homes, other buildings, and civil engineering installations)

## Features of and Strategies for Nippon Steel's Pipe and Tubes

Nippon Steel uses its integrated operations that extend from raw materials to development, manufacturing and sales to meet a broad spectrum of needs in many market sectors. Energy is one example. As rising worldwide energy demand forces exploration for resources into more difficult and remote locations, demands on pipelines are increasing as well. We were first in the world to develop a pipe, the X-120, that is far stronger than conventional pipes used for pipelines. Preparations for mass production were completed in March 2008. We are committed to developing more leading-edge products as customers request pipes and tubes that can meet even more complex and exacting requirements.

In automobiles and construction equipment, high-grade pipes and tubes are vital to the safe operation of vehicles or machines. Only products that can deliver strength, ease of processing and all other necessary properties are acceptable. Our development activities take into account every aspect of a new product, including the production process technologies used by manufacturers. We have the knowledge to provide low weight, efficient processing and other qualities our customers want. To keep pace with the rising overseas production by our customers, we are increasing our own capacity, mainly in China and Southeast Asia.

## Stainless Steel



### Main Products

Cold-rolled sheets, hot-rolled sheets, plates, bars, and wire rods

### Uses

Automotive exhaust systems, electric appliances, kitchen equipment for homes and commercial venues, cookware, ships, food processing, and chemical plants

## Features of and Strategies for Nippon Steel's Stainless Steel

Nippon Steel & Sumikin Stainless Steel Corporation (NSSC), a member of the Nippon Steel Group, is the largest producer of stainless steel in Japan. With an annual output of 1.1 million metric tons, this company alone accounts for approximately one-third of Japan's stainless steel output. As a comprehensive manufacturer, we cover the entire process from raw material to the final products, such as coils, sheets, plates, and bars, and wire rods; thus satisfying the customers' needs.

In fiscal 2007, the cost of nickel and other raw materials changed greatly, and affected supply, demand, and conditions in the market. Under these circumstances, customers have more interest in specified products, which raised functionality in place of conventional general purpose products. NSSC is constantly developing original grades, including high-purity ferrite, high-performance duplex and super stainless. Accurately meeting needs with products like these has earned the company a solid reputation among customers globally. High-purity ferrite grades such as NSSC 180 and NSSC 160R have generated a particularly strong market response. Containing almost no nickel, these grades offer an outstanding balance among corrosion resistance, formability and cost performance.

The company is dedicated to meeting the expectations of customers as a reliable supplier of stainless steel, along with the expansion of its innovative product lineup based on R&D activities and solutions for a variety of issues, as well as building a marketing and production infrastructure to reflect the increasingly global scale of industrial activity.





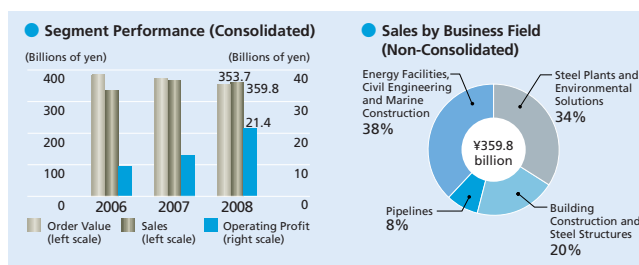
## Engineering and Construction

Nippon Steel Engineering Co., Ltd.

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

### 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.)



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

### Business Strategies

We will be growth-oriented, deal with market conditions on our own, and strive to raise our 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, requisite technologies related to thermal and anticorrosion properties and welding—support our participation in the construction of facilities such as environmental plants, 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 which trusts 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 (CDQ)



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, reliable treatment and recycling of waste, methods for soil remediation and underground water purification.

#### Marine Construction and Energy Facilities (Including Pipelines)

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 2007. Capital expenditures in Japan were strong. Overseas, there was 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. In Southeast Asia, we made progress with targeting opportunities in many business fields. Our highest priority was capturing orders associated with energy development projects. We also focused our attention on reinforcing risk management and internal efforts. Due to these activities, consolidated orders and sales remained high; about the same as the previous fiscal year, achieving more than ¥350 billion in consolidated basis. Accordingly, operating profit set a new record.



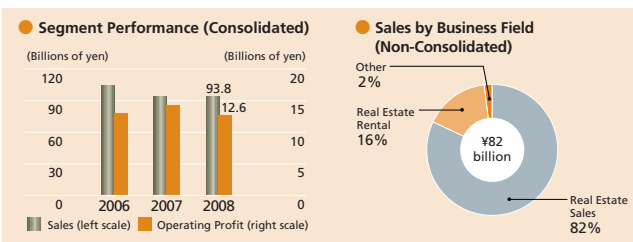
## Urban Development

Nippon Steel City Produce, Inc.

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

### Business Profile

Nippon Steel City Produce, which handles the Nippon Steel Group's urban development business, is engaged in a number of redevelopments of idle land owned by Group companies. The Yawata-Higashida project in Kitakyushu and the Otsu project in Himeji are two examples. Other operations involve the transformation of low-use urban districts in major cities, developing condominiums and office buildings, and consulting for ways to use idle land. Overall, we are engaged in many business fields to revitalize asset value. With Oji Real Estate Co., Ltd., and The Sumitomo Trust & Banking Co., Ltd., we established Top REIT Asset Management Co., Ltd. This company uses Top REIT, Inc., for the real estate securitization.



President,  
Nippon Steel City  
Produce, Inc.  
Akira Shoga

### Business Strategies

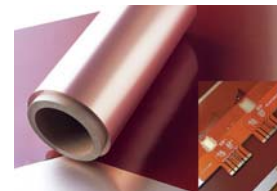
As a member of the Nippon Steel Group, Nippon Steel City Produce boasts know-how that no other company in the urban development sector can match. For example, since steelworks are integral components of the towns and cities that grow up around them, we can draw on our experience in steelworks construction to create living environments. We are also extremely familiar with methods used in 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 to 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

In the condominium sales market, prices are increasing along with the cost of land and construction. Higher prices are causing potential buyers to become extremely selective with regard to location and building amenities. In the building leasing market, leasing rates have been climbing along with robust demand for office space, but there was a downward correction in leases beginning in the second half of fiscal 2007. To succeed in this environment, we increased efforts to earn profits. One way was through participation in such large-scale redevelopment projects as Shibaura Island and Kasumigaseki Common Gate in Tokyo. We are also establishing new sources of earnings, such as the condominium rebuilding business, to build a sound foundation for growth.



## Chemicals

Nippon Steel Chemical Co., Ltd.

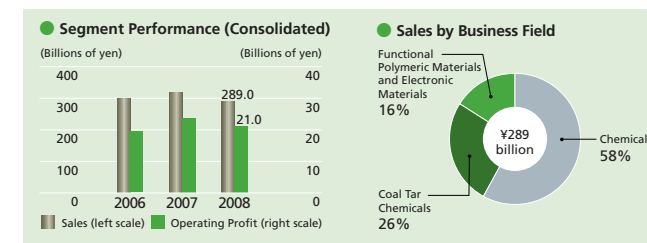
<http://www.nsc.co.jp/>

### 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 reinforced its reputation for innovation by launching many new products to become the leaders in their respective markets. One is ESPANEX®, a flexible printed circuit board material created using exclusive technologies. Other examples include SILPLUS®, a transparent material that is highly heat resistant, and organic electroluminescence materials. We will continue to strengthen and enlarge our operations by making the greatest possible use of the aromatic chemical technologies that we have accumulated over many years.

Note: ESPANEX® and SILPLUS® are registered trademarks of Nippon Steel Chemical Co., Ltd.



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

### Business Strategies

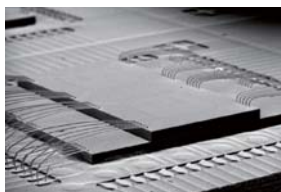
Nippon Steel Chemical's specialized profile comprises four businesses: coal tar chemicals, chemicals, functional polymeric materials and electronic materials. In addition to these core businesses, the company is working on the development of new business, for example, organic EL materials.

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. 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 and return on sales of at least 10%.

### Fiscal Summary

Market conditions became extremely challenging in the second half of fiscal 2007 as prices of crude oil and naphtha increased and the yen appreciated. The coal tar chemicals business continued to perform well due to a large volume of orders in Japan and overseas. However, rapid increases in the cost of fuel and raw materials caused earnings to decline in the chemicals business. Furthermore, the sales volume of circuit board materials was up slightly because of intense competition. Although earnings decreased because of these factors, operating profit remained above ¥20 billion for the fourth consecutive year.

In the coal tar chemicals and chemicals businesses, our primary goal is further expanding the production capabilities of its products in all market categories. We also have started construction of a production facility for SILPLUS® as another move to support growth.

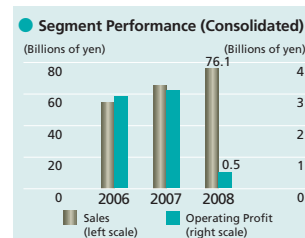


## New Materials

Nippon Steel Materials Co., Ltd.  
<http://www.nsc.co.jp/nsmat/>

### 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 material solutions covering a broad spectrum of issues in market sectors that rely on highly advanced technologies.



|  | Nippon Steel Materials                                                                                                                                                   |                                                                                                                                                     | [Affiliates]                                                                                                                                                     |                                                                                                                                                                                                                                         |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | Electronics industry materials and components                                                                                                                            | Basic industrial materials and components                                                                                                           | Energy and environmental materials and components                                                                                                                |                                                                                                                                                                                                                                         |
|  | <ul style="list-style-type: none"> <li>Stainless steel foils</li> <li>Microball bumping service</li> <li>Chemical mechanical polishing (CMP) pad conditioners</li> </ul> | <ul style="list-style-type: none"> <li>Fine ceramics</li> <li>HIP processed materials</li> <li>Metal substrates for catalytic converters</li> </ul> | <ul style="list-style-type: none"> <li>Nippon Micrometal Group</li> <li>Micron Group</li> <li>Nippon Steel Composite Group</li> <li>NS Solar Material</li> </ul> | <ul style="list-style-type: none"> <li>Gold bonding wire</li> <li>Microsolder ball</li> <li>Silica/Alumina spherical particle</li> <li>Pitch-based carbon fiber</li> <li>CFRP products</li> <li>Poly-silicon for solar cells</li> </ul> |

Nippon Steel Technical Development Bureau



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

### Business Strategies

Operations at Nippon Steel Materials cover three markets: electronics industry materials and components, which is a growth market; basic industrial materials and components, other than those made of traditional steel-related materials; and energy and environmental materials and components, which are sectors of considerable social importance. In all of these 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 comprised of small but powerful businesses.

### Fiscal Summary

Many issues made fiscal 2007 a difficult period for Nippon Steel Materials. In the electronics industry materials and components sector, inventory reductions took longer than expected, competition pushed down prices of semiconductor mounting materials, and the cost of raw materials rose significantly. In the basic industrial components and materials category, there were very strong orders for carbon fiber due to substantial demand on a global scale. In new businesses, NS Solar Material Co., Ltd., completed construction of a factory in October 2007. Established in 2006, this company manufactures and sells poly-silicon for solar cells. The new factory is the first in the world to use an advanced production process. Although this technology has caused delays during the start-up phase, NS Solar Material is achieving stable productivity.

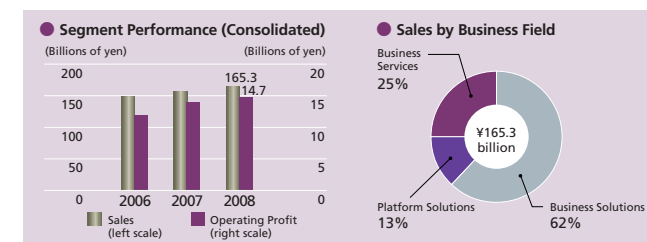


## System Solutions

NS Solutions Corporation  
<http://www.ns-sol.co.jp/>

### Business Profile

NS Solutions is a source of integrated services, beginning with the design of systems, their subsequent development and operation. 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 as well as outsourcing.



President,  
NS Solutions Corporation  
Mitsuo Kitagawa

### Business Strategies

NS Solutions is strengthening its capabilities to capture steady orders and to create new and distinctive solution services using system life cycle (SLC) total solutions. By strengthening internal communication, we will raise the scope of SLC total solutions to improve operations by reinforcing preorder activities, including the conceptual and planning stages, and consulting business activities. Moreover, the company is continuing to increase profitability through creating and supplying higher integrated platform solutions using advanced information technologies, and through development of integrated platform applications. We are also moving ahead to advanced SLC total solutions that go beyond maintenance and operations.

### Fiscal Summary

In fiscal 2007, 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. The central focus of fiscal 2007 was creating and supplying new and distinctive solution services which reflect both the increasingly intricate and diverse needs of our customers along with the latest trends in technologies and services. Furthermore, we established NS Financial Management Consulting Co., Ltd. This provides a platform for the full-scale launch of our consulting business, which targets mainly administration, internal management, internal audit and other management systems of financial institutions.





## Research and Development

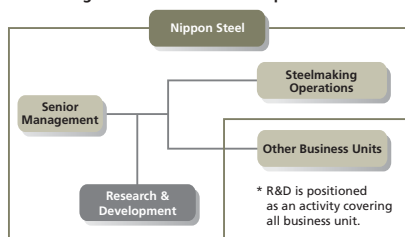
### R&D Organization

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, which is the core of our R&D organization, and the R&D laboratories at steelworks across the country that provide support.

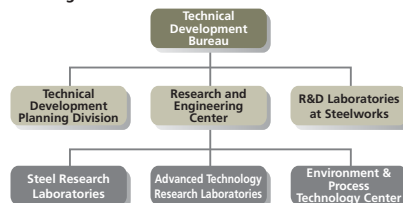
Our R&D capabilities highlight five strengths: 1) comprehensiveness and speed of development, facilitated by the integration of R&D and engineering; 2) an R&D network system with bases in customer regions; 3) proposal-style solutions fine-tuned to customer needs; 4) the ability to address energy- and 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

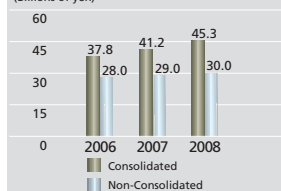


### R&D Organization



### R&D Expenditures

(Billions of yen)



### R&D Direction

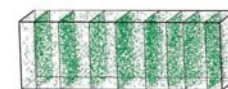
Amid diversifying social needs, characterized by changing consumer preferences and growing concerns over energy and the environment, Nippon Steel is selectively investing management resources in R&D fields that will enhance the Company's technological edge and thereby contribute to profit growth.

#### 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



3-D atom probe analyser



Distribution of carbon atom density shown against green points



Voice recognition system against background noise and a handheld device



The Nippon Steel Group's new catalyst

### Major Accomplishments

#### Creating Functions for Steel by Using a Three-Dimensional (3-D) Atom Probe Analyser

A 3-D atom probe analyser produces 3-D data on atoms by applying a high voltage to a material that has been formed into a needle-like shape. Atoms evaporate and ionize under the high voltage, making it possible to detect the types and locations of specific ions. The analyser is regarded as the ultimate in nano-level analytic technology. Nippon Steel was the first private sector company to begin using this analyser, which is a useful tool for developing revolutionary new materials. Wire rods for steel cord for reinforcing tires is one example. Carbon elements ranging in the cementite layer (intensity) and the ferrite layer (ductility) can be seen by using a 3-D atom probe analyser. By continuing that analysis, we have invented high-carbon wire rods for steel cord in which high-level intensity and ductility are compatible. In this manner, we keep creating various functions for steel based on material analysis at the nano-level.

#### Using IT to Improve Manufacturing Capability

Taking state-of-the-art IT to the factory floor, we have developed systems that raise the efficiency of manufacturing and inspections while facilitating the accumulation, analysis and reuse of knowledge acquired from manufacturing activities. Many veteran production workers at Nippon Steel are reaching retirement age. With this system, we can preserve their industry-leading manufacturing skills even when using less experienced workers. This system also received the 2007 Nikkei Monozukuri Award.

#### New Catalytic Material for Cleaning Automobile Emissions

Nippon Steel and Nippon Steel Materials have developed a new type of catalyst for removing pollutants from automobile emissions. The new catalyst uses a much smaller amount of precious metals than conventional catalysts, which require platinum, rhodium, palladium and other very expensive metals. Other shortcomings of conventional catalysts are poorer cleaning performance at high temperatures and a decline in the catalyst's effectiveness over time. By controlling crystal structure at the nanometer level, the Nippon Steel Group succeeded in establishing a mechanism for powerful catalytic activity. This breakthrough led to the invention of a catalyst that cuts precious metal use by about 70% while maintaining stable performance over a wide temperature range. Interest in this new catalyst is high, making it likely that a catalytic converter using this compound will be manufactured in the near future.



MOL CREATION, the world's first containership to use Nippon Steel's high-strength steel plates



Compact hydroforming equipment



Heavy-haul rails

## Recognition for Accomplishments in Fiscal 2007

### Okouchi Award, Production Award

**Development of ultra-strong steel plates for containerships and design of new vessel structure (with Mitsubishi Heavy Industries, Ltd.)**

Nippon Steel developed a heavy plate that meets the conflicting goals of delivering outstanding strength and flexibility. The plate was used for the first time to build a large containership. The material helps reduce weight and fuel consumption while improving safety.

### Ichimura Industrial Awards, Contribution Award

**Development of new S-TEN1® sulfuric acid-resistant steel with much improved resistance to hydrochloric acid**

Nippon Steel's new steel material, which features a dramatic improvement in hydrochloric acid resistance, became the global standard for applications requiring this property. This steel is already used in more than 100 trash incinerators, coal-fired thermal power plants, and other facilities.

### National Invention Award, Invention Award

**Development of compact hydroforming equipment (with Toyota Motor Corporation)**

Nippon Steel and Toyota Motor Corporation developed an improved version of a hydroforming system. Hydroforming uses a high-pressure hydraulic fluid to fabricate automobile components. The new unit is less than one-tenth the size of conventional units and cuts energy consumption by more than ten times.

**The Monodzukuri Nippon Grand Awards, The Minister of Economy, Trade and Industry's Award**

**Development of heavy-haul rails that are highly resistant to wear and internal fatigue damage**

Nippon Steel engineers discovered a method to greatly improve the durability of steel for rails by increasing the steel's carbon content. As a result, wear resistance of freight train rails has increased by as much as 50%.

**The Minister of Education, Culture, Sports, Science and Technology Awards, Science and Technology Award**

**Development of thin-wall, fire-resistant unitized stave for large blast furnaces**

Nippon Steel developed a unitized structure for the refractory bricks and stave cooling system that together protect a blast furnace from internal temperatures that can climb to 2,000°C. The new system is highly effective at cooling and helps extend the life of a blast furnace.

### Other awards

- Development of lead-free low carbon free-machining sheet wire rod (The Japan Institute of Metals, Technical Development Award)
- Ideal Cort Tetsuryu Townhouse Using Nittetsu Super Frame® Method (Good Design Award)
- Increased demand for titanium in the automobile industry (International Titanium Association, 2007 Titanium Application Development Award)
- Manufacture of large-diameter single crystal silicon carbide wafer with minimal internal defects (Nikkei BP Technology Awards)
- Highly corrosion-resistant steel plate for supertankers (NSGP®-1) (2007 Nikkei Superior Products and Services Awards, Award for Superiority)

## Intellectual Property

### Basic Policy on Intellectual Property

"To continuously challenge ourselves to develop and improve world-leading technologies" is one of Nippon Steel's management principles. The Company's basic policy on intellectual property is to utilize these technologies to meet its business strategy.

### Structuring and Carrying Out an Intellectual Property Strategy to Make Nippon Steel a More Notable Global Player

Nippon Steel mapped out a Global Player Strategy aimed at business expansion in the growing market in order to secure sustainable growth as the No. 1 global steelmaker focusing on medium-high grade steel. To that end, it is crucial to use Nippon Steel's competitive edge in technology and to give shape to this competitive technological edge in the form of intellectual property.

Based on this strategy, we are filing more patent applications in foreign countries with emerging markets, such as the BRICs. Furthermore, we are striving to use acquired intellectual property rights in order to maintain and increase our global competitive edge.

Also, in the Global Player Strategy, Nippon Steel is aiming to cross license intellectual property (patents and/or know-how) with partners with whom Nippon Steel forms strategic alliances or joint ventures. Alternatively, Nippon Steel will provide technical support to these partners based on the strategies of both parties and the needs of the market.

### Recent Important Technology Fields and Issues to be Addressed

As to key/core technologies supporting the growth in profits based on expanding our competitive technological edge, the Intellectual Property Division, in collaboration with the product business and R&D divisions, selects and narrows down technological issues to be solved and strives to make sure that the outcome of R&D can be converted into intellectual property.

#### (Recent Important Technology Fields)

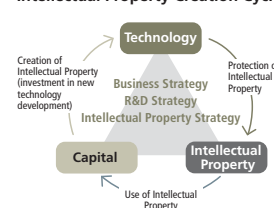
- How to cope with raw material issues (soaring cost, degradation of quality)
- Measures for environmental issues, saving energy and CO<sub>2</sub> reduction
- Providing customers with solutions
- Sophistication of products (improved property, formability)
- Increasing productivity and lowering costs

In addition, in view of the increasing risk of technology leakage as business expands, everyone at Nippon Steel will be provided with a thorough education regarding information control. Also, a confidential information control system will be introduced in order to reinforce the management of important technology information.

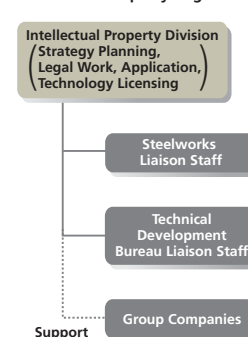
The intellectual property organization includes: the Intellectual Property Division in the Head Office; staff members deployed at R&D laboratories and steelworks; and the Japan Technical Information Services Corporation (JATIS), a wholly owned subsidiary which specializes in intellectual property research.

The intellectual property organization promotes sharing the common intellectual property policy of the Nippon Steel Group and strengthening collaborations with major Group companies.

### Intellectual Property Creation Cycle



### Intellectual Property Organization



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 structure receives constant performance evaluation.

### Management Administration System

Nippon Steel's transition into a holding company was a strategy designed to reinforce the structure for promoting consolidated business under the medium-term consolidated business plan from fiscal 2006 to fiscal 2008. In view of this transition, 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, 11 directors, all of whom are from inside the Company, currently sit on the Board of Directors, and seven auditors, four of whom are from outside the Company, form the Board of Auditors.

### Internal Controls and Risk Management 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 chairman and 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. This is accomplished 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, contracted staff, staff of purchase agreement companies, and Group employees regarding the execution of operations.
- To enhance 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.

- Establish internal rules that prohibit any relationships with antisocial elements and any acceptance of improper demands from these elements, and internal systems based on these rules.
- Ensure that 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.

### Information Concerning Compliance

- Nippon Steel was subject to the following disciplinary actions associated with violations of Japan's Antimonopoly Act.
  - September 2007: Ordered to pay fine in association with bridge construction orders from the Regional Development Bureau of the Ministry of Land, Infrastructure, Transport, and Tourism
  - December 2007: Ordered to pay surcharge in association with an order for construction of high and medium pressure gas pipeline
  - June 2008: Ordered to pay surcharge in association with sales activities for steel sheet pile
- In January 2008, subsidiary Nippon Steel & Sumikin

Coated Sheet Corporation underwent a search by investigators concerning alleged Antimonopoly Act violations with regard to some operations involving steel sheet piles.

- In May 2008, subsidiary Nittai Co., Ltd., lost Japanese Industrial Standards (JIS) certification for its factory following the discovery that the company was not performing water pressure tests required by industrial standards and contracts.

We regard these violations as indications of the urgent need for corrective actions and fundamental change involving compliance activities. All members of the Nippon Steel Group are reinforcing measures for compliance with the Antimonopoly Act. In addition, we are reviewing and upgrading quality control programs at Group companies and companies that perform outsourced processes.

### Education Concerning 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 a strong awareness of these guidelines and the importance of complying with laws and regulations among everyone at Nippon Steel and Group companies.

### Fair Rules for Acquisition of Substantial Shareholdings

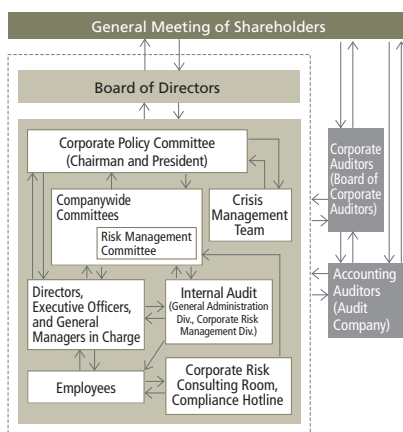
At the Board of Directors meeting held on March 29, 2006, a resolution was passed to adopt Fair Rules for Acquisition of Substantial Shareholdings, which clearly and concisely describes the procedures that a bidder must follow before a takeover action can actually commence.

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 an 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.

### Internal Control System



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



## Executive Team (As of August 2008)



**Akio Mimura**  
Representative  
Director and Chairman



**Shoji Muneoka**  
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



**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;  
Overseas Offices



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



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

### Managing Directors, Members of the Board

#### Kohzoh Uchida

Director, Flat Products Division;  
Director, Bar & Wire Rod Division;  
Sales Administration & Planning;  
Global Marketing

#### Shinichi Taniguchi

Corporate Planning; Accounting & Finance  
Cooperating with Managing Director  
K. Hirayama on Public Relations

#### Yasuo Hamamoto

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

#### Kizo Hirayama

General Manager, Personnel & Labor  
Relations Division; General Administration;  
Business Process Innovation

### 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

#### Masakazu Iwaki

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

### Directors

#### Norio Katsuyama

General Superintendent, Nagoya Works

#### Kosei Shindo

General Manager, General Administration  
Division; Rendering Assistance to Managing  
Director K. Hirayama on Business Process  
Innovation

#### Junji Uchida

Director, Plate Division; Rendering Assistance  
to Managing Director K. Uchida on Global  
Marketing

#### Masaru Kiuchi

General Manager, Sales Administration &  
Planning Division; Rendering Assistance to  
Managing Director K. Hirayama on Business  
Process Innovation

#### Shinichi Nakatsu

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

#### Shigeru Oshita

General Superintendent, Oita Works

#### Tooru Obata

Overseas Business Development;  
Raw Materials; Machinery & Materials;  
Overseas Offices

#### Yasuo Fujii

General Superintendent, Yawata Works

#### Kiyoshi Nishioka

Rendering Assistance to Executive Vice  
President B. Futamura on Technical  
Development; Rendering Assistance to  
Managing Director K. Hirayama on  
improvement of the Corporate Image

#### 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 Safety  
& Health in Personnel & Labor Relations;  
Rendering Assistance to Managing Director  
K. Hirayama on Business Process Innovation

#### 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

#### Junji Ota

### Corporate Auditors

#### Tsutomu Haeno

#### Toshihide Tanabe

#### Hisashi Tanikawa\*

#### Yoichi Kaya\*

#### Shigemitsu Miki\*

#### Shigeo Kifuji\*

\*External Auditors

## 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 serious 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 serious 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-demand balance for these resources. In recent years, the prices of raw materials and fuel 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 the price of raw materials and fuel 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, 2008 amounted to ¥1,192.0 billion. As a result, changes in interest rates and other factors linked to financial market 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, 2008 amounted to ¥1,396.5 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 ¥416.8 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<sub>2</sub> into the atmosphere. These restrictions could include quantitative restrictions, environmental taxes, or other restrictions. 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 antidumping duties on the exports of certain steel products of the Nippon Steel Group. If import restrictions such 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. A final verdict has not been reached because the investigation is still ongoing. In addition, Nippon Steel subsidiary Nippon Steel & Sumikin Coated Sheet Corporation received the administrative count of the Fair Trade Commission on some operations of steel products. Administrative actions, such as the imposition of surcharges, could have an impact on operating results.

## 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

- 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

Natural resources, energy, and the environment are all urgent issues that require action on a global scale. In response to these issues, Nippon Steel has established an Environmental and Energy Roadmap up to 2030. We are taking actions based on this roadmap and reviewing our plans from short-term and long-term perspectives.

We have established the voluntary action plan of reducing our energy consumption to 10% less than the fiscal 1990 level by fiscal 2010. By making extensive use of energy conservation technologies and programs, we rank among the most energy-efficient steelmakers in the world. To cut energy consumption by 10% even as our production volume increases, we are using our advanced technologies as the basis for Kyoto Protocol Clean Development Mechanism (CDM) projects. In addition, we are using our technology development capabilities, which are among the best in the steel industry, to seek solutions for global problems involving natural resources, energy, and the environment.



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 728 hectares, more than twice the area of Central Park in New York City.

## Three Eco-Friendly Solutions for Dealing with Global Environmental Issues

Nippon Steel is using its highly advanced technologies as the foundation to help solve environmental problems from three perspectives: eco-products, eco-process, and eco-solution. We are determined to contribute to sustainable social development and the protection of the global environment.

### Eco-Products®

We use sophisticated technologies to manufacture products that have a low environmental impact. By conserving energy and resources, and offering other benefits, these products play a part in reducing the environmental impact of a broad range of activities and facilitating sustainable economic development.

- High-strength steel sheets, bars and wire rods made of special grades of steel ⇒ Lighter and safer automobiles
- High-performance electrical sheets ⇒ Better performance for hybrid automobile motors
- ECOKOTE®-S steel sheets for automobile fuel tanks ⇒ Improved corrosion resistance and compatibility with biofuels without using environmentally harmful substances



A motor core made of electrical sheets



### Eco-Process

We are creating environmentally responsible eco-processes that can make our steel-making operations, already the world's most energy-efficient, even more efficient.

- Installation of a next-generation coke oven ⇒ Significantly increases the use of low-grade coking coal and conserves energy
- Recycling plastic ⇒ Steelmaking processes are used to recycle 100% of all used waste plastics as resources



A next-generation coke oven at the Oita Works



### Eco-Solution

We use eco-products and eco-processes to implement a variety of eco-solutions. These activities help lower the environmental impact of social and industrial activities and protect the environment.

- Coke dry quenching (CDQ) facility ⇒ Nippon Steel supplies this equipment to overseas steelmakers to help slow global warming
- Dry dust recycling equipment (rotary hearth furnace) ⇒ Established a joint venture company with POSCO in Korea for promoting the use of iron beyond national borders



A coke dry quenching facility

## International Technology Development and Sharing Initiatives

Nippon Steel and other Japanese steelmakers are playing an active role in dealing with global warming by sharing their state-of-the-art energy conservation technologies with companies around the world. Under the auspices of the Asia-Pacific Partnership on Clean Development & Climate (APP) and International Iron and Steel Institute (IISI), we provide technologies to other companies and encourage the development of new technologies. Using international cooperation within specific industries for dealing with environmental issues is called the Global Sectoral Approach. Already well established in the steel industry, this approach is spreading to other industries, too. As a result, the Global Sectoral Approach is gaining increasing recognition as a revolutionary and effective means of slowing and preventing global warming.



Environmental evaluation of a steel mill in China under an APP program

## The Development of Innovative Technologies

Achieving a significant reduction in CO<sub>2</sub> emissions requires the development of revolutionary technologies. One promising technology uses hydrogen instead of coal for the chemical reduction of iron ore. Technology for the separation and recovery of CO<sub>2</sub> in gas emitted by blast furnaces is also attracting much attention. Nippon Steel recognized the need for these technologies long ago. We have been acquiring knowledge involving these techniques while participating in national technology development projects. Using this know-how, Nippon Steel started working in 2008 on a new national project called COURSE50 with the Japan Iron and Steel Federation and other steelmakers. Nippon Steel will use the knowledge that we already have, and play a leading role in COURSE50.



Nippon Steel's Kimitsu Works is part of trial operations for a national project for the efficient separation and recovery of CO<sub>2</sub> in gas emitted by blast furnaces

## Topics

### Cumulative Plastic Recycling Tops One Million Metric Tons

Since 2000, Nippon Steel has been using steelmaking processes to recycle 100% of the plastic containers and packaging materials collected by municipal governments. With an annual capacity of 250,000 metric tons, we have the largest plastic recycling capacity in the world. Our operations alone account for about 30% of all recycling of plastic containers and packaging materials in Japan. In May 2008, the cumulative volume of recycled plastics passed one million metric tons. Incinerating these plastics would have produced approximately 3.2 million metric tons of CO<sub>2</sub> emissions. Sending this amount of waste plastics to a landfill would require 4 million cubic meters of space.



A preliminary processing facility

### Using Slag to Grow Kelp Forests

Since 2004, we have been combining steelmaking slag, a by-product of the steelmaking process, with humus for use as a nutrient that promotes the growth of kelp and other marine vegetation. First used in Hokkaido, this method of growing "ocean forests" is now in use at more than 10 locations all over Japan.



Loss of underwater vegetation has made the ocean appear white (Hokkaido)



Kelp growth after spreading steelmaking slag and humus in the water (same area)

## Shareholders and Investors

Nippon Steel places priority on investor relations (IR) activities. We have an extensive IR program. We hold information meetings for institutional investors and analysts; publish a reporting booklet and an annual report for shareholders; maintain an Investor Relations section on our web site; conduct investor surveys; 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 Investor Relations section of our web site, which was renewed on July, 2008. (<http://www.nsc.co.jp/>)

## Information Meetings and Tours of Steelworks for Individual Shareholders

Nippon Steel has held a total of 26 information meetings and steelworks tours for individual investors since starting this program in April 2005. More than 6,500 individual shareholders have participated in these events. In response to requests for tours of production facilities, we started holding steelworks tours on weekdays in 2008 for shareholders owning 1,000 or more stocks. We will continue to conduct programs in each area of Japan to give more shareholders a better understanding of our management policy, activities, and steelmaking operations.



Steelworks tours for individual shareholders (Kimitsu Works)

## Letter of Appreciation and Questionnaire for New Shareholders and Current Shareholders Increasing Their Investment

Nippon Steel started sending a letter of appreciation and questionnaire in 2007 to new shareholders and to current shareholders who purchase additional Nippon Steel stock so that their input can be used to improve IR activities.

## More Benefits for Individual Shareholders

As an individual shareholder's benefit, we send calendars to shareholders owning 10,000 or more stocks. In 2007, we changed the minimum number of shares necessary to achieve this benefit from 10,000 to 7,000.

Individual shareholders owning 50,000 or more stocks are invited to concerts at the Company's Kioi Hall in Tokyo. We have increased the number of concert programs and added concerts in other areas of Japan.

## Customers and Suppliers

Our manufacturing and marketing divisions work together closely 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.

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 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

Nippon Steel has a long history of managing steelworks all over Japan in harmony with communities. As a trusted and responsible member of the community, we continue to expand our social action programs. These programs include musical activities based in Kioi Hall, and operating regional sports clubs that increase community spirit.

## Music Fields

Since its establishment, Nippon Steel has supported artistic and cultural activities while contributing to the growth of Japan's economy. Specifically, Nippon Steel has expanded continuous support in the field of music through the inauguration of sponsors 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.

### Nippon Steel Music Awards

Nippon Steel started this award program as one way to celebrate its 20th anniversary in 1990. Every year, these awards recognize young classical music artists with outstanding potential as well as individuals who make significant contributions to the advancement of classical music.

### 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. In May 2008, cumulative visitors have reached two million.

### Beautiful Friends Concert

Nippon Steel and Korean steelmaker POSCO jointly sponsored the Beautiful Friends Concert, with the support of a Korean organization that assists physically and mentally challenged individuals, at Kioi Hall in Tokyo in April 2008.

## Sporting Activities

Nippon Steel is taking on the new challenge of transforming company sports teams into community-oriented sports clubs. We hope to contribute to making Japan's teams in many sports stronger by fostering the development of athletes who can participate at the global level, and even in the Olympics. We are involved with numerous junior teams, primarily for volleyball, rugby, baseball, and judo. We also



make our athletic facilities available for games and training.

Two players from the Sakai Blazers volleyball club, which is supported by Nippon Steel, were selected as members of the Japanese national men's volleyball team that competed in the Beijing Olympics.

## Manufacturing and Environmental Education Programs

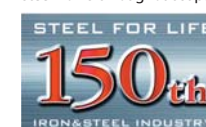
As a supplier of basic materials, Nippon Steel has a number of programs to inform young children and students—on whose shoulders the future rests—about the importance of manufacturing, the wonders of steel, and technology. Activities include a hands-on steelmaking program using the *tatara* method, a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



Children participating in *tatara* method activities

## 150th Anniversary of the Birth of Modern Ironmaking

The Japan Iron and Steel Federation is celebrating the 150th year since Japan started steel production using modern western furnaces with a series of commemorative events. Nippon Steel is also holding a variety of events at its steelworks throughout Japan, to make people more aware



of the contributions that the steel industry and its cutting-edge technologies continue to make in the 21st century.



| Company | Paid-in Capital<br>(Millions of yen) | Voting<br>Rights (%) | Business Content |
|---------|--------------------------------------|----------------------|------------------|
|---------|--------------------------------------|----------------------|------------------|

## Steelmaking and Steel Fabrication (250 companies)

| Consolidated Subsidiaries (193 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 steelmaking fluxes, and CC powders |
| Nippon Steel & Sumikin Stainless Steel Corporation    | 5,000            | 80.0%  | Makes and markets stainless steel                                                                                                                    |
| Nittetsu Steel Pipe Co., Ltd.                         | 4,832            | 100.0% | Makes, coats, and markets steel pipe and tubes                                                                                                       |
| Nippon Steel Logistics Co., Ltd.                      | 4,000            | 100.0% | Undertakes ocean and land transportation and warehousing                                                                                             |
| 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            | 100.0% | Makes and markets drums                                                                                                                              |
| Nippon Steel Blast Furnace Slag Cement Co., Ltd.      | 1,500            | 100.0% | Makes and markets cement and steelmaking slag                                                                                                        |
| 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                                                                                                          |
| Nittetsu Tokai Steel Wire Co., Ltd.                   | 897              | 51.0%  | Makes and markets secondary products using bars and wire rods                                                                                        |
| Nippon Steel Transportation Co., Ltd.                 | 500              | 90.0%  | 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                                                                                |
| 173 other companies                                   |                  |        |                                                                                                                                                      |

| Affiliates Accounted for by the Equity Method (57 companies) |        |       |                                                                                                                    |
|--------------------------------------------------------------|--------|-------|--------------------------------------------------------------------------------------------------------------------|
| Godo Steel, Ltd.                                             | 34,896 | 15.1% | Makes and markets shapes, rails, bars, and wires                                                                   |
| Sanyo Special Steel Co., Ltd.                                | 20,182 | 15.1% | Makes and markets special steel products                                                                           |
| Nichia Steel Works, Ltd.                                     | 10,720 | 23.3% | Makes and markets bolts, wire products, and prepainted galvanized sheets                                           |
| Nippon Steel Trading Co., Ltd.                               | 8,750  | 34.3% | 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  | 45.1% | 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<br>(Millions of yen) | Voting<br>Rights (%) | Business Content |
|---------|--------------------------------------|----------------------|------------------|
|---------|--------------------------------------|----------------------|------------------|

| Affiliates Accounted for by the Equity Method                  |                  |       |                                           |
|----------------------------------------------------------------|------------------|-------|-------------------------------------------|
| Usinas Siderúrgicas de Minas Gerais S.A.                       | R8,100 million   | 23.4% | Makes and markets steel products          |
| Baosteel-NSC/Arceelor Mittal Automotive Steel Sheets Co., Ltd. | RMB3,000 million | 40.0% | Makes and markets automotive steel sheets |
| UNIGAL Ltda.                                                   | R234 million     | 20.7% | Makes and markets galvanized sheets       |
| Companhia Nipo-Brasileira De Pelotização                       | R81 million      | 25.4% | Makes and markets pellets                 |
| Guangzhou Pacific Tinplate Co., Ltd.                           | US\$36 million   | 27.3% | Makes and markets tinplate                |
| 39 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 (11 companies)

| Consolidated Subsidiaries (7 companies) |       | Affiliates Accounted for by the Equity Method (4 companies) |                                    |
|-----------------------------------------|-------|-------------------------------------------------------------|------------------------------------|
| Nippon Steel City Produce, Inc.         | 6,020 | 100.0%                                                      | Buys, sells, and rents real estate |
| 10 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 coal chemicals, petrochemicals, and electronic materials |
| 17 other companies                      |       |                                                             |                                                                            |

## New Materials (10 companies)

| Consolidated Subsidiaries (10 companies) |       |        |                                                                                                                                                               |
|------------------------------------------|-------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nippon Steel Materials Co., Ltd.         | 3,000 | 100.0% | Makes and markets semiconductor components and materials, electronic components and materials, metal-processed products, and ceramic components and materials |
| 9 other companies                        |       |        |                                                                                                                                                               |

## System Solutions (15 companies)

| Consolidated Subsidiaries (14 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 |
| 14 other companies                       |        |                                                           |                                                                             |

Total Consolidated Subsidiaries: 254 companies  
Total Affiliates Accounted for by the Equity Method: 72 companies

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**Nagano Sales Office**  
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● **Osaka Sales Office**  
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● **Tohoku Sales Office**  
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## Steelworks

● **Yawata Works**  
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● **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: 81-52-603-7024 Fax: 81-52-603-7025

● **Structurals Division: Sakai Works**  
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● **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**  
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## Research Laboratory

● **Technical Development Bureau**  
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## Major Consolidated Subsidiaries in Each Segment

● **Nippon Steel Engineering Co., Ltd.**  
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● **Nippon Steel City Produce, Inc.**  
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● **Nippon Steel Chemical Co., Ltd.**  
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● **Nippon Steel Materials Co., Ltd.**  
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● **NS Solutions Corporation**  
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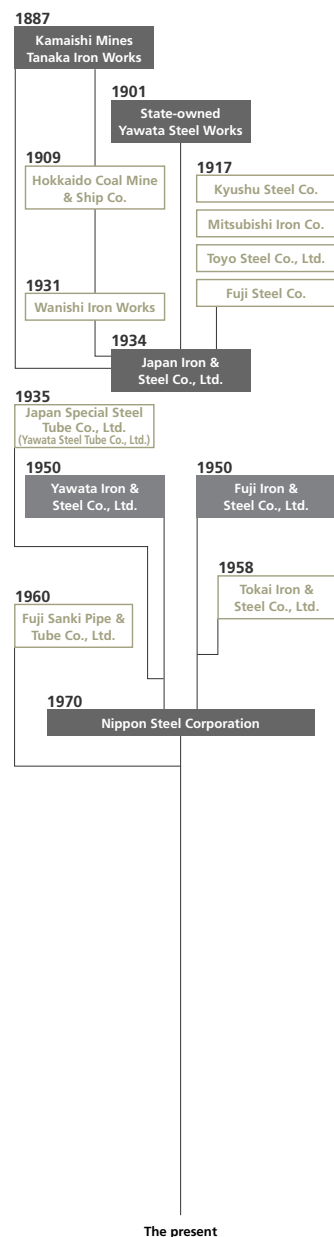
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- 1857** Japan's first blast furnace went into operation at Kamaishi.
- 1875** The Ministry of Industry started construction of steelworks at Kamaishi.
- 1886** Iron was tapped at Kamaishi Mines Tanaka Iron Works (present Kamaishi Works).
- 1897** 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.
- 1961** Yawata Iron & Steel inaugurated the Tobata Area of Yawata Works.
- 1965** Sakai Works of Yawata Iron & Steel began operation.
- 1967** Kimitsu Works of Yawata Iron & Steel began operation.
- 1968** Tokai Iron & Steel became Nagoya Works of Fuji Iron & Steel.
- 1970** Yawata Iron & Steel absorbed Yawata Steel Tube Co., Ltd.
- 1971** Yawata Iron & Steel and Fuji Iron & Steel merged to form Nippon Steel Corporation.
- 1974** Oita Works began operation.
- 1984** Nippon Steel absorbed Fuji Sanki Pipe & Tube Co., Ltd.
- 1986** Engineering Divisions Group was organized.
- 1987** New Materials Projects Bureau was organized.
- 1991** Electronics Division was organized.
- 1993** Electronics & Information Systems Division, New Materials Division and Service Business Division (integrated into Urban Development Division in June 1992) were organized.
- 1997** Technical Development Bureau was organized by integrating Central R&D Bureau and Plant Engineering & Technology Bureau, and Research and Engineering Center began operation.
- 2000** Semiconductor Division was organized (abolished in April 1999).
- 2001** Silicon Wafer Division was organized (abolished in April 2004).
- 2002** A divisionally integrated operational system within the Group based on product item or business area was introduced in the steelmaking and steel fabrication business.
- 2003** 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.
- 2006** All operations of Nippon Steel's Urban Development Division were integrated into Nippon Steel City Produce, Inc.
- 2007** Stainless business was spun off to Nippon Steel & Sumikin Stainless Steel Corporation.
- 2008** Engineering and Construction business was spun off to Nippon Steel Engineering Co., Ltd.
- 2009** New Materials business was spun off to Nippon Steel Materials Co., Ltd.

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### Financial Summary

Consolidated net sales for fiscal year 2007 (Year ended March 31, 2008) rose ¥524.8 billion, to ¥4,826.9 billion. Operating profit decreased by ¥34.5 billion, to ¥545.5 billion. Ordinary profit was down ¥33.5 billion, to ¥564.1 billion. Net income increased ¥3.8 billion, to ¥354.9 billion, a record high for the fourth consecutive fiscal year.

### Segment Information

#### (Steelmaking and Steel Fabrication)

Regarding the overseas steel market, although U.S. demand weakened, demand in other regions continued to be abundant, reflecting the economic growth of emerging countries centered on the BRICs. Moreover, while China has greatly increased its production capacity, Chinese steel exports have fallen off due to export restrictions the government has put into place. As a result, market conditions were generally tight.

With respect to the domestic steel market, the amendment of the building code reduced the level of some types of construction activity and lowered related demand for certain steel construction materials, but overall demand continued to be robust, especially from the automotive, shipbuilding, machinery, and other manufacturing industries due to expanding demand overseas.

Amid the continued abundant demand for steel, the Company steadily implemented facilities countermeasures, particularly those for responding to rising demand for medium-high grade steel. To promote increases in production and shipment capacities, the countermeasures encompassed numerous moves to shrink work periods and increase efficiency through comprehensive operational reforms covering all frontline operations from order taking through shipment dispatching. During fiscal 2007, we completed such projects as the construction of the No. 5 coke oven at the Oita Works, the expansion and relining of the No. 1 blast furnace at the Nagoya Works, and construction of a new basic oxygen furnace at the Nagoya Works, and these new and expanded facilities were placed in operation. Regarding products for the domestic construction market segment, in which the level of activity has declined, and other market segments in the commodity-grade steel product field, we have worked to make flexible responses through such efforts as those to monitor trends in real demand and inventory levels as well as make decisions to reduce production levels when necessary.

Since the latter half of the fiscal year, however, the challenges stemming from tight markets and surging prices for such items as crude oil, steel scrap, nonferrous metals, and ocean freight were supplemented by a sharp tightening of market conditions for coking coal resulting from such factors as two heavy rainstorms in Australia during the first two months of 2008 and a cold wave in China that spurred China to institute coal export restrictions. These situations increased procurement costs. The Company continued striving to maximize the efficaciousness of its autonomous efforts to reduce costs, expanded its production and shipment volumes of medium-high grade steel, and moved ahead with steel materials price revisions, but the procurement cost rises accompanying the increase in raw materials costs and ocean freight costs were considerably more rapid and larger than had previously been anticipated.

Amid these rapid and sharp changes in its operating environment, the Company is projecting that growth in the global economy over the medium-to-long term will be accompanied by a rise in demand for steel. In view of this, the Nippon Steel Group

is continuing its efforts to further reinforce its consolidated management base by moving ahead with such measures as those involving the reorganization of Group companies as well as the arrangement of joint businesses and production systems in cooperation with its domestic and overseas partners in business alliances.

Specifically, during fiscal 2007, the Company moved ahead with such initiatives as those to convert Nippon Steel Drum Co., Ltd. and Hokkai Koki Co., Ltd. into wholly owned subsidiaries and make Godo Steel, Ltd. an equity-method affiliate. We deepened and expanded our alliances with Sumitomo Metal Industries, Ltd. and Kobe Steel, Ltd. through such measures as those regarding the cooperative use of facilities and mutual supply arrangements for semi-finished products, and all three allies supplemented their cross-shareholdings as a means of further strengthening the alliance. Overseas, we are supporting the expansion investment plan of our Brazilian-based equity-method affiliate, Usinas Siderurgicas de Minas Gerais S.A. (USIMINAS), including plans for the construction of a new steelworks for semi-finished steel, while in China we are expanding the capacity of a joint venture with Baoshan Iron & Steel Co., Ltd., and ArcelorMittal that manufactures and sells automotive steel sheets. In these and other ways, we have been progressively strengthening and expanding our global supply systems.

In addition, regarding the Company's interests in overseas coal and ferrous ore mines, we have decided to invest in the upgrade of mining equipment and expansion of capacity in a new area (Mesa A) of the Robe River mine in Australia and at the Moranbah North coal mines in Australia, and we are proceeding with various other measures aimed at ensuring the long-term stability of our supplies of raw materials.

Regarding product development, the Company is seeking to further increase the sophistication of its technologies and striving to concertedly wield manufacturing, marketing, technical and research units to meet customer needs. We are proactively moving ahead with various joint development projects in cooperation with customers. During fiscal 2007, these projects generated many results, including the development and commercialization of the world's first highly corrosion-resistant steel plate adopted for use on crude oil tankers.

As for environmental activities, the Japan Iron and Steel Federation (JISF) has drafted a voluntary action plan that calls for reducing energy consumption to approximately 10% below the fiscal 1990 level by 2010, and we are pressing forward on many fronts to achieve the plan's targets, including measures to recover waste heat; use by-product gases; reuse waste plastic and tires as raw materials; and relined blast furnaces and other aging facilities to boost efficiency. Moreover, as part of a strategic alliance with Korea-based POSCO, we established a joint venture to utilize dry-dust recycling technologies and provide direct reduced iron (DRI) supplies. Plans call for the joint venture to construct and operate Nippon Steel type DRI making and dry-dust recycling equipment at POSCO plants in Korea and supply DRI to both its parent companies. By promoting more-efficient use of steelmaking raw materials as well as recycling, the project is expected to reduce CO<sub>2</sub> emissions and enable the receipt of Clean Development Mechanism (CDM) emission rights.

#### (Engineering and Construction)

In the engineering and construction business, Nippon Steel

Engineering Co., Ltd. obtained numerous new orders to maintain a large order backlog, just as in the previous fiscal year, and generated a record-high level of earnings. In Japan, Nippon Steel Engineering is focusing on solutions-based marketing, particularly in waste treatment facility projects for which private finance initiative (PFI) methods are applicable, along with steel production plant and large-scale distribution facility construction projects. Outside Japan, this business is focusing on securing orders for energy development related projects in Southeast Asia, where demand is burgeoning.

#### (Urban Development)

In the urban development business, Nippon Steel City Produce, Inc. the Group's real estate developer, focuses on the property value revitalization business. This business encompasses the planning, proposal and promotion of projects to redevelop idle land owned by Group companies. It also includes operating as a developer with special expertise to handle the redevelopment of urban districts, the reconstruction of condominiums, and other activities. In fiscal 2007, Nippon Steel City Produce completed a large-scale commercial facility—MORUE Nakajima complex—on the former grounds of the Muroran Works. Also completed was the Livio Higashida Ville Courte I residential district within the Yawata-Higashida development project in Kitakyushu, which was the first such project in Japan to be selected by the Ministry of the Environment for recognition as an environment-friendly residential community that realizes a 20% reduction in CO<sub>2</sub> emissions.

#### (Chemicals)

In the chemicals business, Nippon Steel Chemical Co., Ltd., faced intensifying competition in the electronics materials field and, from the latter half of the year, also was impacted by such factors as the surging prices of crude oil, naphtha, and other raw materials and the deterioration of supply-demand conditions in chemicals markets. However, the company maintained overall profits at approximately the previous year's level thanks to positive conditions for operations centered on business in the fields of coal tar and carbon materials. To strengthen and expand its operations in the coal tar, carbon materials, and chemicals fields, Nippon Steel Chemical has worked to increase its capacity for various products, and also worked during fiscal 2007 to enhance the structure of its operations through such initiatives as that to begin the construction of a manufacturing facility for SILPLUS®, a transparent material that is highly heat resistant.

#### (New Materials)

In the new materials business, earnings at the Nippon Steel Materials Co., Ltd., Group were depressed by factors that included the unexpectedly lengthy protraction of an adjustment period in the semiconductor market, a key source of demand, along with a delay in the start of operations at the factory of NS Solar Material Co., Ltd., which will soon begin manufacturing and marketing solar cell polycrystalline silicon products. In contrast, in the basic industrial components and materials field, orders for pitch-based carbon fiber and materials, in particular, have been strong due to robust demand worldwide.

#### (System Solutions)

In the system solutions business, the NS Solutions Group is focusing on system life cycle (SLC) total solutions, which encompass the planning, configuration, operation, and maintenance of IT

systems. NS Solutions is also leveraging its sophisticated system development technologies to create and provide highly differentiated and competitive solution services. In fiscal 2007, NS Solutions achieved a strong performance by providing numerous solutions to a diverse range of customers, particularly customers in the financial industry and public sector.

#### Funding

Nippon Steel Corporation issued unsecured straight bonds of ¥29.9 billion on November 30, 2007, ¥19.9 billion and ¥29.9 billion on January 25, 2008 in the year ended March 31, 2008. In the year ended March 31, 2009, Nippon Steel Corporation issued unsecured straight bonds of ¥29.9 billion and ¥29.9 billion on May 23, 2008.

#### Treasury Stock Purchases

Based on approval granted by the Board of Directors for share buybacks at a meeting held on March 1, 2007, the Company spent about ¥100 billion in total to repurchase 119,930,000 of its own shares from March 22, 2007 through June 20, 2007.

#### Assets, Liabilities, Net Assets and Cash Flows

Nippon Steel harnessed ¥525.7 billion in net cash provided by operating activities to meet robust demand centered on high-grade steel. To drive earnings growth, the Company spent ¥297.8 billion on capital expenditures aimed primarily at expanding production capacity. Nippon Steel also invested ¥195.5 billion to strengthen alliances with Sumitomo Metal Industries, Ltd. and Kobe Steel, Ltd., convert Godo Steel, Ltd., into an equity-method affiliate, convert Oji Steel Co., Ltd. into a consolidated subsidiary, and take other measures to enhance Group management as well as to strengthen and expand business alliances with users.

Reflecting dividend payments of ¥69.9 billion from distributable earnings and treasury stock purchases of ¥93.4 billion, the Group's total interest-bearing debt was ¥1,192.0 billion, down ¥21.0 billion from the end of fiscal 2006. By contrast, net worth came to ¥1,908.7 billion, up ¥15.8 billion from the end of fiscal 2006. As a result, the ratio of interest-bearing debt to net assets (debt-to-equity ratio) improved 0.02 percentage point, to 0.62.

As a result, total consolidated assets were ¥5,193.4 billion, compared with ¥5,344.9 billion at the end of fiscal 2006, a decrease of ¥151.4 billion. This reflected a ¥91.8 billion drop in investments and others because of a ¥341.2 billion decrease in unrealized gains on investment securities that accompanied a general drop in stock prices and exceeded the amount of new investments executed. It also reflected such factors as the drawing down of cash deposits by ¥120.6 billion.

Total liabilities amounted to ¥2,779.5 billion, down ¥196.1 billion from ¥2,975.6 billion a year earlier. This reflected a ¥21.0 billion decrease in interest-bearing debt and a ¥114.9 billion fall in deferred tax liabilities stemming from a decrease in unrealized gains on investment securities.

Net assets stood at ¥2,413.9 billion, up ¥44.7 billion compared with ¥2,369.2 billion at the end of fiscal 2006. Items contributing to this increase include a gain of ¥354.9 billion in consolidated net income, which largely offset such countervailing factors as ¥69.9 billion in cash dividend payments, ¥93.4 billion in share buybacks, and a ¥203.3 billion decrease in unrealized gains on other marketable securities.

## Consolidated Balance Sheets

Nippon Steel Corporation and Consolidated Subsidiaries  
As of March 31, 2008 and 2007

|                                                | Millions of yen    |                    | Thousands of<br>U.S. dollars<br>(Note 3) |
|------------------------------------------------|--------------------|--------------------|------------------------------------------|
|                                                | 2008               | 2007               | 2008                                     |
| <b>ASSETS</b>                                  |                    |                    |                                          |
| <b>Current assets:</b>                         |                    |                    |                                          |
| Cash and bank deposits (Notes 4 and 13)        | ¥ 159,455          | ¥ 280,117          | \$ 1,591,534                             |
| Marketable securities (Notes 13 and 16)        | 9,015              | 8,714              | 89,982                                   |
| Receivables:                                   |                    |                    |                                          |
| Notes and accounts receivable (Notes 4 and 21) | 600,080            | 659,146            | 5,989,423                                |
| Less: Allowance for doubtful accounts          | (7,685)            | (12,045)           | (76,712)                                 |
|                                                | 592,394            | 647,100            | 5,912,710                                |
| Inventories                                    | 867,157            | 789,486            | 8,655,126                                |
| Deferred tax assets (Note 7)                   | 65,592             | 69,533             | 654,676                                  |
| Other                                          | 58,809             | 55,236             | 586,977                                  |
| <b>Total current assets</b>                    | <b>1,752,424</b>   | <b>1,850,188</b>   | <b>17,491,008</b>                        |
| <b>Fixed assets:</b>                           |                    |                    |                                          |
| <b>Tangible fixed assets:</b>                  |                    |                    |                                          |
| Buildings and structures (Note 4)              | 1,559,635          | 1,517,433          | 15,566,776                               |
| Machinery and equipment (Note 4)               | 5,151,838          | 4,933,346          | 51,420,686                               |
|                                                | 6,711,473          | 6,450,779          | 66,987,462                               |
| Less: Accumulated depreciation                 | (5,283,202)        | (5,099,989)        | (52,731,832)                             |
|                                                | 1,428,271          | 1,350,789          | 14,255,630                               |
| Land (Notes 4 and 6)                           | 319,651            | 324,160            | 3,190,450                                |
| Construction in progress                       | 76,801             | 104,138            | 766,560                                  |
|                                                | 1,824,724          | 1,779,089          | 18,212,641                               |
| <b>Intangible fixed assets:</b>                |                    |                    |                                          |
| Patents and utility rights                     | 17,979             | 17,963             | 179,449                                  |
| Software                                       | 1,580              | 1,793              | 15,779                                   |
| Goodwill                                       | 3,543              | 10,829             | 35,371                                   |
|                                                | 23,103             | 30,586             | 230,600                                  |
| <b>Investments and others:</b>                 |                    |                    |                                          |
| Investments in securities (Notes 4, 5 and 16)  | 1,396,521          | 1,507,335          | 13,938,728                               |
| Deferred tax assets (Note 7)                   | 31,832             | 28,953             | 317,723                                  |
| Other (Notes 4 and 5)                          | 170,004            | 154,911            | 1,696,820                                |
| Less: Allowance for doubtful accounts          | (5,112)            | (6,140)            | (51,031)                                 |
|                                                | 1,593,245          | 1,685,060          | 15,902,241                               |
| <b>Total fixed assets</b>                      | <b>3,441,074</b>   | <b>3,494,736</b>   | <b>34,345,483</b>                        |
| <b>Total assets</b>                            | <b>¥ 5,193,498</b> | <b>¥ 5,344,924</b> | <b>\$ 51,836,492</b>                     |

The accompanying notes are integral parts of these statements.

|                                                                              | Millions of yen   |                   | Thousands of<br>U.S. dollars<br>(Note 3) |
|------------------------------------------------------------------------------|-------------------|-------------------|------------------------------------------|
|                                                                              | 2008              | 2007              | 2008                                     |
| <b>LIABILITIES</b>                                                           |                   |                   |                                          |
| <b>Current liabilities:</b>                                                  |                   |                   |                                          |
| Short-term loans and portion of long-term loans due within one year (Note 4) | ¥ 272,009         | ¥ 338,825         | \$ 2,714,938                             |
| Commercial paper (Note 4)                                                    | 135,000           | 163,000           | 1,347,439                                |
| Bonds due within one year (Note 4)                                           | 95,300            | 43,050            | 951,192                                  |
| Notes and accounts payable (Note 21)                                         | 751,989           | 758,532           | 7,505,630                                |
| Accrued expenses                                                             | 242,749           | 254,428           | 2,422,892                                |
| Advances received                                                            | 49,878            | 14,243            | 497,841                                  |
| Accrued income taxes and enterprise taxes                                    | 102,404           | 130,640           | 1,022,107                                |
| Allowance for losses on construction contracts                               | 3,384             | 5,250             | 33,782                                   |
| Provision for environmental remediation                                      | 5,402             | 8,466             | 53,922                                   |
| Other                                                                        | 63,827            | 92,616            | 637,069                                  |
| <b>Total current liabilities</b>                                             | <b>1,721,947</b>  | <b>1,809,053</b>  | <b>17,186,816</b>                        |
| <b>Long-term liabilities:</b>                                                |                   |                   |                                          |
| Bonds and notes (Note 4)                                                     | 223,274           | 238,614           | 2,228,510                                |
| Long-term loans (Note 4)                                                     | 466,433           | 429,473           | 4,655,484                                |
| Deferred tax liabilities (Note 7)                                            | 150,920           | 265,877           | 1,506,346                                |
| Deferred tax liabilities on revaluation of land (Notes 6 and 7)              | 9,179             | 9,539             | 91,616                                   |
| Accrued pension and severance costs (Note 17)                                | 125,536           | 123,695           | 1,252,988                                |
| Reserve for repairs to blast furnaces                                        | 39,230            | 51,211            | 391,559                                  |
| Allowance for retirement benefits of directors and corporate auditors        | 4,191             | 3,744             | 41,834                                   |
| Other                                                                        | 38,830            | 44,486            | 387,567                                  |
| <b>Total long-term liabilities</b>                                           | <b>1,057,596</b>  | <b>1,166,642</b>  | <b>10,555,910</b>                        |
| <b>Total liabilities</b>                                                     | <b>2,779,543</b>  | <b>2,975,695</b>  | <b>27,742,727</b>                        |
| Commitments and contingent liabilities (Note 14)                             |                   |                   |                                          |
| <b>NET ASSETS (Note 12)</b>                                                  |                   |                   |                                          |
| <b>SHAREHOLDERS' EQUITY</b>                                                  |                   |                   |                                          |
| <b>Common stock:</b>                                                         |                   |                   |                                          |
| Authorized—9,917,077,000 shares                                              |                   |                   |                                          |
| Issued and outstanding—6,806,980,977 shares as of March 31, 2008 and 2007    | 419,524           | 419,524           | 4,187,293                                |
| <b>Capital surplus</b>                                                       | <b>114,364</b>    | <b>111,693</b>    | <b>1,141,473</b>                         |
| <b>Retained earnings</b>                                                     | <b>1,377,823</b>  | <b>1,087,908</b>  | <b>13,752,110</b>                        |
| <b>Less: Treasury stock, at cost*</b>                                        | <b>(261,272)</b>  | <b>(170,563)</b>  | <b>(2,607,767)</b>                       |
| <b>VALUATION AND TRANSACTION ADJUSTMENTS</b>                                 |                   |                   |                                          |
| Unrealized gains on available-for-sale securities (Note 16)                  | 234,673           | 438,056           | 2,342,289                                |
| Deferred hedge income                                                        | (1,508)           | 300               | (15,056)                                 |
| Unrealized gains on revaluation of land (Note 6)                             | 11,247            | 9,922             | 112,260                                  |
| Foreign currency translation adjustments                                     | 13,923            | (3,958)           | 138,973                                  |
| <b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES</b>                        | <b>505,176</b>    | <b>476,344</b>    | <b>5,042,188</b>                         |
| <b>Total net assets</b>                                                      | <b>2,413,954</b>  | <b>2,369,228</b>  | <b>24,093,764</b>                        |
| <b>Total liabilities and net assets</b>                                      | <b>¥5,193,498</b> | <b>¥5,344,924</b> | <b>\$51,836,492</b>                      |

\*514,477,120 shares at March 31, 2008.

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

## Consolidated Statements of Income

Nippon Steel Corporation and Consolidated Subsidiaries  
Years ended March 31, 2008, 2007 and 2006

|                                                                                           | Millions of yen   |            |            | Thousands of<br>U.S. dollars<br>(Note 3) |
|-------------------------------------------------------------------------------------------|-------------------|------------|------------|------------------------------------------|
|                                                                                           | 2008              | 2007       | 2006       | 2008                                     |
| Net sales                                                                                 | <b>¥4,826,974</b> | ¥4,302,145 | ¥3,906,301 | <b>\$48,178,205</b>                      |
| Cost of sales (Notes 8 and 10)                                                            | <b>3,952,976</b>  | 3,408,197  | 3,063,154  | <b>39,454,803</b>                        |
| <b>Gross margin</b>                                                                       | <b>873,997</b>    | 893,947    | 843,147    | <b>8,723,401</b>                         |
| Selling, general and administrative expenses (Notes 8, 9 and 10)                          | <b>328,417</b>    | 313,849    | 266,828    | <b>3,277,943</b>                         |
| <b>Operating profit</b>                                                                   | <b>545,580</b>    | 580,097    | 576,319    | <b>5,445,457</b>                         |
| Non-operating profit:                                                                     |                   |            |            |                                          |
| Interest and dividend income                                                              | <b>24,555</b>     | 23,427     | 14,512     | <b>245,093</b>                           |
| Equity in net income of unconsolidated subsidiaries and affiliates                        | <b>52,507</b>     | 43,480     | 28,227     | <b>524,080</b>                           |
| Exchange gain on foreign currency transactions                                            | —                 | —          | 8,523      | —                                        |
| Miscellaneous                                                                             | <b>27,456</b>     | 22,591     | 17,421     | <b>274,041</b>                           |
|                                                                                           | <b>104,519</b>    | 89,498     | 68,685     | <b>1,043,215</b>                         |
| Non-operating loss:                                                                       |                   |            |            |                                          |
| Interest expense                                                                          | <b>17,773</b>     | 15,218     | 15,787     | <b>177,393</b>                           |
| Exchange loss on foreign currency transactions                                            | <b>17,503</b>     | —          | —          | <b>174,699</b>                           |
| Loss on disposal of fixed assets                                                          | <b>15,550</b>     | 12,859     | 35,471     | <b>155,213</b>                           |
| Miscellaneous                                                                             | <b>35,153</b>     | 43,877     | 46,346     | <b>350,869</b>                           |
|                                                                                           | <b>85,980</b>     | 71,955     | 97,604     | <b>858,175</b>                           |
| <b>Ordinary profit</b>                                                                    | <b>564,119</b>    | 597,640    | 547,400    | <b>5,630,497</b>                         |
| Special profit:                                                                           |                   |            |            |                                          |
| Gain on sales of tangible fixed assets (Note 11)                                          | <b>41,366</b>     | 17,765     | 14,881     | <b>412,877</b>                           |
| Gain on sales of investments in securities and investments in subsidiaries and affiliates | —                 | 6,013      | 3,325      | —                                        |
|                                                                                           | <b>41,366</b>     | 23,778     | 18,207     | <b>412,877</b>                           |
| <b>Income before income taxes and minority interest</b>                                   | <b>605,485</b>    | 621,419    | 565,607    | <b>6,043,375</b>                         |
| <b>Income taxes—current</b> (Note 7)                                                      | <b>201,330</b>    | 225,566    | 223,254    | <b>2,009,483</b>                         |
| <b>Income taxes—deferred</b> (Note 7)                                                     | <b>22,164</b>     | 23,038     | (17,061)   | <b>221,228</b>                           |
| <b>Minority interest in net income of consolidated subsidiaries</b>                       | <b>27,001</b>     | 21,632     | 15,510     | <b>269,501</b>                           |
| <b>Net income</b>                                                                         | <b>¥ 354,989</b>  | ¥ 351,182  | ¥ 343,903  | <b>\$ 3,543,160</b>                      |
| <b>Per share (stated in yen and in U.S. dollars):</b>                                     |                   |            |            |                                          |
| Net income (loss) (Note 20)                                                               | <b>¥56.33</b>     | ¥54.28     | ¥51.07     | <b>\$0.56</b>                            |
| Cash dividends applicable to the year (Note 12)                                           | <b>11.00</b>      | 10.00      | 9.00       | <b>0.11</b>                              |
| <b>Weighted average number of shares outstanding (in thousands)</b>                       | <b>6,301,252</b>  | 6,466,591  | 6,731,176  |                                          |

The accompanying notes are integral parts of these statements.

## Consolidated Statements of Shareholders' Equity

Nippon Steel Corporation and Consolidated Subsidiaries  
Year ended March 31, 2006

|                                                                     | Thousands<br>Number of<br>shares of<br>common stock | Millions of yen |                                  |                      |
|---------------------------------------------------------------------|-----------------------------------------------------|-----------------|----------------------------------|----------------------|
|                                                                     |                                                     | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings |
| 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  
Years ended March 31, 2008 and 2007

|                                                                     | Thousands                              | Millions of yen |                    |                      |                               |                                                                |                             |                                                  |                                                   |                                                         |                   |
|---------------------------------------------------------------------|----------------------------------------|-----------------|--------------------|----------------------|-------------------------------|----------------------------------------------------------------|-----------------------------|--------------------------------------------------|---------------------------------------------------|---------------------------------------------------------|-------------------|
|                                                                     | Number of<br>shares of<br>common stock | Common<br>stock | Capital<br>surplus | Retained<br>earnings | Treasury<br>stock,<br>at cost | Unrealized<br>gains on<br>available-<br>for-sale<br>securities | Deferred<br>hedge<br>income | Unrealized<br>gains on<br>revaluation<br>of land | Foreign<br>currency<br>translation<br>adjustments | Minority<br>interest in<br>consolidated<br>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         |
| Cash dividends for the previous fiscal year                         | —                                      | —               | —                  | (69,966)             | —                             | —                                                              | —                           | —                                                | —                                                 | —                                                       | (69,966)          |
| Net income for fiscal year 2007                                     | —                                      | —               | —                  | 354,989              | —                             | —                                                              | —                           | —                                                | —                                                 | —                                                       | 354,989           |
| Acquisition of treasury stock                                       | —                                      | —               | —                  | —                    | (94,516)                      | —                                                              | —                           | —                                                | —                                                 | —                                                       | (94,516)          |
| Disposal of treasury stock                                          | —                                      | —               | 2,671              | —                    | 4,369                         | —                                                              | —                           | —                                                | —                                                 | —                                                       | 7,040             |
| Increase due to the change in the number of consolidated companies  | —                                      | —               | —                  | 5,533                | (561)                         | —                                                              | —                           | —                                                | —                                                 | —                                                       | 4,971             |
| Increase due to reversal of unrealized gains on revaluation of land | —                                      | —               | —                  | (640)                | —                             | —                                                              | —                           | —                                                | —                                                 | —                                                       | (640)             |
| Other change for fiscal year 2007 (net)                             | —                                      | —               | —                  | —                    | —                             | (203,382)                                                      | (1,809)                     | 1,325                                            | 17,882                                            | 28,832                                                  | (157,151)         |
| Total change for this fiscal year 2007                              | —                                      | —               | 2,671              | 289,915              | (90,709)                      | (203,382)                                                      | (1,809)                     | 1,325                                            | 17,882                                            | 28,832                                                  | 44,725            |
| <b>Balance at March 31, 2008</b>                                    | <b>6,806,980</b>                       | <b>¥419,524</b> | <b>¥114,364</b>    | <b>¥1,377,823</b>    | <b>¥(261,272)</b>             | <b>¥234,673</b>                                                | <b>¥(1,508)</b>             | <b>¥11,247</b>                                   | <b>¥13,923</b>                                    | <b>¥505,176</b>                                         | <b>¥2,413,954</b> |

|                                                                     | Thousands                              | Thousands of U.S. dollars (Note 3) |                    |                      |                               |                                                                |                             |                                                  |                                                   |                                                         |                     |
|---------------------------------------------------------------------|----------------------------------------|------------------------------------|--------------------|----------------------|-------------------------------|----------------------------------------------------------------|-----------------------------|--------------------------------------------------|---------------------------------------------------|---------------------------------------------------------|---------------------|
|                                                                     | Number of<br>shares of<br>common stock | Common<br>stock                    | Capital<br>surplus | Retained<br>earnings | Treasury<br>stock,<br>at cost | Unrealized<br>gains on<br>available-<br>for-sale<br>securities | Deferred<br>hedge<br>income | Unrealized<br>gains on<br>revaluation<br>of land | Foreign<br>currency<br>translation<br>adjustments | Minority<br>interest in<br>consolidated<br>subsidiaries | Total               |
| Balance at March 31, 2007                                           | 6,806,980                              | \$4,187,293                        | \$1,114,812        | \$10,858,453         | \$(1,702,396)                 | \$4,372,253                                                    | \$ 3,003                    | \$ 99,035                                        | \$(39,513)                                        | \$4,754,411                                             | \$23,647,353        |
| Cash dividends for the previous fiscal year                         | —                                      | —                                  | —                  | (698,342)            | —                             | —                                                              | —                           | —                                                | —                                                 | —                                                       | (698,342)           |
| Net income for fiscal year 2007                                     | —                                      | —                                  | —                  | 3,543,160            | —                             | —                                                              | —                           | —                                                | —                                                 | —                                                       | 3,543,160           |
| Acquisition of treasury stock                                       | —                                      | —                                  | —                  | —                    | (943,373)                     | —                                                              | —                           | —                                                | —                                                 | —                                                       | (943,373)           |
| Disposal of treasury stock                                          | —                                      | —                                  | 26,661             | —                    | 43,661                        | —                                                              | —                           | —                                                | —                                                 | —                                                       | 70,272              |
| Increase due to the change in the number of consolidated companies  | —                                      | —                                  | —                  | 55,225               | (5,609)                       | —                                                              | —                           | —                                                | —                                                 | —                                                       | 49,616              |
| Increase due to reversal of unrealized gains on revaluation of land | —                                      | —                                  | —                  | (6,388)              | —                             | —                                                              | —                           | —                                                | —                                                 | —                                                       | (6,388)             |
| Other change for fiscal year 2007 (net)                             | —                                      | —                                  | —                  | —                    | —                             | (2,029,964)                                                    | (18,059)                    | 13,225                                           | 178,486                                           | 287,777                                                 | (1,568,534)         |
| Total change for this fiscal year 2007                              | —                                      | —                                  | 26,661             | 2,893,656            | (905,371)                     | (2,029,964)                                                    | (18,059)                    | 13,225                                           | 178,486                                           | 287,777                                                 | 446,411             |
| <b>Balance at March 31, 2008</b>                                    | <b>6,806,980</b>                       | <b>\$4,187,293</b>                 | <b>\$1,141,473</b> | <b>\$13,752,110</b>  | <b>\$(2,607,767)</b>          | <b>\$2,342,289</b>                                             | <b>\$(15,056)</b>           | <b>\$112,260</b>                                 | <b>\$138,973</b>                                  | <b>\$5,042,188</b>                                      | <b>\$24,093,764</b> |

The accompanying notes are integral parts of these statements.



## Consolidated Statements of Cash Flows

Nippon Steel Corporation and Consolidated Subsidiaries  
Years ended March 31, 2008, 2007 and 2006

|                                                                                                                                                   | Millions of yen  |                  |                  | Thousands of<br>U.S. dollars<br>(Note 3) |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------------------------------|
|                                                                                                                                                   | 2008             | 2007             | 2006             | 2008                                     |
| <b>Cash flows from operating activities:</b>                                                                                                      |                  |                  |                  |                                          |
| Income before income taxes and minority interests                                                                                                 | ¥ 605,485        | ¥ 621,419        | ¥ 565,607        | \$ 6,043,375                             |
| Adjustments to reconcile net income to net cash provided by operating activities:                                                                 |                  |                  |                  |                                          |
| Depreciation and amortization                                                                                                                     | 244,038          | 192,454          | 183,365          | 2,435,759                                |
| Interest and dividend income (accrual basis)                                                                                                      | (24,555)         | (23,427)         | (14,512)         | (245,093)                                |
| Interest expense (accrual basis)                                                                                                                  | 17,773           | 15,218           | 15,787           | 177,393                                  |
| Exchange loss (gain) on foreign currency transactions                                                                                             | 10,111           | (1,206)          | (4,504)          | 100,920                                  |
| Amortization of excess of cost over the underlying net equity (the underlying net equity over cost) of investments in subsidiaries and affiliates | —                | —                | 913              | —                                        |
| Amortization of goodwill                                                                                                                          | 3,007            | (1,069)          | —                | 30,016                                   |
| Equity in net (income) loss of unconsolidated subsidiaries and affiliates                                                                         | (52,507)         | (43,480)         | (28,227)         | (524,080)                                |
| Loss (gain) on sales of investments in securities                                                                                                 | 114              | (6,013)          | (3,335)          | 1,139                                    |
| Loss on disposal of tangible and intangible fixed assets                                                                                          | 8,070            | 9,662            | 9,866            | 80,547                                   |
| Gain on sales of tangible and intangible fixed assets                                                                                             | (41,366)         | (17,765)         | (13,998)         | (412,877)                                |
| Changes in allowance for doubtful accounts                                                                                                        | (5,283)          | (3,323)          | 5,302            | (52,730)                                 |
| Changes in operating assets and liabilities:                                                                                                      |                  |                  |                  |                                          |
| Changes in notes and accounts receivable                                                                                                          | 63,953           | (42,094)         | (131,251)        | 638,327                                  |
| Changes in inventories                                                                                                                            | (80,119)         | (134,603)        | (79,617)         | (799,670)                                |
| Changes in notes and accounts payable                                                                                                             | 43,008           | 122,062          | 15,650           | 429,272                                  |
| Other                                                                                                                                             | (53,836)         | 23,669           | 82,505           | (537,341)                                |
| Interest and dividend income (cash basis)                                                                                                         | 34,520           | 27,476           | 17,804           | 344,550                                  |
| Interest expense (cash basis)                                                                                                                     | (17,435)         | (15,368)         | (16,596)         | (174,019)                                |
| Income taxes (cash basis)                                                                                                                         | (229,203)        | (245,151)        | (211,760)        | (2,287,683)                              |
| <b>Net cash provided by operating activities</b>                                                                                                  | <b>525,777</b>   | <b>478,460</b>   | <b>392,996</b>   | <b>5,247,804</b>                         |
| <b>Cash flows from investing activities:</b>                                                                                                      |                  |                  |                  |                                          |
| Acquisition of investments in securities                                                                                                          | (182,835)        | (178,130)        | (48,470)         | (1,824,887)                              |
| Proceeds from sales of investments in securities                                                                                                  | 8,295            | 12,202           | 7,949            | 82,797                                   |
| Acquisition of cash owned by new subsidiaries, net of payment for purchase of subsidiaries' shares                                                | (12,718)         | (13,547)         | 1,363            | (126,946)                                |
| Proceeds from sale of subsidiaries' shares, net of cash owned by those subsidiaries                                                               | (1,336)          | (55)             | 1,759            | (13,336)                                 |
| Acquisition of tangible and intangible fixed assets                                                                                               | (297,890)        | (227,288)        | (201,462)        | (2,973,257)                              |
| Proceeds from sales of tangible and intangible fixed assets                                                                                       | 58,444           | 31,650           | 12,875           | 583,333                                  |
| Payment for loans                                                                                                                                 | (9,008)          | (693)            | (1,383)          | (89,915)                                 |
| Proceeds from collections of loans                                                                                                                | 5,412            | 2,398            | 4,431            | 54,019                                   |
| Other                                                                                                                                             | (6,483)          | (1,205)          | (3,958)          | (64,714)                                 |
| <b>Net cash used in investing activities</b>                                                                                                      | <b>(438,121)</b> | <b>(374,669)</b> | <b>(226,894)</b> | <b>(4,372,905)</b>                       |
| <b>Cash flows from financing activities:</b>                                                                                                      |                  |                  |                  |                                          |
| Net increase (decrease) in short-term loans                                                                                                       | (28,492)         | (21,124)         | 10,241           | (284,387)                                |
| Net increase (decrease) in commercial paper                                                                                                       | (28,000)         | 13,000           | 80,000           | (279,469)                                |
| Proceeds from long-term loans                                                                                                                     | 181,550          | 124,159          | 60,612           | 1,812,059                                |
| Proceeds from issuance of preferred securities                                                                                                    | —                | 300,000          | —                | —                                        |
| Payments of long-term loans                                                                                                                       | (183,509)        | (192,565)        | (190,088)        | (1,831,615)                              |
| Proceeds from issuance of bonds and notes                                                                                                         | 79,707           | —                | —                | 795,566                                  |
| Redemption of bonds and notes                                                                                                                     | (43,074)         | (74)             | (10,000)         | (429,923)                                |
| Payments for purchase of treasury stock                                                                                                           | (93,430)         | (109,706)        | (50,166)         | (932,531)                                |
| Cash dividends                                                                                                                                    | (69,966)         | (85,521)         | (33,752)         | (698,342)                                |
| Cash dividends to minority shareholders                                                                                                           | (9,872)          | (2,855)          | (830)            | (98,539)                                 |
| Proceeds from issuance of common stock to minority shareholders                                                                                   | 441              | 514              | 1,200            | 4,401                                    |
| Other                                                                                                                                             | (5,957)          | (6,439)          | (3,326)          | (59,458)                                 |
| <b>Net cash provided by (used in) financing activities</b>                                                                                        | <b>(200,604)</b> | <b>19,387</b>    | <b>(136,110)</b> | <b>(2,002,240)</b>                       |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                                                                               | <b>(8,868)</b>   | <b>3,007</b>     | <b>3,845</b>     | <b>(88,519)</b>                          |
| <b>Net (decrease) increase in cash and cash equivalents</b>                                                                                       | <b>(121,817)</b> | <b>126,186</b>   | <b>33,837</b>    | <b>(1,215,861)</b>                       |
| <b>Cash and cash equivalents at beginning of year</b>                                                                                             | <b>282,766</b>   | <b>156,713</b>   | <b>124,511</b>   | <b>2,822,298</b>                         |
| <b>Increase (decrease) from the change in the number of companies consolidated</b>                                                                | <b>(635)</b>     | <b>(134)</b>     | <b>(1,634)</b>   | <b>(6,339)</b>                           |
| <b>Cash and cash equivalents at end of year (Note 13)</b>                                                                                         | <b>¥ 160,313</b> | <b>¥ 282,766</b> | <b>¥ 156,713</b> | <b>\$ 1,600,098</b>                      |

The accompanying notes are integral parts 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 Financial Instruments and Exchange Act 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 264, 270 and 266 subsidiaries as of March 31, 2008, 2007 and 2006, respectively based on the criterion of exercise of control. The consolidated financial statements include the accounts of Nippon Steel Corporation and 254 of its subsidiaries (March 31 2007: 258 subsidiaries, March 31 2006: 251 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 10 unconsolidated subsidiaries (March 31 2007: 12 unconsolidated subsidiaries, March 31 2006: 15 unconsolidated subsidiaries) and 138 affiliates (March 31 2007: 141 affiliates, March 31 2006: 140 affiliates), the equity method has been applied to the investments in 72 significant affiliates (March 31 2007: 67 affiliates, March 31 2006: 69 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, 2008, 2007 and 2006.

#### (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, and ordinary profit and income before income taxes and minority interests increased by ¥1,246 million 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, operating profit decreased by ¥1,139 million and ordinary profit and income before income taxes and minority interests decreased by ¥1,125 million for the year ended March 31, 2007.

The effects on Segment Information are described in Note 15.

#### **Change to Summary of Significant Accounting Policies (Year ended March 31, 2008)**

##### **Amendment to the Japanese Corporate Tax Law**

Due to the amendment to the Japanese Corporate Tax Law, from this current business year, method of depreciation based on such law after amendment has been applied to the tangible fixed assets acquired on or after April 1, 2007. Due to this change, compared to the results that would have been obtained applying the same procedure as that for the previous period, depreciation increased by ¥6,986 million (\$69,727 thousand), gross margin decreased by ¥6,027 million (\$60,155 thousand), operating profit decreased by ¥6,311 million (\$62,990 thousand) and ordinary profit and income before income taxes and minority interests decreased by ¥6,574 million (\$65,615 thousand) for the year ended March 31, 2008.

The effects on Segment Information are described in Note 15.

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

Due to the amendment to the Japanese Corporate Tax Law, with respect to the assets acquired on or before March 31, 2007, differences between 5% of the acquisition cost and memorandum value are amortized for five years on a straight-line basis from the next business year following the year when the carrying amount reached 5% of the acquisition cost by application of the method of depreciation before the amendment to the Japanese Corporate Tax Law, and are included in the depreciation amount.

As a result, compared to the results that would have been obtained applying the same procedure as that for the previous period, depreciation increased by ¥28,838 million (\$287,833 thousand), gross margin decreased by ¥24,719 million (\$246,721 thousand), operating profit decreased by ¥25,543 million (\$254,945 thousand) and ordinary profit and income before income taxes and minority interests decreased by ¥26,821 million (\$267,701 thousand) for the year ended March 31, 2008.

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 ¥183,614 million (\$1,832,657 thousand), ¥165,823 million and ¥118,749 million for the years ended March 31, 2008, 2007 and 2006, respectively.

#### **(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; 1-15 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; 1-15 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".

#### **(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, is recorded as a liability or an asset, and is 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) Impairment of fixed assets**

Fixed assets are 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.

#### **(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.

"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, and gross margin and selling, general and administrative expenses increased by the same amount for the year ended March 31, 2008. And this had no effect on the segment information.

**Changes to presentation (Year ended March 31, 2008)**  
(Consolidated statements of income)

As the "Exchange loss on foreign currency transactions" represented more than 10% of the non-operating loss, it has been presented separately with effect from the year ended March 31, 2008. The exchange gain of ¥2,010 million on foreign currency transactions was included in "Miscellaneous" in non-operating profit for the year ended March 31, 2007.

**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), 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.

are included solely for the convenience of the reader, have been calculated at ¥100.19 = U.S.\$1, the effective exchange rate prevailing at the latest balance sheet date of March 31, 2008. 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, 2008 and 2007 consisted of the following:

|                                                                                       | Millions of yen |           | Thousands of U.S. dollars |
|---------------------------------------------------------------------------------------|-----------------|-----------|---------------------------|
|                                                                                       | 2008            | 2007      | 2008                      |
| <b>Bonds and Notes:</b>                                                               |                 |           |                           |
| <b>Nippon Steel Corporation</b>                                                       |                 |           |                           |
| 3.3% SB due March 2017                                                                | ¥ 10,000        | ¥ 10,000  | \$ 99,810                 |
| 3.175% SB due September 2017                                                          | 10,000          | 10,000    | 99,810                    |
| 2.55% SB due December 2009                                                            | 10,000          | 10,000    | 99,810                    |
| 2.60% SB due April 2008                                                               | 15,000          | 15,000    | 149,715                   |
| 2.27% SB due May 2008                                                                 | 10,000          | 10,000    | 99,810                    |
| 2.50% SB due July 2008                                                                | 30,000          | 30,000    | 299,431                   |
| 0.54% SB due November 2007                                                            | —               | 30,000    | —                         |
| 0.80% SB due November 2009                                                            | 10,000          | 10,000    | 99,810                    |
| 1.36% SB due November 2012                                                            | 10,000          | 10,000    | 99,810                    |
| 0.62% SB due February 2009                                                            | 30,000          | 30,000    | 299,431                   |
| 1.18% SB due February 2013                                                            | 15,000          | 15,000    | 149,715                   |
| 0.80% SB due June 2013                                                                | 20,000          | 20,000    | 199,620                   |
| 0.78% SB due June 2009                                                                | 20,000          | 20,000    | 199,620                   |
| 1.67% SB due March 2014                                                               | 15,000          | 15,000    | 149,715                   |
| 1.77% SB due September 2017                                                           | 29,991          | —         | 299,341                   |
| 1.18% SB due December 2013                                                            | 19,996          | —         | 199,580                   |
| 1.66% SB due December 2017                                                            | 29,997          | —         | 299,401                   |
| Floating rate SB without call option due December 2007* <sup>1</sup>                  | —               | 10,000    | —                         |
| Floating rate PN with call option due April 2023* <sup>2,5</sup>                      | 5,000           | 5,000     | 49,905                    |
| Floating rate SB with call option due June 2015* <sup>3,6</sup>                       | 15,000          | 15,000    | 149,715                   |
| Mandatorily acquirable interest-bearing deeply subordinated CB due 2012* <sup>7</sup> | 300,000         | 300,000   | 2,994,310                 |
| <b>Nippon Steel City Produce, Inc.</b>                                                |                 |           |                           |
| Floating rate SB without call option due March 2008* <sup>4</sup>                     | —               | 3,000     | —                         |
| Floating rate SB without call option due March 2009* <sup>4</sup>                     | 3,000           | 3,000     | 29,943                    |
| Floating rate SB without call option due March 2010* <sup>4</sup>                     | 3,250           | 3,250     | 32,438                    |
| Floating rate SB without call option due March 2009* <sup>4</sup>                     | 2,300           | 2,300     | 22,956                    |
| Floating rate SB without call option due March 2009* <sup>4</sup>                     | 1,900           | 1,900     | 18,963                    |
| Floating rate SB without call option due March 2009* <sup>4</sup>                     | 1,700           | 1,700     | 16,967                    |
| Floating rate SB without call option due March 2009* <sup>4</sup>                     | 1,300           | 1,300     | 12,975                    |
| Subsidiaries' ordinary bond* <sup>8</sup>                                             | 140             | 214       | 1,397                     |
| Subtotal                                                                              | 618,574         | 581,664   | 6,174,009                 |
| Elimination of intra-group transaction                                                | (300,000)       | (300,000) | (2,994,310)               |
| Total                                                                                 | ¥ 318,574       | ¥ 281,664 | \$ 3,179,698              |
| (Less: portion due within one year)                                                   | (95,300)        | (43,050)  | (951,192)                 |

**(Interest rate)**

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

\*<sup>2</sup> The floating rate is as follows:

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

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

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

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

**(Call option)**

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

\*<sup>6</sup> Call options are available on June 4, 2010.

\*<sup>7</sup> Mandatorily acquirable interest-bearing deeply subordinated convertible bonds

| Bonds and notes                                    | 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, 2007 – 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)**

\*<sup>8</sup> 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 |
|----------------------------------------------------------------------------------------------------------------|-------------------------------|----------|---------------------------|
|                                                                                                                | 2008                          | 2007     | 2008                      |
| <b>Loans:</b>                                                                                                  |                               |          |                           |
| Short-term loans                                                                                               | <b>¥191,252</b> <sup>*2</sup> | ¥219,477 | <b>\$1,908,897</b>        |
| Loans principally from banks and insurance companies due 2008-2031 for 2008 (2008-2031 for 2007) <sup>*1</sup> | <b>547,190</b> <sup>*3</sup>  | 548,821  | <b>5,461,526</b>          |
| Commercial paper                                                                                               | <b>135,000</b> <sup>*4</sup>  | 163,000  | <b>1,347,439</b>          |
|                                                                                                                | <b>¥873,442</b>               | ¥931,299 | <b>\$8,717,863</b>        |

<sup>\*1</sup> Including a portion due within one year of ¥80,757 million (\$806,041 thousand) for 2008 and ¥119,347 million for 2007.

<sup>\*2</sup> Average interest-rate at March 31, 2008 is 1.5 %.

<sup>\*3</sup> Average interest-rate at March 31, 2008 is 1.7 %.

<sup>\*4</sup> Average interest-rate at March 31, 2008 is 0.7 %.

The aggregate annual maturities of long-term debt as of March 31, 2008 were as follows:

| Years ending March 31                 | Millions of yen |                 |                |                        |                |
|---------------------------------------|-----------------|-----------------|----------------|------------------------|----------------|
|                                       | 2009            | 2010            | 2011           | 2012                   | 2013           |
| Bonds and notes and convertible bonds | ¥ 95,300        | ¥ 43,290        | ¥ —            | ¥300,000 <sup>*1</sup> | ¥25,000        |
| Loans                                 | 80,757          | 61,993          | 71,267         | 81,712                 | 72,014         |
| <b>Total</b>                          | <b>¥176,057</b> | <b>¥105,283</b> | <b>¥71,267</b> | <b>¥381,712</b>        | <b>¥97,014</b> |

|                                       | Thousands of U.S. dollars |                    |                  |                           |                  |
|---------------------------------------|---------------------------|--------------------|------------------|---------------------------|------------------|
|                                       | 2009                      | 2010               | 2011             | 2012                      | 2013             |
| Bonds and notes and convertible bonds | \$ 951,192                | \$ 432,079         | \$ —             | \$2,994,310 <sup>*1</sup> | \$249,525        |
| Loans                                 | 806,041                   | 618,762            | 711,325          | 815,572                   | 718,774          |
| <b>Total</b>                          | <b>\$1,757,234</b>        | <b>\$1,050,841</b> | <b>\$711,325</b> | <b>\$3,809,883</b>        | <b>\$968,300</b> |

<sup>\*1</sup> Eliminated for intra-group transaction

NIPPON STEEL's assets pledged as collateral primarily to secure long-term loans, short-term loans and others totaled ¥33,385 million (\$332,222 thousand) at March 31, 2008 and ¥38,154 million at March 31, 2007. These are summarized as follows:

|                                | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------------|-----------------|---------|---------------------------|
|                                | 2008            | 2007    | 2008                      |
| <b>(Industrial foundation)</b> |                 |         |                           |
| Buildings and structures       | <b>¥ 1,936</b>  | ¥14,328 | <b>\$ 19,324</b>          |
| Machinery and equipment        | <b>9,118</b>    | 37,838  | <b>91,013</b>             |
| Land                           | <b>9,619</b>    | 18,989  | <b>96,014</b>             |
|                                | <b>¥20,674</b>  | ¥71,156 | <b>\$206,352</b>          |
| <b>(Pledged assets)</b>        |                 |         |                           |
| Cash and bank deposits         | <b>¥ 327</b>    | ¥ 298   | <b>\$ 3,268</b>           |
| Notes and accounts receivable  | <b>30</b>       | 28      | <b>304</b>                |
| Current assets other           | <b>4,386</b>    | 4,577   | <b>43,782</b>             |
| Buildings and structures       | <b>9,523</b>    | 12,028  | <b>95,052</b>             |
| Machinery and equipment        | <b>3,130</b>    | 5,138   | <b>31,248</b>             |
| Land                           | <b>5,525</b>    | 8,683   | <b>55,151</b>             |
| Other                          | <b>15,522</b>   | 13,742  | <b>154,932</b>            |
|                                | <b>¥38,446</b>  | ¥44,497 | <b>\$383,740</b>          |

In addition, out of the above secured liabilities, ¥254 million (\$2,539 thousand) of long-term advances (credit), etc. are pledged as collateral against ¥1,080 million (\$10,788 thousand) of loans of consolidated subsidiaries and ¥1,266 million (\$12,642 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 |
|---------------------------|-----------------|----------|---------------------------|
|                           | 2008            | 2007     | 2008                      |
| Investments in securities | <b>¥408,959</b> | ¥347,690 | <b>\$4,081,840</b>        |
| Other investments         | <b>518</b>      | 16,182   | <b>5,178</b>              |

## 6. Revaluation of Land

### (Year ended March 31, 2008)

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, 2008 was ¥2,170 million (\$21,663 thousand).

(Revaluation done on March 31, 2001)

- The excess of the carrying amounts of the revalued land over its fair value at the end of March 31, 2008 was ¥16,917 million (\$168,855 thousand).

### (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.

(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.

## 7. Deferred Tax Accounting

(1) The components of deferred tax assets and liabilities at March 31, 2008, 2007 and 2006, are as follows:

|                                                                                                                                          | Millions of yen   |            |            | Thousands of U.S. dollars |
|------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------|------------|---------------------------|
|                                                                                                                                          | 2008              | 2007       | 2006       | 2008                      |
| <b>Deferred tax assets</b>                                                                                                               |                   |            |            |                           |
| Reserve for accrued bonuses                                                                                                              | <b>¥ 24,356</b>   | ¥ 26,339   | ¥ 25,053   | <b>\$ 243,103</b>         |
| Accrued pension and severance costs                                                                                                      | <b>16,700</b>     | 21,739     | 24,227     | <b>166,683</b>            |
| Reserve for repairs to blast furnaces                                                                                                    | <b>15,674</b>     | 19,862     | 19,853     | <b>156,444</b>            |
| Loss on impairment of fixed assets                                                                                                       | <b>10,970</b>     | 12,262     | 14,478     | <b>109,497</b>            |
| Business tax payable                                                                                                                     | <b>7,729</b>      | 9,986      | 11,683     | <b>77,147</b>             |
| Depreciation in excess of limit                                                                                                          | <b>35,655</b>     | 29,161     | 28,255     | <b>355,880</b>            |
| Tax losses carried forward                                                                                                               | <b>9,298</b>      | 10,602     | 15,087     | <b>92,806</b>             |
| Unrealized gain on tangible fixed assets                                                                                                 | <b>45,897</b>     | 47,895     | 50,340     | <b>458,105</b>            |
| Other                                                                                                                                    | <b>44,954</b>     | 46,883     | 54,161     | <b>448,696</b>            |
| Subtotal                                                                                                                                 | <b>211,237</b>    | 224,733    | 243,141    | <b>2,108,365</b>          |
| Valuation allowance                                                                                                                      | <b>(16,024)</b>   | (14,364)   | (16,208)   | <b>(159,942)</b>          |
| <b>Total</b>                                                                                                                             | <b>195,212</b>    | 210,368    | 226,933    | <b>1,948,422</b>          |
| <b>Deferred tax liabilities</b>                                                                                                          |                   |            |            |                           |
| Special tax purpose reserve                                                                                                              | <b>(88,091)</b>   | (79,939)   | (78,442)   | <b>(879,244)</b>          |
| Revaluation of available-for-sale securities                                                                                             | <b>(156,031)</b>  | (293,271)  | (260,060)  | <b>(1,557,359)</b>        |
| Net unrealized gain on assets and liabilities of consolidated subsidiaries acquired after the adoption of the new consolidation standard | <b>(4,592)</b>    | (4,591)    | (2,892)    | <b>(45,839)</b>           |
| <b>Total</b>                                                                                                                             | <b>(248,716)</b>  | (377,802)  | (341,395)  | <b>(2,482,443)</b>        |
| <b>Net deferred tax assets</b>                                                                                                           | <b>¥ (53,503)</b> | ¥(167,433) | ¥(114,462) | <b>\$ (534,020)</b>       |

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

| Years ended March 31                                               | 2008  | 2007*1 | 2006  |
|--------------------------------------------------------------------|-------|--------|-------|
| Effective tax rate                                                 | 40.4% | —      | 40.4% |
| Equity in net income of unconsolidated subsidiaries and affiliates | (3.5) | —      | (2.0) |
| Permanent non-deductible expenses                                  | 0.5   | —      | 0.5   |
| Permanent non-taxable income                                       | (1.0) | —      | (0.5) |
| Other                                                              | 0.5   | —      | (1.9) |
| Actual tax rate                                                    | 36.9% | —      | 36.5% |

\*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, 2008, 2007 and 2006 is as follows:

|                                                              | Millions of yen | Thousands of U.S. dollars |
|--------------------------------------------------------------|-----------------|---------------------------|
|                                                              | 2008            | 2008                      |
| Provision for accrued pension and severance costs            |                 |                           |
| Cost of sales                                                | ¥18,939         | \$189,038                 |
| Selling, general and administrative expenses                 | 6,235           | 62,236                    |
| Provision for allowance for retirement benefits of directors |                 |                           |
| Selling, general and administrative expenses                 | 1,419           | 14,169                    |
| Provision for allowance for doubtful accounts                |                 |                           |
| Selling, general and administrative expenses                 | 197             | 1,973                     |
| Provision for allowance for losses on construction contracts |                 |                           |
| Cost of sales                                                | 3,412           | 34,055                    |

|                                                              | Millions of yen |
|--------------------------------------------------------------|-----------------|
|                                                              | 2007            |
| Provision for accrued pension and severance costs            |                 |
| Cost of sales                                                | ¥20,523         |
| Selling, general and administrative expenses                 | 6,855           |
| Provision for reserve for repairs to blast furnaces          |                 |
| Cost of sales                                                | 1,233           |
| Provision for allowance for doubtful accounts                |                 |
| Selling, general and administrative expenses                 | 360             |
| Provision for allowance for losses on construction contracts |                 |
| Cost of sales                                                | 5,393           |
|                                                              | 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           |

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

The main components of selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 are as follows:

|                                                                                                             | Millions of yen |          |          | Thousands of U.S. dollars |
|-------------------------------------------------------------------------------------------------------------|-----------------|----------|----------|---------------------------|
|                                                                                                             | 2008            | 2007     | 2006     | 2008                      |
| Transportation and storage                                                                                  | ¥ 95,164        | ¥ 87,563 | ¥ 41,416 | \$ 949,840                |
| Salaries                                                                                                    | 78,464          | 79,738   | 80,781   | 783,157                   |
| Depreciation and amortization                                                                               | 3,624           | 3,153    | 3,253    | 36,173                    |
| Research and development expenses                                                                           | 33,415          | 31,397   | 29,103   | 333,524                   |
| Amortization of goodwill                                                                                    | 5,582           | 5,098    | —        | 55,723                    |
| Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates | —               | —        | 3,016    | —                         |
| Other                                                                                                       | 112,615         | 106,898  | 109,256  | 1,119,524                 |
|                                                                                                             | ¥328,417        | ¥313,849 | ¥266,828 | \$3,277,943               |

**10. Research and Development Costs**

Research and development costs charged to income for the years ended March 31, 2008, 2007 and 2006 are ¥45,329 million (\$452,427 thousand), ¥41,229 million, and ¥37,881 million respectively.

**11. Explanatory Notes on Special Profit and Loss**

(Year ended March 31, 2008)

**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, 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.

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

Notes on consolidated statements of changes in net assets at March 31, 2008 and 2007 are as follows:

### (Year ended March 31, 2008)

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

| Kind of stock            | Year ended<br>March 31, 2007 | Increase | Decrease | Year ended<br>March 31, 2008 |
|--------------------------|------------------------------|----------|----------|------------------------------|
| common stock (Thousands) | 6,806,980                    | —        | —        | 6,806,980                    |

#### (2) Information on treasury stock

| Kind of stock            | Year ended<br>March 31, 2007 | Increase | Decrease | Year ended<br>March 31, 2008 |
|--------------------------|------------------------------|----------|----------|------------------------------|
| common stock (Thousands) | 407,902                      | 115,498  | 8,923    | 514,477                      |

(Reason for increase or decrease treasury stock)

|                                                  |         |
|--------------------------------------------------|---------|
| • Increase (Thousands)                           |         |
| 1. Treasury stock purchases                      | 111,934 |
| 2. Odd lot stock purchases                       | 481     |
| 3. Purchased by equity method affiliates         | 3,082   |
| • Decrease (Thousands)                           |         |
| 1. Disposal of treasury stock for stock exchange | 7,342   |
| 2. Odd lot stock sold                            | 88      |
| 3. Sold by subsidiaries and affiliates           | 1,493   |

#### (3) Information on acquisition rights

| Bonds and notes                                                                                    | Kind of stock | Number of stocks issued when acquisition rights are exercised. |          |          | Balance for year ended<br>March 31, 2008<br>(millions of yen) |
|----------------------------------------------------------------------------------------------------|---------------|----------------------------------------------------------------|----------|----------|---------------------------------------------------------------|
|                                                                                                    |               | Year ended<br>March 31, 2007                                   | Increase | Decrease |                                                               |
| Mandatorily Acquirable Interest-Bearing Deeply Subordinated CB due 2012 (Nippon Steel Corporation) | common stock  | 405,405,405<br>[405,405,405]                                   | —        | —        | 405,405,405<br>[405,405,405]                                  |
| Total                                                                                              |               | 405,405,405<br>[405,405,405]                                   | —        | —        | 405,405,405<br>[405,405,405]                                  |

\* [ ]: Possession by subsidiaries

#### (4) Information on dividends

Amount of dividend payments

| Decision                                                              | Kind of stock | Total payments<br>(Millions of yen) | Cash dividends<br>per share (yen) | Record date        | Operative date    |
|-----------------------------------------------------------------------|---------------|-------------------------------------|-----------------------------------|--------------------|-------------------|
| At the ordinary general meeting of shareholders held on June 25, 2007 | common stock  | 38,449                              | 6                                 | March 31, 2007     | June 26, 2007     |
| At the board of Directors' meeting held on October 30, 2007           | common stock  | 31,517                              | 5                                 | September 30, 2007 | November 30, 2007 |

Dividends which record date belong to the years ended March 31, 2007, the operative date is the years ended March 31, 2008 are as follows:

| Decision                                                              | Kind of stock | Source of<br>dividends | Total payments<br>(Millions of yen) | Cash dividends<br>per share (yen) | Record date    | Operative date |
|-----------------------------------------------------------------------|---------------|------------------------|-------------------------------------|-----------------------------------|----------------|----------------|
| At the ordinary general meeting of shareholders held on June 25, 2008 | common stock  | retained earnings      | 37,819                              | 6                                 | March 31, 2008 | June 26, 2008  |

### (Year ended March 31, 2007)

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

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

#### (2) Information on treasury stock

| Kind of stock            | Year ended<br>March 31, 2006 | Increase | Decrease | Year ended<br>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

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

- [ ]: Possession by subsidiaries
- 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<br>(Millions of yen) | Cash dividends<br>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, 2007, the operative date is the years ended March 31, 2008 are as follows:

| Decision                                                              | Kind of stock | Source of<br>dividends | Total payments<br>(Millions of yen) | Cash dividends<br>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 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           |

### 13. Notes on Consolidated Statements of Cash Flows

Cash and cash equivalents consists of:

|                                                         | Millions of yen |          |          | Thousands of U.S. dollars |
|---------------------------------------------------------|-----------------|----------|----------|---------------------------|
|                                                         | 2008            | 2007     | 2006     | 2008                      |
| Cash and bank deposits                                  | ¥159,455        | ¥280,117 | ¥159,923 | \$1,591,534               |
| Less—Time deposits with original maturity over 3 months | (2,950)         | (5,617)  | (3,210)  | (29,447)                  |
| Securities due within 3 months                          | 3,808           | 8,266    | 1        | 38,011                    |
| Cash and cash equivalents                               | ¥160,313        | ¥282,766 | ¥156,713 | \$1,600,098               |

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 |                       | Millions of yen |
|----------------|-----------------|-----------------------|-----------------|
|                | 2007            |                       | 2007            |
| Current assets | ¥ 26,690        | Current liabilities   | ¥30,162         |
| Fixed assets   | 91,910          | Long-term liabilities | 27,769          |
|                | ¥118,601        |                       | ¥57,931         |

### 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, 2008 and 2007 are summarized as follows:

|                       | Millions of yen |        | Thousands of U.S. dollars |
|-----------------------|-----------------|--------|---------------------------|
|                       | 2008            | 2007   | 2008                      |
| Lease rental expenses | ¥3,985          | ¥4,541 | \$39,777                  |

The amount of outstanding future lease payments due at March 31, 2008 and 2007, which included the portion of interest thereon, is summarized as follows:

|                       | Millions of yen |         | Thousands of U.S. dollars |
|-----------------------|-----------------|---------|---------------------------|
|                       | 2008            | 2007    | 2008                      |
| Future lease payments |                 |         |                           |
| Within one year       | ¥ 3,058         | ¥ 3,257 | \$ 30,526                 |
| Over one year         | 7,891           | 7,074   | 78,760                    |
|                       | ¥10,949         | ¥10,331 | \$109,287                 |

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, 2008 and 2007.

|                          | Millions of yen |          | Thousands of U.S. dollars |
|--------------------------|-----------------|----------|---------------------------|
|                          | 2008            | 2007     | 2008                      |
| Acquisition cost         | ¥ 26,067        | ¥ 29,263 | \$ 260,177                |
| Accumulated depreciation | (15,117)        | (18,931) | (150,890)                 |
| Net book value           | ¥ 10,949        | ¥ 10,331 | \$ 109,287                |
| Depreciation             | ¥ 3,985         | ¥ 4,541  | \$ 39,777                 |

#### (2) Operating leases

The amount of outstanding future lease payments due at March 31, 2008 and 2007, is summarized as follows:

|                       | Millions of yen |        | Thousands of U.S. dollars |
|-----------------------|-----------------|--------|---------------------------|
|                       | 2008            | 2007   | 2008                      |
| Future lease payments |                 |        |                           |
| Within one year       | ¥2,752          | ¥1,407 | \$27,468                  |
| Over one year         | 5,619           | 2,083  | 56,089                    |
|                       | ¥8,371          | ¥3,491 | \$83,558                  |

The amount of outstanding future lease income due at March 31, 2008 and 2007, is summarized as follows:

|                     | Millions of yen |         | Thousands of U.S. dollars |
|---------------------|-----------------|---------|---------------------------|
|                     | 2008            | 2007    | 2008                      |
| Future lease income |                 |         |                           |
| Within one year     | ¥ 1,369         | ¥ 1,325 | \$ 13,667                 |
| Over one year       | 15,573          | 15,834  | 155,436                   |
|                     | ¥16,942         | ¥17,160 | \$169,104                 |

#### (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 |
|                                   | 2008                                   | 2008                      | 2008                | 2008                      |
| Contingent liabilities for:       |                                        |                           |                     |                           |
| Guarantee of loans                |                                        |                           |                     |                           |
| Frontier Energy Niigata Co., Ltd. | ¥2,460                                 | \$24,558                  | ¥2,460              | \$24,558                  |
| Other                             | 833                                    | 8,318                     | 260                 | 2,595*                    |
|                                   | ¥3,293                                 | \$32,877                  | ¥2,720              | \$27,153                  |

|                             | Outstanding amounts for the year ended |                           | Substantial amounts |                           |
|-----------------------------|----------------------------------------|---------------------------|---------------------|---------------------------|
|                             | Millions of yen                        | Thousands of U.S. dollars | Millions of yen     | Thousands of U.S. dollars |
|                             | 2008                                   | 2008                      | 2008                | 2008                      |
| Contingent liabilities for: |                                        |                           |                     |                           |
| Reserved guarantee of loans | ¥2,326                                 | \$23,224                  | ¥2,326              | \$23,224                  |

\*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     |  |
|                                   | 2007                                   |  | 2007                |  |
| Contingent liabilities for:       |                                        |  |                     |  |
| Guarantee of loans                |                                        |  |                     |  |
| Frontier Energy Niigata Co., Ltd. | ¥2,952                                 |  | ¥2,952              |  |
| UNIGAL Ltda.                      | 2,699                                  |  | 1,437*              |  |
| I/N Tek                           | 1,061                                  |  | 1,061               |  |
| Other                             | 1,547                                  |  | 937*                |  |
|                                   | ¥8,260                                 |  | ¥6,388              |  |



|                                  | Outstanding amounts<br>for the year ended | Substantial<br>amounts |
|----------------------------------|-------------------------------------------|------------------------|
|                                  | Millions of yen                           | Millions of yen        |
|                                  | 2007                                      | 2007                   |
| Contingent liabilities for:      |                                           |                        |
| Reserved guarantee of loans      |                                           |                        |
| Yutaka Electric Mfg. Co., Ltd.   | ¥1,700                                    | ¥1,700                 |
| Hibikinada Development Co., Ltd. | 1,063                                     | 1,063                  |
| Other                            | 2,836                                     | 2,836                  |
|                                  | ¥5,600                                    | ¥5,600                 |

\*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<br>for the year ended |         | Thousands of<br>U.S. dollars |
|--------------------------------------------------------|-------------------------------------------|---------|------------------------------|
|                                                        | Millions of yen                           | 2007    |                              |
|                                                        | 2008                                      | 2007    | 2008                         |
| Accepting parties: SUMITOMO MITSUI BANKING CORPORATION |                                           |         |                              |
| Nippon Steel Corporation                               |                                           |         |                              |
| 2.35% SB due December 2007                             | ¥ —                                       | ¥40,000 | \$ —                         |
| 2.75% SB due February 2008                             | —                                         | 20,000  | —                            |
| 2.23% SB due June 2008                                 | 30,000                                    | 30,000  | 299,431                      |
|                                                        | ¥30,000                                   | ¥90,000 | \$299,431                    |

\* "SB" = straight bond

## 3) Notes and bills discounted and endorsed

|                            | Millions of yen |      | Thousands of<br>U.S. dollars |
|----------------------------|-----------------|------|------------------------------|
|                            | 2008            | 2007 |                              |
| Notes and bills discounted | ¥ 10            | ¥ 94 | \$ 99                        |
| Notes and bills endorsed   | 207             | 344  | 2,068                        |
|                            | ¥217            | ¥438 | \$2,168                      |

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

## 15. Segment Information

The segment information of NIPPON STEEL for 2008, 2007 and 2006, 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<br>U.S. dollars |
|------------------------------------------|-----------------|------------|------------|------------------------------|
|                                          | 2008            | 2007       | 2006       | 2008                         |
| <b>Sales</b>                             |                 |            |            |                              |
| Steelmaking and steel fabrication        |                 |            |            |                              |
| Customers                                | ¥3,940,232      | ¥3,449,304 | ¥3,111,638 | \$39,327,606                 |
| Intersegment                             | 54,294          | 33,073     | 32,231     | 541,910                      |
| Total sales                              | 3,994,526       | 3,482,377  | 3,143,870  | 39,869,517                   |
| Engineering and construction             |                 |            |            |                              |
| Customers                                | 316,994         | 310,367    | 297,791    | 3,163,938                    |
| Intersegment                             | 42,889          | 57,600     | 38,387     | 428,078                      |
| Total sales                              | 359,884         | 367,968    | 336,179    | 3,592,016                    |
| Urban development                        |                 |            |            |                              |
| Customers                                | 88,482          | 88,696     | 98,149     | 883,142                      |
| Intersegment                             | 5,357           | 5,651      | 5,895      | 53,469                       |
| Total sales                              | 93,839          | 94,347     | 104,045    | 936,612                      |
| Chemicals                                |                 |            |            |                              |
| Customers                                | 267,695         | 257,678    | 223,005    | 2,671,882                    |
| Intersegment                             | 21,333          | 61,076     | 75,494     | 212,931                      |
| Total sales                              | 289,029         | 318,755    | 298,499    | 2,884,813                    |
| New materials                            |                 |            |            |                              |
| Customers                                | 75,635          | 64,578     | 53,666     | 754,921                      |
| Intersegment                             | 521             | 1,022      | 1,281      | 5,209                        |
| Total sales                              | 76,157          | 65,601     | 54,948     | 760,131                      |
| System solutions                         |                 |            |            |                              |
| Customers                                | 137,932         | 131,519    | 122,049    | 1,376,713                    |
| Intersegment                             | 27,427          | 24,986     | 26,290     | 273,757                      |
| Total sales                              | 165,360         | 156,505    | 148,339    | 1,650,470                    |
| Elimination of intersegment transactions | (151,823)       | (183,410)  | (179,580)  | (1,515,356)                  |
| Consolidated total                       | ¥4,826,974      | ¥4,302,145 | ¥3,906,301 | \$48,178,205                 |

### Operating profit (loss)

|                                          |           |           |           |              |
|------------------------------------------|-----------|-----------|-----------|--------------|
| Steelmaking and steel fabrication        | ¥ 475,951 | ¥ 514,562 | ¥ 517,687 | \$ 4,750,485 |
| Engineering and construction             | 21,496    | 13,031    | 9,517     | 214,559      |
| Urban development                        | 12,602    | 14,301    | 13,039    | 125,784      |
| Chemicals                                | 21,050    | 23,645    | 19,381    | 210,101      |
| New materials                            | 559       | 3,129     | 2,990     | 5,580        |
| System solutions                         | 14,756    | 13,992    | 11,806    | 147,289      |
| Elimination of intersegment transactions | (835)     | (2,564)   | 1,896     | (8,344)      |
| Consolidated total                       | ¥ 545,580 | ¥ 580,097 | ¥ 576,319 | \$ 5,445,457 |

### Identifiable assets

|                                          |            |            |            |              |
|------------------------------------------|------------|------------|------------|--------------|
| Steelmaking and steel fabrication        | ¥4,504,623 | ¥4,639,856 | ¥3,892,829 | \$44,960,807 |
| Engineering and construction             | 296,913    | 282,413    | 249,944    | 2,963,502    |
| Urban development                        | 189,718    | 189,547    | 150,404    | 1,893,586    |
| Chemicals                                | 187,863    | 229,606    | 230,717    | 1,875,071    |
| New materials                            | 41,530     | 35,875     | 23,478     | 414,516      |
| System solutions                         | 121,289    | 114,961    | 104,442    | 1,210,595    |
| Elimination of intersegment transactions | (148,440)  | (147,336)  | (109,049)  | (1,481,587)  |
| Consolidated total                       | ¥5,193,498 | ¥5,344,924 | ¥4,542,766 | \$51,836,492 |

### Depreciation of identifiable assets

|                                          |           |           |           |              |
|------------------------------------------|-----------|-----------|-----------|--------------|
| Steelmaking and steel fabrication        | ¥ 225,799 | ¥ 175,278 | ¥ 167,823 | \$ 2,253,711 |
| Engineering and construction             | 3,405     | 1,811     | 1,954     | 33,988       |
| Urban development                        | 2,337     | 1,981     | 1,876     | 23,333       |
| Chemicals                                | 9,729     | 10,972    | 9,799     | 97,107       |
| New materials                            | 2,090     | 1,246     | 1,003     | 20,867       |
| System solutions                         | 1,855     | 1,857     | 1,360     | 18,523       |
| Elimination of intersegment transactions | (1,179)   | (693)     | (452)     | (11,771)     |
| Consolidated total                       | ¥ 244,038 | ¥ 192,454 | ¥ 183,365 | \$ 2,435,759 |

|                                                   | Millions of yen |           |           | Thousands of U.S. dollars |
|---------------------------------------------------|-----------------|-----------|-----------|---------------------------|
|                                                   | 2008            | 2007      | 2006      | 2008                      |
| <b>Capital expenditure on identifiable assets</b> |                 |           |           |                           |
| Steelmaking and steel fabrication                 | ¥ 296,384       | ¥ 249,725 | ¥ 186,700 | \$ 2,958,226              |
| Engineering and construction                      | 5,582           | 4,169     | 1,949     | 55,716                    |
| Urban development                                 | 296             | 6,751     | 796       | 2,958                     |
| Chemicals                                         | 5,535           | 5,355     | 12,000    | 55,248                    |
| New materials                                     | 6,126           | 3,063     | 1,199     | 61,147                    |
| System solutions                                  | 1,839           | 6,641     | 1,653     | 18,356                    |
| Elimination of intersegment transactions          | (6,770)         | (2,265)   | (327)     | (67,572)                  |
| Consolidated total                                | ¥ 308,993       | ¥ 273,440 | ¥ 203,973 | \$ 3,084,079              |

**(Year ended March 31, 2008)**

Accounting for depreciation of tangible fixed assets  
Beginning with this fiscal year, accompanying changes in the Japanese Corporate Tax Law, tangible fixed assets acquired on or after April 1, 2007, are computed and presented according to the methods for depreciation specified in the revised Corporate Tax Law. Accompanying this change, if the accounting standards applied in the previous fiscal year had been applied in this fiscal year, depreciation in the steel business would have been ¥6,618 million (\$6,054 thousand) higher, operating expenses would have been ¥5,944 million (\$59,333 thousand) higher, and operating income would have been lower by an equivalent amount. The effect on other business segments, however, would not have been material.

**(Additional Information)**

(1) Accounting for the depreciation of tangible fixed assets  
Beginning with this fiscal year, accompanying changes in the Japanese Corporate Tax Law, NIPPON STEEL and its consolidated subsidiaries have applied methods specified under the revised Corporate Tax Law that are applicable to tangible fixed assets acquired on or before March 31, 2007, that have already been depreciated to the limit under the provisions of the tax law prior to revisions. The residual value of such assets will now be depreciated in equal amounts over a period of five years. Accompanying this change, compared to results under the previous methods of depreciation, depreciation in the steel business would have been ¥27,298 million (\$272,469 thousand) higher, operating expenses would have been ¥24,028 million (\$239,825 thousand) higher, and operating income would have been lower by an equivalent amount. The effect on other business segments, however, would have not been material.

(2) Nippon Steel Corporation to continue the Kimitsu coke business of the Nippon Steel Chemical Co., Ltd.  
Nippon Steel Chemical Co., Ltd., a consolidated subsidiary, split off its Kimitsu coke business on July 1, 2007, and that business was absorbed into Nippon Steel Corporation. Please note that intersegment sales in the chemical business include sales of this

coke business amounting to ¥16,309 million (\$162,789 thousand) for this fiscal year and ¥60,123 million for the previous fiscal year.

**(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, 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, and operating profit decreased by the same amount in the chemicals business, operating costs decreased by ¥50 million, 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 |
|--------------------------------------------|-----------------|------|------------|---------------------------|
|                                            | 2008            | 2007 | 2006       | 2008                      |
| <b>Sales</b>                               |                 |      |            |                           |
| Steelmaking and steel fabrication          |                 |      |            |                           |
| Customers                                  | ¥—              | ¥—   | ¥3,025,896 | \$—                       |
| Intersegment                               | —               | —    | 31,614     | —                         |
| Total sales                                | —               | —    | 3,057,510  | —                         |
| Engineering and construction               |                 |      |            |                           |
| Customers                                  | —               | —    | 297,791    | —                         |
| Intersegment                               | —               | —    | 38,387     | —                         |
| Total sales                                | —               | —    | 336,179    | —                         |
| Urban development                          |                 |      |            |                           |
| Customers                                  | —               | —    | 98,149     | —                         |
| Intersegment                               | —               | —    | 5,895      | —                         |
| Total sales                                | —               | —    | 104,045    | —                         |
| Chemicals and nonferrous materials         |                 |      |            |                           |
| Customers                                  | —               | —    | 298,309    | —                         |
| Intersegment                               | —               | —    | 74,763     | —                         |
| Total sales                                | —               | —    | 373,072    | —                         |
| System solutions                           |                 |      |            |                           |
| Customers                                  | —               | —    | 122,049    | —                         |
| Intersegment                               | —               | —    | 26,290     | —                         |
| Total sales                                | —               | —    | 148,339    | —                         |
| Other businesses                           |                 |      |            |                           |
| Customers                                  | —               | —    | 64,105     | —                         |
| Intersegment                               | —               | —    | 4,952      | —                         |
| Total sales                                | —               | —    | 69,057     | —                         |
| Elimination of intersegment transactions   | —               | —    | (181,903)  | —                         |
| Consolidated total                         | ¥—              | ¥—   | ¥3,906,301 | \$—                       |
| <b>Operating profit (loss)</b>             |                 |      |            |                           |
| Steelmaking and steel fabrication          | ¥—              | ¥—   | ¥ 513,977  | \$—                       |
| Engineering and construction               | —               | —    | 9,517      | —                         |
| Urban development                          | —               | —    | 14,155     | —                         |
| Chemicals and non-ferrous materials        | —               | —    | 27,037     | —                         |
| System solutions                           | —               | —    | 11,806     | —                         |
| Other businesses                           | —               | —    | (1,185)    | —                         |
| Elimination of intersegment transactions   | —               | —    | 1,010      | —                         |
| Consolidated total                         | ¥—              | ¥—   | ¥ 576,319  | \$—                       |
| <b>Identifiable assets</b>                 |                 |      |            |                           |
| Steelmaking and steel fabrication          | ¥—              | ¥—   | ¥3,669,594 | \$—                       |
| Engineering and construction               | —               | —    | 249,944    | —                         |
| Urban development                          | —               | —    | 152,152    | —                         |
| Chemicals and non-ferrous materials        | —               | —    | 275,432    | —                         |
| System solutions                           | —               | —    | 104,442    | —                         |
| Other businesses                           | —               | —    | 275,163    | —                         |
| Elimination of intersegment transactions   | —               | —    | (183,962)  | —                         |
| Consolidated total                         | ¥—              | ¥—   | ¥4,542,766 | \$—                       |
| <b>Depreciation of identifiable assets</b> |                 |      |            |                           |
| Steelmaking and steel fabrication          | ¥—              | ¥—   | ¥ 160,204  | \$—                       |
| Engineering and construction               | —               | —    | 1,954      | —                         |
| Urban development                          | —               | —    | 1,876      | —                         |
| Chemicals and non-ferrous materials        | —               | —    | 10,802     | —                         |
| System solutions                           | —               | —    | 1,360      | —                         |
| Other businesses                           | —               | —    | 7,509      | —                         |
| Elimination of intersegment transactions   | —               | —    | (343)      | —                         |
| Consolidated total                         | ¥—              | ¥—   | ¥ 183,365  | \$—                       |

|                                                   | Millions of yen |      |           | Thousands of U.S. dollars |
|---------------------------------------------------|-----------------|------|-----------|---------------------------|
|                                                   | 2008            | 2007 | 2006      | 2008                      |
| <b>Capital expenditure on identifiable assets</b> |                 |      |           |                           |
| Steelmaking and steel fabrication                 | ¥—              | ¥—   | ¥ 185,814 | \$—                       |
| Engineering and construction                      | —               | —    | 1,949     | —                         |
| Urban development                                 | —               | —    | 796       | —                         |
| Chemicals and non-ferrous materials               | —               | —    | 13,199    | —                         |
| System solutions                                  | —               | —    | 1,653     | —                         |
| Other businesses                                  | —               | —    | 899       | —                         |
| Elimination of intersegment transactions          | —               | —    | (341)     | —                         |
| Consolidated total                                | ¥—              | ¥—   | ¥ 203,973 | \$—                       |

(\*) 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.

#### (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 |
|----------------------------------------------------------|-----------------|------------|-----------|---------------------------|
|                                                          | 2008            | 2007       | 2006      | 2008                      |
| Overseas sales                                           | ¥1,383,777      | ¥1,166,090 | ¥ 977,391 | \$13,811,532              |
| Consolidated net sales                                   | 4,826,974       | 4,302,145  | 3,906,301 | 48,178,205                |
| Overseas sales as a proportion of consolidated net sales | 28.7%           | 27.1%      | 25.0%     | 28.7%                     |

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, 2008)

Information regarding marketable securities and investments in securities at March 31, 2008 is as follows:

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

|                                                                                                              | Millions of yen |                 |                        |
|--------------------------------------------------------------------------------------------------------------|-----------------|-----------------|------------------------|
|                                                                                                              | 2008            |                 |                        |
|                                                                                                              | 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                                                                                             | ¥314,262        | ¥603,473        | ¥289,210               |
| Other                                                                                                        | 83,056          | 212,675         | 129,618                |
| Subtotal                                                                                                     | 397,319         | 816,148         | 418,829                |
| Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost:    |                 |                 |                        |
| Corporate shares                                                                                             | 142,070         | 115,414         | (26,656)               |
| Other                                                                                                        | 1,062           | 928             | (133)                  |
| Subtotal                                                                                                     | 143,133         | 116,343         | (26,789)               |
| Total                                                                                                        | ¥540,452        | ¥932,492        | ¥392,039               |

|                                                                                                              | Thousands of U.S. dollars |                 |                        |
|--------------------------------------------------------------------------------------------------------------|---------------------------|-----------------|------------------------|
|                                                                                                              | 2008                      |                 |                        |
|                                                                                                              | 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                                                                                             | \$3,136,669               | \$6,023,288     | \$2,886,619            |
| Other                                                                                                        | 828,992                   | 2,122,723       | 1,293,731              |
| Subtotal                                                                                                     | 3,965,661                 | 8,146,011       | 4,180,350              |
| Available-for-sale securities whose carrying amounts on the balance sheet are less than the related cost:    |                           |                 |                        |
| Corporate shares                                                                                             | 1,418,015                 | 1,151,959       | (266,055)              |
| Other                                                                                                        | 10,601                    | 9,269           | (1,331)                |
| Subtotal                                                                                                     | 1,428,616                 | 1,161,229       | (267,386)              |
| Total                                                                                                        | \$5,394,277               | \$9,307,241     | \$3,912,963            |

##### (2) Available-for-sale securities sold in the year ended March 31, 2008

|  | Millions of yen |               |               |
|--|-----------------|---------------|---------------|
|  | 2008            |               |               |
|  | Amount of sales | Gain on sales | Loss on sales |
|  | ¥8,891          | ¥1,008        | ¥(984)        |

|  | Thousands of U.S. dollars |               |               |
|--|---------------------------|---------------|---------------|
|  | 2008                      |               |               |
|  | Amount of sales           | Gain on sales | Loss on sales |
|  | \$88,746                  | \$10,065      | \$(9,822)     |

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

|                                   | Millions of yen           |
|-----------------------------------|---------------------------|
|                                   | 2008                      |
| Held-to-maturity debt securities  |                           |
| Government bonds                  | ¥ 809                     |
| Commercial paper                  | 998                       |
| Corporate bonds                   | 5,001                     |
| Money trust                       | 2,000                     |
| Available-for-sale securities     |                           |
| Shares of private companies, etc. | ¥55,274                   |
|                                   | Thousands of U.S. dollars |
|                                   | 2008                      |
| Held-to-maturity debt securities  |                           |
| Government bonds                  | \$ 8,079                  |
| Commercial paper                  | 9,969                     |
| Corporate bonds                   | 49,917                    |
| Money trust                       | 19,962                    |
| Available-for-sale securities     |                           |
| Shares of private companies, etc. | \$551,699                 |

**(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           |                     |                      |                    |
|--------------------------------------------|---------------------------|---------------------|----------------------|--------------------|
|                                            | 2008                      |                     |                      |                    |
|                                            | 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. | ¥ 914                     | ¥129                | ¥ 1                  | ¥494               |
| Commercial paper                           | 998                       | —                   | —                    | —                  |
| Corporate bonds                            | 5,031                     | 118                 | —                    | —                  |
| Money trust                                | 2,000                     | —                   | —                    | —                  |
| Other                                      | 199                       | 127                 | 728                  | 100                |
| Total                                      | ¥9,144                    | ¥374                | ¥730                 | ¥594               |
|                                            | Thousands of U.S. dollars |                     |                      |                    |
|                                            | 2008                      |                     |                      |                    |
|                                            | 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. | \$ 9,132                  | \$1,288             | \$ 13                | \$4,933            |
| Commercial paper                           | 9,969                     | —                   | —                    | —                  |
| Corporate bonds                            | 50,215                    | 1,180               | —                    | —                  |
| Money trust                                | 19,962                    | —                   | —                    | —                  |
| Other                                      | 1,993                     | 1,268               | 7,275                | 998                |
| Total                                      | \$91,273                  | \$3,737             | \$7,289              | \$5,931            |

**(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 ¥3,509 million (\$35,023 thousand) at the end of this consolidated fiscal year.

**(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               |

**(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)        |

**(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         |

**(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                  | ¥—                 |

**(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 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, 2008, 2007 and 2006 are analyzed as follows:

|                                                   | Millions of yen |            |            | Thousands of U.S. dollars |
|---------------------------------------------------|-----------------|------------|------------|---------------------------|
|                                                   | 2008            | 2007       | 2006       | 2008                      |
| Projected benefit obligations                     | ¥(554,578)      | ¥(580,307) | ¥(598,192) | \$(5,535,272)             |
| Plan assets                                       | 481,174         | 583,510    | 560,728    | 4,802,621                 |
| Accrued pension and severance costs               | 125,536         | 123,695    | 122,265    | 1,252,988                 |
| Prepaid pension cost                              | (103,770)       | (89,911)   | (73,996)   | (1,035,735)               |
| Balance                                           | (51,637)        | 36,987     | 10,805     | (515,397)                 |
| Consisting of:                                    |                 |            |            |                           |
| Unrecognized balance of the transition obligation | —               | —          | (1,060)    | —                         |
| Unrecognized actuarial differences                | (66,920)        | 18,664     | (9,548)    | (667,940)                 |
| Unrecognized balance of prior service costs*1     | 15,283          | 18,322     | 21,414     | 152,542                   |
|                                                   | ¥ (51,637)      | ¥ 36,987   | ¥ 10,805   | \$ (515,397)              |

\*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, 2008, 2007 and 2006 is as follows :

|                                       | Millions of yen |         |         | Thousands of U.S. dollars |
|---------------------------------------|-----------------|---------|---------|---------------------------|
|                                       | 2008            | 2007    | 2006    | 2008                      |
| Service costs**1,4                    | ¥17,678         | ¥17,071 | ¥16,572 | \$176,452                 |
| Interest costs                        | 11,718          | 12,209  | 12,654  | 116,961                   |
| Expected return on plan assets        | (9,293)         | (9,211) | (7,806) | (92,759)                  |
| Amortization of transition obligation | —               | 1,064   | 529     | —                         |
| Amortization of actuarial differences | 8,299           | 9,500   | 19,640  | 82,834                    |
| Amortization of prior service costs*3 | (3,003)         | (3,165) | (3,111) | (29,982)                  |
| Net pension expense                   | 25,398          | 27,469  | 38,480  | 253,505                   |
| Other*5                               | 525             | 446     | 353     | 5,248                     |
|                                       | ¥25,924         | ¥27,916 | ¥38,834 | \$258,754                 |

\*1 In addition to the net pension expense above, special benefits for early retirement of ¥9,141 million (\$91,240 thousand), ¥9,558 million and ¥10,445 million were paid for the year ended March 31, 2008, 2007 and 2006, 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, 2008         | As of March 31, 2007         | As of March 31, 2006         |
|--------------------------------------------------------------------|------------------------------|------------------------------|------------------------------|
| Method of attributing the projected benefits to periods of service | Mainly straight-line basis   | Mainly straight-line basis   | Mainly straight-line basis   |
| Discount rate                                                      | 1.3%-2.5% (mainly 2.1%)      | 1.5%-2.5% (mainly 2.1%)      | 1.5%-2.5% (mainly 2.1%)      |
| Expected rate of return on plan assets                             | 0.0%-3.5% (mainly 2.1%)      | 0.0%-3.5% (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 10 years) |
| Amortization of unrecognized actuarial differences*2               | 1-15 years (mainly 10 years) | 1-15 years (mainly 10 years) | 1-15 years (mainly 10 years) |
| Amortization of transition obligation*3                            | —                            | 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, 2008)

| (a) Name of director<br>(b) Title of related parties<br>(c) Equity ownership percentage of Nippon Steel Corporation          | Millions of yen                                                 |                            | Thousands of U.S. dollars                         |                            | Notes                     |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------|---------------------------------------------------|----------------------------|---------------------------|
|                                                                                                                              | Transactions during the year ended March 31, 2008               | Resulting account balances | Transactions during the year ended March 31, 2008 | Resulting account balances |                           |
|                                                                                                                              | Description of transaction                                      | Amount                     | Account                                           | Amount                     |                           |
| (a) Bun'yu Futamura<br>[Representative Director and Vice President of Nippon Steel Corporation]                              | Contribution to clinic expenses                                 | ¥7                         | Accrued expenses                                  | ¥4                         | \$78 \$41 (1)             |
| (b) Chairman of the Board of Directors of Tokai Industrial Medical Cure Corps<br>(At the time of conclusion of the contract) |                                                                 |                            |                                                   |                            |                           |
| (c) 0.0%                                                                                                                     |                                                                 |                            |                                                   |                            |                           |
| (a) Shigemitsu Miki<br>[Corporate Auditor of Nippon Steel Corporation]                                                       | Long-term loans                                                 | ¥7,000                     | Long-term loans                                   | ¥17,000                    | \$69,867 \$169,677 (2)    |
| (b) Representative Director and Chairman of the Board of Directors of The Bank of Tokyo-Mitsubishi UFJ, Ltd.                 | Interest payment on long-term loans                             | ¥327                       | Accrued expenses                                  | ¥94                        | \$3,267 \$938 (2)         |
| (c) 0.0%                                                                                                                     | Short-term loans                                                | ¥15,057                    | Short-term loans                                  | ¥22,037                    | \$150,284 \$219,952 (2,3) |
|                                                                                                                              | Interest payment on short-term loans                            | ¥142                       | Accrued expenses                                  | ¥22                        | \$1,418 \$228 (2)         |
|                                                                                                                              | Commercial paper                                                | ¥75,000                    | Commercial paper                                  | ¥39,000                    | \$748,577 \$389,260 (3,4) |
|                                                                                                                              | Interest payment on commercial paper                            | ¥558                       | —                                                 | —                          | \$5,571 — (4)             |
|                                                                                                                              | Commission on the issue of the bonds                            | ¥10                        | —                                                 | —                          | \$107 — (4)               |
|                                                                                                                              | Guarantee of obligation for loans borrowed by the joint venture | ¥42                        | —                                                 | —                          | \$427 — (5)               |

Notes:

(1) Nippon Steel Corporation bears the expenses of the related party to the extent considered reasonable for the health care of its personnel. Bun'yu Futamura (Representative Director and Vice President of Nippon Steel Corporation) resigned Chairman of the Board of Directors of Tokai Industrial Medical Cure Corps on July 24, 2007. Therefore, Tokai Industrial Medical Cure Corps was no longer related parties, and the amount at the time of his resignation is shown in the column titled "Resulting account balances".

(2) The interest rate was determined with reference to market interest rates. No guarantee was set by Nippon Steel Corporation.

(3) The average balance of loans is shown in the column titled "Transactions during the year ended March 31, 2008".

(4) The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.

(5) 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, 2007)

| (a) Name of director<br>(b) Title of related parties<br>(c) Equity ownership percentage<br>of Nippon Steel Corporation                                                                                           | Transactions during the year<br>ended March 31, 2007               |         | Resulting account<br>balances |         | Notes |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|---------|-------------------------------|---------|-------|
|                                                                                                                                                                                                                  | Description of transaction                                         | Amount  | Account                       | Amount  |       |
| (a) Akira Chihaya<br>[Representative Director and Chairman<br>of Nippon Steel Corporation]<br>(b) Chairman of The Nippon Steel<br>Arts Foundation<br>(At the time of conclusion of the contract)<br>(c) 0.0%     | Contribution                                                       | ¥210    | —                             | —       | (1)   |
| (a) Akio Mimura<br>[Representative Director and President]<br>(b) Chairman of The Nippon Steel<br>Arts Foundation<br>(c) 0.0%                                                                                    | Contribution                                                       | ¥2,500  | —                             | —       | (1)   |
| (a) Akira Chihaya<br>[Representative Director and Chairman<br>of Nippon Steel Corporation]<br>(b) Chairman of The Japan-China<br>Economic Association<br>(At the time of conclusion of the contract)<br>(c) 0.0% | Special membership fees                                            | ¥2      | —                             | —       | (2)   |
| (a) Bun'yu Futamura<br>[Director of Nippon Steel Corporation]<br>(b) Chairman of the Board of Directors<br>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      | (3)   |
| (a) Shigemitsu Miki<br>[Corporate Auditor of Nippon<br>Steel Corporation]<br>(b) Representative Director and<br>Chairman of the Board of Directors of<br>The Bank of Tokyo-Mitsubishi UFJ, Ltd.<br>(c) 0.0%      | Long-term loans                                                    | ¥10,000 | Long-term loans               | ¥10,000 | (4)   |
|                                                                                                                                                                                                                  | Interest payment on long-term loans                                | ¥321    | Accrued expenses              | ¥81     | (4)   |
|                                                                                                                                                                                                                  | Short-term loans                                                   | ¥23,575 | Short-term loans              | ¥21,097 | (4,5) |
|                                                                                                                                                                                                                  | Interest payment on short-term loans                               | ¥129    | Accrued expenses              | ¥16     | (4)   |
|                                                                                                                                                                                                                  | Commercial paper                                                   | ¥82,780 | Commercial paper              | ¥27,000 | (5,6) |
|                                                                                                                                                                                                                  | Interest payment on commercial paper                               | ¥222    | Accrued expenses              | ¥1      | (6)   |
|                                                                                                                                                                                                                  | Guarantee of obligation for loans<br>borrowed by the joint venture | ¥77     | —                             | —       | (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. Bun'yu 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, Bun'yu 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<br>of Nippon Steel Corporation                                                                                      | Transactions during the year<br>ended March 31, 2006               |          | Resulting account<br>balances |         | Notes |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|----------|-------------------------------|---------|-------|
|                                                                                                                                                                                                             | Description of transaction                                         | Amount   | Account                       | Amount  |       |
| (a) Akira Chihaya<br>[Representative Director and Chairman<br>of Nippon Steel Corporation]<br>(b) Chairman of The Nippon Steel<br>Arts Foundation<br>(c) 0.0%                                               | Contribution                                                       | ¥184     | —                             | —       | (1)   |
| (a) Akira Chihaya<br>[Representative Director and Chairman<br>of Nippon Steel Corporation]<br>(b) Chairman of The Japanese Society<br>of Steel Construction<br>(c) 0.0%                                     | Contract investigation concerning steel<br>utilizing technologies  | ¥30      | —                             | —       | (2)   |
| (a) Bun'yu Futamura<br>[Director of Nippon Steel Corporation]<br>(b) Chairman of the Board of Directors<br>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<br>Steel Corporation]<br>(b) Representative Director and Chairman<br>of the Board of Directors of The Bank<br>of Tokyo-Mitsubishi UFJ, Ltd.<br>(c) 0.0% | Short-term loans                                                   | ¥24,597  | Short-term loans              | ¥24,597 | (4)   |
|                                                                                                                                                                                                             | Interest payment on short-term loans                               | ¥35      | Accrued expenses              | ¥7      | (4)   |
|                                                                                                                                                                                                             | Commercial paper                                                   | ¥204,000 | Commercial paper              | ¥74,000 | (2)   |
|                                                                                                                                                                                                             | Interest payment on commercial paper                               | ¥19      | —                             | —       | (2)   |
|                                                                                                                                                                                                             | Guarantee of obligation for loans borrowed<br>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 equipment funds and working-capital from The Bank of Tokyo-Mitsubishi UFJ, Ltd..

## 20. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2008, 2007 and 2006 is as follows:

(Year ended March 31, 2008)

|                                                                    | Millions of yen | Thousands<br>of shares     | Yen    | U.S. dollars |
|--------------------------------------------------------------------|-----------------|----------------------------|--------|--------------|
|                                                                    | Net income      | Weighted<br>average shares | EPS    |              |
| Basic EPS                                                          |                 |                            |        |              |
| Net income available to common shareholders                        | ¥354,962        | 6,301,252                  | ¥56.33 | \$0.56       |
| Effect of dilutive securities                                      |                 |                            |        |              |
| Minority interest in net income of consolidated subsidiaries       | 3,970           | 405,405                    |        |              |
| Equity in net income of unconsolidated subsidiaries and affiliates | (15)            | —                          |        |              |
| Diluted EPS                                                        |                 |                            |        |              |
| Net income for computation                                         | 358,917         | 6,706,658                  | 53.51  | 0.53         |

(Year ended March 31, 2007)

|                                                                    | Millions of yen | Thousands of shares     | Yen    |
|--------------------------------------------------------------------|-----------------|-------------------------|--------|
|                                                                    | Net income      | Weighted average shares | EPS    |
| Basic EPS                                                          |                 |                         |        |
| Net income available to common shareholders                        | ¥351,050        | 6,466,591               | ¥54.28 |
| 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  |

(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  |

## 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  
Notes payable with a March 31, 2007 due date:  
¥8,003 million

## 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.

## Independent Auditor's Report

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, 2008, 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, 2008, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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

June 25, 2008

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

Nippon Steel Corporation  
As of March 31, 2008 and 2007

|                                            | Millions of yen    |                    | Thousands of U.S. dollars |
|--------------------------------------------|--------------------|--------------------|---------------------------|
|                                            | 2008               | 2007               | 2008                      |
| <b>ASSETS</b>                              |                    |                    |                           |
| <b>Current assets:</b>                     |                    |                    |                           |
| Cash and bank deposits                     | ¥ 49,262           | ¥ 174,513          | \$ 491,687                |
| Receivables:                               |                    |                    |                           |
| Notes receivable                           | 2                  | 3                  | 23                        |
| Accounts receivable—trade                  | 129,426            | 175,689            | 1,291,810                 |
| Accounts receivable                        | 61,708             | 69,626             | 615,914                   |
| Less: Allowance for doubtful accounts      | (8,802)            | (13,488)           | (87,853)                  |
|                                            | 182,335            | 231,831            | 1,819,895                 |
| Inventories                                | 483,527            | 430,809            | 4,826,104                 |
| Deferred tax assets                        | 31,500             | 36,300             | 314,402                   |
| Other                                      | 25,842             | 26,277             | 257,931                   |
| <b>Total current assets</b>                | <b>772,467</b>     | <b>899,732</b>     | <b>7,710,021</b>          |
| <b>Fixed assets:</b>                       |                    |                    |                           |
| <b>Tangible fixed assets:</b>              |                    |                    |                           |
| Buildings and structures                   | 1,113,233          | 1,081,440          | 11,111,220                |
| Machinery and equipment                    | 4,078,797          | 3,811,521          | 40,710,627                |
|                                            | 5,192,030          | 4,892,961          | 51,821,848                |
| Less: Accumulated depreciation             | (4,194,881)        | (3,971,871)        | (41,869,265)              |
|                                            | 997,149            | 921,090            | 9,952,582                 |
| Land                                       | 189,226            | 191,636            | 1,888,673                 |
| Construction in progress                   | 62,210             | 74,416             | 620,925                   |
|                                            | 1,248,585          | 1,187,143          | 12,462,181                |
| <b>Intangible fixed assets:</b>            |                    |                    |                           |
| Patents and utility rights                 | 572                | 653                | 5,717                     |
| Software                                   | 181                | 249                | 1,808                     |
|                                            | 754                | 903                | 7,525                     |
| <b>Investments and others:</b>             |                    |                    |                           |
| Investments in securities                  | 914,592            | 1,064,936          | 9,128,576                 |
| Investments in subsidiaries and affiliates | 493,270            | 454,190            | 4,923,351                 |
| Other                                      | 120,988            | 109,420            | 1,207,592                 |
| Less: Allowance for doubtful accounts      | (2,159)            | (2,415)            | (21,554)                  |
|                                            | 1,526,691          | 1,626,131          | 15,237,966                |
| <b>Total fixed assets</b>                  | <b>2,776,031</b>   | <b>2,814,177</b>   | <b>27,707,673</b>         |
| <b>Total assets</b>                        | <b>¥ 3,548,498</b> | <b>¥ 3,713,909</b> | <b>\$ 35,417,694</b>      |

|                                                                           | Millions of yen   |                   | Thousands of U.S. dollars |
|---------------------------------------------------------------------------|-------------------|-------------------|---------------------------|
|                                                                           | 2008              | 2007              | 2008                      |
| <b>LIABILITIES</b>                                                        |                   |                   |                           |
| <b>Current liabilities:</b>                                               |                   |                   |                           |
| Short-term loans and long-term loans due within one year                  | ¥ 194,301         | ¥ 202,299         | \$ 1,939,325              |
| Bonds and notes due within one year                                       | 85,000            | 40,000            | 848,388                   |
| Commercial paper                                                          | 133,000           | 163,000           | 1,327,477                 |
| Payables:                                                                 |                   |                   |                           |
| Accounts payable—trade                                                    | 224,037           | 217,316           | 2,236,125                 |
| Accounts payable                                                          | 112,087           | 107,895           | 1,118,752                 |
|                                                                           | 336,125           | 325,212           | 3,354,878                 |
| Accrued income taxes and enterprise taxes                                 | 67,918            | 77,993            | 677,898                   |
| Accrued expenses                                                          | 214,843           | 210,852           | 2,144,356                 |
| Advances received                                                         | 537               | 482               | 5,364                     |
| Allowance for bonus of directors and corporate auditors                   | 210               | 270               | 2,096                     |
| Provision for environmental remediation                                   | 5,315             | 8,190             | 53,057                    |
| Other                                                                     | 7,602             | 4,694             | 75,880                    |
| <b>Total current liabilities</b>                                          | <b>1,044,853</b>  | <b>1,032,994</b>  | <b>10,428,723</b>         |
| <b>Long-term liabilities:</b>                                             |                   |                   |                           |
| Bonds and notes                                                           | 219,984           | 225,000           | 2,195,672                 |
| Convertible bonds                                                         | 300,000           | 300,000           | 2,994,310                 |
| Long-term loans                                                           | 362,679           | 304,669           | 3,619,918                 |
| Deferred tax liabilities                                                  | 142,900           | 255,300           | 1,426,290                 |
| Accrued pension and severance costs                                       | 56,032            | 53,865            | 559,267                   |
| Reserve for repairs to blast furnaces                                     | 38,521            | 48,916            | 384,486                   |
| Other                                                                     | 14,319            | 18,265            | 142,922                   |
| <b>Total long-term liabilities</b>                                        | <b>1,134,438</b>  | <b>1,206,017</b>  | <b>11,322,868</b>         |
| <b>Total liabilities</b>                                                  | <b>2,179,291</b>  | <b>2,239,011</b>  | <b>21,751,591</b>         |
| <b>NET ASSETS</b>                                                         |                   |                   |                           |
| <b>SHAREHOLDERS' EQUITY</b>                                               |                   |                   |                           |
| <b>Common stock:</b>                                                      |                   |                   |                           |
| Authorized—9,917,077,000 shares                                           |                   |                   |                           |
| Issued and outstanding—6,806,980,977 shares as of March 31, 2008 and 2007 | 419,524           | 419,524           | 4,187,293                 |
| <b>Capital surplus</b>                                                    | <b>114,145</b>    | <b>111,564</b>    | <b>1,139,287</b>          |
| <b>Special tax-purpose reserve</b>                                        | <b>90,435</b>     | <b>81,591</b>     | <b>902,635</b>            |
| <b>Accumulated earnings carried forward</b>                               | <b>794,060</b>    | <b>636,973</b>    | <b>7,925,549</b>          |
| <b>Less: Treasury stock, at cost</b>                                      | <b>(257,888)</b>  | <b>(168,261)</b>  | <b>(2,573,998)</b>        |
| <b>VALUATION AND TRANSACTION ADJUSTMENTS</b>                              |                   |                   |                           |
| Unrealized gains on available-for-sale securities                         | 210,275           | 393,813           | 2,098,763                 |
| Deferred hedge income (loss)                                              | (1,345)           | (309)             | (13,428)                  |
| <b>Total net assets</b>                                                   | <b>1,369,206</b>  | <b>1,474,897</b>  | <b>13,666,103</b>         |
| <b>Total liabilities and net assets</b>                                   | <b>¥3,548,498</b> | <b>¥3,713,909</b> | <b>\$35,417,694</b>       |



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

Nippon Steel Corporation  
Years ended March 31, 2008 and 2007

|                                                                                           | Millions of yen   |            | Thousands of U.S. dollars |
|-------------------------------------------------------------------------------------------|-------------------|------------|---------------------------|
|                                                                                           | 2008              | 2007       | 2008                      |
| Net sales                                                                                 | <b>¥2,782,944</b> | ¥2,562,899 | <b>\$27,776,666</b>       |
| Cost of sales                                                                             | <b>2,243,326</b>  | 1,994,216  | <b>22,390,727</b>         |
| <b>Gross margin</b>                                                                       | <b>539,617</b>    | 568,682    | <b>5,385,939</b>          |
| Selling, general and administrative expenses                                              | <b>163,488</b>    | 166,405    | <b>1,631,789</b>          |
| <b>Operating profit</b>                                                                   | <b>376,128</b>    | 402,277    | <b>3,754,150</b>          |
| Non-operating profit:                                                                     |                   |            |                           |
| Interest and dividend income                                                              | <b>27,758</b>     | 28,831     | <b>277,060</b>            |
| Miscellaneous                                                                             | <b>18,066</b>     | 11,914     | <b>180,321</b>            |
|                                                                                           | <b>45,825</b>     | 40,745     | <b>457,381</b>            |
| Non-operating loss:                                                                       |                   |            |                           |
| Interest expenses                                                                         | <b>19,185</b>     | 13,207     | <b>191,493</b>            |
| Miscellaneous                                                                             | <b>49,623</b>     | 40,038     | <b>495,289</b>            |
|                                                                                           | <b>68,808</b>     | 53,246     | <b>686,782</b>            |
| <b>Ordinary profit</b>                                                                    | <b>353,144</b>    | 389,776    | <b>3,524,749</b>          |
| Special profit:                                                                           |                   |            |                           |
| Gain on sales of tangible fixed assets                                                    | <b>29,174</b>     | 11,254     | <b>291,190</b>            |
| Gain on sales of investments in securities and investments in subsidiaries and affiliates | —                 | 8,013      | —                         |
|                                                                                           | <b>29,174</b>     | 19,267     | <b>291,190</b>            |
| <b>Income before income taxes and minority interests</b>                                  | <b>382,319</b>    | 409,044    | <b>3,815,939</b>          |
| <b>Income taxes—current</b>                                                               | <b>128,100</b>    | 145,900    | <b>1,278,570</b>          |
| <b>Income taxes—deferred</b>                                                              | <b>18,321</b>     | 14,300     | <b>182,864</b>            |
| <b>Net income</b>                                                                         | <b>¥ 235,897</b>  | ¥ 248,844  | <b>\$ 2,354,504</b>       |
| <b>Per share</b> (stated in yen and in U.S. dollars):                                     |                   |            |                           |
| Net income                                                                                | <b>¥37.37</b>     | ¥38.42     | <b>\$0.373</b>            |
| Cash dividends applicable to the year                                                     | <b>11.00</b>      | 10.00      | <b>0.110</b>              |
| <b>Weighted average number of shares outstanding</b> (in thousands)                       | <b>6,311,510</b>  | 6,475,447  |                           |

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

Nippon Steel Corporation  
Year ended March 31, 2006

|                                              | Thousands                        | Millions of yen |                            |               |                             |                   |
|----------------------------------------------|----------------------------------|-----------------|----------------------------|---------------|-----------------------------|-------------------|
|                                              | Number of shares of common stock | Common stock    | Additional paid-in capital | Legal reserve | Special tax-purpose reserve | Voluntary reserve |
| Balance at March 31, 2005                    | 6,806,980                        | ¥419,524        | ¥109,811                   | ¥—            | ¥165,268                    | ¥—                |
| Net income for the year ended March 31, 2006 | —                                | —               | —                          | —             | —                           | —                 |
| Year-end cash dividends                      | —                                | —               | —                          | —             | —                           | —                 |
| Transfer to legal reserve                    | —                                | —               | —                          | —             | —                           | —                 |
| Transfer to special tax-purpose reserve      | —                                | —               | —                          | —             | (7,410)                     | —                 |
| Transfer to voluntary reserve                | —                                | —               | —                          | —             | 89,094                      | —                 |
| Effect of share exchange, etc.               | —                                | —               | 1,744                      | —             | —                           | —                 |
| Balance at March 31, 2006                    | 6,806,980                        | ¥419,524        | ¥111,556                   | ¥—            | ¥246,953                    | ¥—                |

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

Nippon Steel Corporation  
Years ended March 31, 2008 and 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) |
| Balance at March 31, 2006                   | 6,806,980                        | ¥419,524        | ¥111,556        | ¥ 86,953                    | ¥ 160,000         | ¥308,288                             | ¥ (58,589)              | ¥ 364,252                                         | ¥ —                          |
| 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)                             | —                       | —                                                 | —                            |
| Cash interim dividends for fiscal year 2006 | —                                | —               | —               | —                           | —                 | (25,686)                             | —                       | —                                                 | —                            |
| Net income for fiscal year 2006             | —                                | —               | —               | —                           | —                 | 248,844                              | —                       | —                                                 | —                            |
| Acquisition of treasury stock               | —                                | —               | —               | —                           | —                 | —                                    | (109,706)               | —                                                 | —                            |
| Disposal of treasury stock                  | —                                | —               | 8               | —                           | —                 | —                                    | 34                      | —                                                 | —                            |
| Other change for fiscal year 2006 (net)     | —                                | —               | —               | —                           | —                 | —                                    | —                       | 29,560                                            | (309)                        |
| Total change for this fiscal year 2006      | —                                | —               | 8               | (5,363)                     | (160,000)         | 328,684                              | (109,671)               | 29,560                                            | (309)                        |
| Balance at March 31, 2007                   | 6,806,980                        | 419,524         | 111,564         | 81,591                      | —                 | 636,973                              | (168,261)               | 393,813                                           | (309)                        |
| Withdrawal of voluntary reserve             | —                                | —               | —               | (8,233)                     | —                 | 8,233                                | —                       | —                                                 | —                            |
| Reserve of voluntary reserve                | —                                | —               | —               | 17,076                      | —                 | (17,076)                             | —                       | —                                                 | —                            |
| Cash dividends for the previous fiscal year | —                                | —               | —               | —                           | —                 | (69,966)                             | —                       | —                                                 | —                            |
| Net income for fiscal year 2007             | —                                | —               | —               | —                           | —                 | 235,897                              | —                       | —                                                 | —                            |
| Acquisition of treasury stock               | —                                | —               | —               | —                           | —                 | —                                    | (93,430)                | —                                                 | —                            |
| Disposal of treasury stock                  | —                                | —               | 2,580           | —                           | —                 | —                                    | 3,802                   | —                                                 | —                            |
| Other change for fiscal year 2007 (net)     | —                                | —               | —               | —                           | —                 | —                                    | —                       | (183,538)                                         | (1,036)                      |
| Total change for this fiscal year 2007      | —                                | —               | 2,580           | 8,843                       | —                 | 157,087                              | (89,627)                | (183,538)                                         | (1,036)                      |
| Balance at March 31, 2008                   | 6,806,980                        | ¥419,524        | ¥114,145        | ¥ 90,435                    | ¥ —               | ¥794,060                             | ¥(257,888)              | ¥ 210,275                                         | ¥(1,345)                     |

|                                             | 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) |
| Balance at March 31, 2007                   | 6,806,980                        | \$4,187,293               | \$1,113,532     | \$814,372                   | \$ —              | \$6,357,650                          | \$(1,679,423)           | \$ 3,930,667                                      | \$(3,084)                    |
| Withdrawal of voluntary reserve             | —                                | —                         | —               | (82,177)                    | —                 | 82,177                               | —                       | —                                                 | —                            |
| Reserve of voluntary reserve                | —                                | —                         | —               | 170,440                     | —                 | (170,440)                            | —                       | —                                                 | —                            |
| Cash dividends for the previous fiscal year | —                                | —                         | —               | —                           | —                 | (698,342)                            | —                       | —                                                 | —                            |
| Net income for fiscal year 2007             | —                                | —                         | —               | —                           | —                 | 2,354,504                            | —                       | —                                                 | —                            |
| Acquisition of treasury stock               | —                                | —                         | —               | —                           | —                 | —                                    | (932,531)               | —                                                 | —                            |
| Disposal of treasury stock                  | —                                | —                         | 25,754          | —                           | —                 | —                                    | 37,956                  | —                                                 | —                            |
| Other change for fiscal year 2007 (net)     | —                                | —                         | —               | —                           | —                 | —                                    | —                       | (1,831,903)                                       | (10,343)                     |
| Total change for this fiscal year 2007      | —                                | —                         | 25,754          | 88,262                      | —                 | 1,567,899                            | (894,574)               | (1,831,903)                                       | (10,343)                     |
| Balance at March 31, 2008                   | 6,806,980                        | \$4,187,293               | \$1,139,287     | \$902,635                   | \$ —              | \$7,925,549                          | \$(2,573,998)           | \$ 2,098,763                                      | \$(13,428)                   |

## 11-Year Summary (Reference-Unaudited)

Nippon Steel Corporation

### CONSOLIDATED

|                                                          | Millions of yen | Thousands of U.S. dollars | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
|----------------------------------------------------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| As of or for the years ended March 31                    | 2008            | 2008                      | 2007            | 2006            | 2005            | 2004            | 2003            | 2002            | 2001            | 2000            | 1999            | 1998            | 1998            |
| Net sales                                                | 4,826,974       | 48,178,205                | 4,302,145       | 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       | 3,076,531       |
| Operating profit (loss)                                  | 545,580         | 5,445,457                 | 580,097         | 576,319         | 429,948         | 224,475         | 142,961         | 73,044          | 162,644         | 120,296         | 92,396          | 181,640         | 181,640         |
| Ordinary profit (loss)                                   | 564,119         | 5,630,497                 | 597,640         | 547,400         | 371,446         | 172,851         | 68,879          | 16,746          | 111,374         | 64,687          | 15,282          | 86,537          | 86,537          |
| Income (loss) before income taxes and minority interests | 605,485         | 6,043,375                 | 621,419         | 565,607         | 369,485         | 73,642          | (37,386)        | (25,079)        | 49,403          | 2,171           | 14,096          | 39,234          | 39,234          |
| Net income (loss)                                        | 354,989         | 3,543,160                 | 351,182         | 343,903         | 220,601         | 41,515          | (51,686)        | (28,402)        | 26,494          | 11,173          | 11,478          | 5,945           | 5,945           |
| Net income (loss) per share (yen/U.S. dollars)           | ¥56.33          | \$0.56                    | ¥54.28          | ¥51.07          | ¥32.73          | ¥6.15           | ¥(7.69)         | ¥(4.17)         | ¥3.89           | ¥1.64           | ¥1.68           | ¥0.86           | ¥0.86           |
| Net assets                                               | 2,413,954       | 24,093,764                | 2,369,228       | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Shareholders' equity                                     | —               | —                         | —               | 1,677,889       | 1,188,409       | 938,581         | 789,443         | 907,150         | 979,695         | 889,220         | 878,849         | 878,702         | 878,702         |
| Total assets                                             | 5,193,498       | 51,836,492                | 5,344,924       | 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       | 4,670,669       |
| Capital expenditure                                      | 308,993         | 3,084,079                 | 273,440         | 203,973         | 195,228         | 149,593         | 163,318         | 195,801         | 157,348         | 226,954         | 234,833         | 232,490         | 232,490         |
| Depreciation                                             | 244,038         | 2,435,759                 | 192,454         | 183,365         | 180,571         | 183,510         | 196,653         | 197,336         | 206,987         | 214,186         | 221,359         | 241,003         | 241,003         |
| Research and development costs                           | 45,329          | 452,427                   | 41,229          | 37,881          | 36,352          | 35,349          | 35,866          | 35,183          | 39,364          | 40,575          | —               | —               | —               |
| Interest-bearing debt                                    | 1,192,027       | 11,897,666                | 1,213,057       | 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       | 2,640,750       |

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

| Sales                                    | Millions of yen | Thousands of U.S. dollars | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
|------------------------------------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| For the years ended March 31             | 2008            | 2008                      | 2007            | 2006            | 2005            | 2004            | 2003            | 2002            | 2001            | 2000            | 1999            | 1998            | 1998            |
| Steelmaking and steel fabrication        | 3,994,526       | 39,869,517                | 3,482,377       | 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       | 2,040,444       |
| Engineering and construction             | 359,884         | 3,592,016                 | 367,968         | 336,179         | 279,866         | 293,137         | 274,903         | 294,323         | 280,929         | 300,054         | 419,841         | 426,852         | 426,852         |
| Urban development                        | 93,839          | 936,612                   | 94,347          | 104,045         | 89,275          | 120,811         | 105,188         | 130,808         | 141,979         | 164,428         | 146,406         | 126,218         | 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         | 451,573         |
| Chemicals                                | 289,029         | 2,884,813                 | 318,755         | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| New materials                            | 76,157          | 760,131                   | 65,601          | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| System solutions                         | 165,360         | 1,650,470                 | 156,505         | 148,339         | 146,531         | 150,850         | 153,143         | 149,398         | 143,670         | 136,198         | 160,954         | 151,111         | 151,111         |
| Other businesses                         | —               | —                         | —               | 69,057          | 76,244          | 73,615          | 79,059          | 61,251          | 59,440          | 56,491          | 222,908         | 239,616         | 239,616         |
| Elimination of intersegment transactions | (151,823)       | (1,515,356)               | (183,410)       | (181,903)       | (154,463)       | (145,280)       | (190,031)       | (208,754)       | (196,745)       | (192,776)       | (349,005)       | (359,284)       | (359,284)       |
| Consolidated total                       | 4,826,974       | 48,178,205                | 4,302,145       | 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       | 3,076,531       |

### Operating profit (loss)

|                                          | Millions of yen | Thousands of U.S. dollars | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
|------------------------------------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| For the years ended March 31             | 2008            | 2008                      | 2007            | 2006            | 2005            | 2004            | 2003            | 2002            | 2001            | 2000            | 1999            | 1998            | 1998            |
| Steelmaking and steel fabrication        | 475,951         | 4,750,485                 | 514,562         | 513,977         | 376,926         | 189,717         | 112,816         | 23,482          | 115,536         | 73,257          | 65,397          | 168,659         | 168,659         |
| Engineering and construction             | 21,496          | 214,559                   | 13,031          | 9,517           | 6,696           | 4,359           | 2,460           | 9,913           | 7,287           | 12,209          | 11,972          | 10,610          | 10,610          |
| Urban development                        | 12,602          | 125,784                   | 14,301          | 14,155          | 8,503           | 13,526          | 4,469           | 15,576          | 16,320          | 20,787          | 16,975          | 15,766          | 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           | 8,140           |
| Chemicals                                | 21,050          | 210,101                   | 23,645          | 200,299         | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| New materials                            | 559             | 5,580                     | 3,129           | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| System solutions                         | 14,756          | 147,289                   | 13,992          | 11,806          | 11,384          | 9,182           | 9,776           | 10,504          | 9,770           | 5,311           | (19,333)        | (26,491)        | (26,491)        |
| Other businesses                         | —               | —                         | —               | (1,185)         | 384             | (4,310)         | (2,155)         | 1,457           | 772             | (911)           | 11,000          | 9,782           | 9,782           |
| Elimination of intersegment transactions | (835)           | (8,344)                   | (2,564)         | 1,010           | (321)           | (668)           | 2,135           | 1,731           | 1,384           | 1,262           | 1,120           | (4,826)         | (4,826)         |
| Consolidated total                       | 545,580         | 5,445,457                 | 580,097         | 576,319         | 429,948         | 224,475         | 142,961         | 73,044          | 162,644         | 120,296         | 92,396          | 181,640         | 181,640         |

### NON-CONSOLIDATED

|                                                | Millions of yen | Thousands of U.S. dollars | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
|------------------------------------------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| As of or for the years ended March 31          | 2008            | 2008                      | 2007            | 2006            | 2005            | 2004            | 2003            | 2002            | 2001            | 2000            | 1999            | 1998            | 1998            |
| Net sales                                      | 2,782,944       | 27,776,666                | 2,562,899       | 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       | 2,205,019       |
| Ordinary profit (loss)                         | 353,144         | 3,524,749                 | 389,776         | 388,740         | 247,826         | 117,678         | 48,359          | 702             | 78,776          | 42,606          | 50,238          | 103,954         | 103,954         |
| Net income (loss)                              | 235,897         | 2,354,504                 | 248,844         | 244,034         | 145,824         | 31,184          | (20,447)        | (28,129)        | 18,355          | 266             | 522             | 35,393          | 35,393          |
| Net income (loss) per share (yen/U.S. dollars) | ¥37.37          | \$0.37                    | ¥38.42          | ¥36.21          | ¥21.63          | ¥4.62           | ¥(3.02)         | ¥(4.13)         | ¥2.69           | ¥0.03           | ¥0.07           | ¥5.13           | ¥5.13           |
| Cash dividends per share (yen/U.S. dollars)    | ¥11.00          | \$0.10                    | ¥10.00          | ¥9.00           | ¥5.00           | ¥1.50           | ¥1.50           | ¥1.50           | ¥1.50           | ¥1.50           | ¥1.50           | ¥2.50           | ¥2.50           |
| Net assets                                     | 1,369,206       | 13,666,103                | 1,474,897       | —               | —               | —               | —               | —               | —               | —               | —               | —               | —               |
| Shareholders' equity                           | —               | —                         | —               | 1,391,985       | 1,019,186       | 845,099         | 713,772         | 793,557         | 866,757         | 773,981         | 783,925         | 861,828         | 861,828         |
| Total assets                                   | 3,548,498       | 35,417,694                | 3,713,909       | 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       | 3,150,110       |
| Capital expenditure                            | 230,000         | 2,295,638                 | 200,000         | 165,000         | 140,000         | 120,000         | 85,000          | 175,000         | 135,000         | 135,000         | 135,000         | 100,000         | 100,000         |
| Depreciation                                   | 174,924         | 1,745,927                 | 134,177         | 130,619         | 129,903         | 134,314         | 148,106         | 144,363         | 150,904         | 153,327         | 139,441         | 148,111         | 148,111         |
| Research and development costs                 | 30,087          | 300,299                   | 29,074          | 28,003          | 27,349          | 27,290          | 29,091          | 28,705          | 35,598          | 35,727          | 41,900          | 47,500          | 47,500          |
| Interest-bearing debt                          | 1,294,964       | 12,925,093                | 1,234,969       | 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       | 1,457,895       |

| Shares                                        | 2008      | 2007      | 2006      | 2005      | 2004      | 2003      | 2002      | 2001      | 2000      | 1999      | 1998      | 1998      |
|-----------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 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 | 6,806,980 | 6,889,903 | 6,889,903 |
| Common stock price range (high/low: yen)      | 964/427   | 900 / 370 | 479 / 242 | 294 / 203 | 253 / 127 | 217 / 119 | 230 / 145 | 270 / 165 | 314 / 215 | 272 / 177 | 392 / 146 | 392 / 146 |

### Production and shipment

|                              | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons | Thousands of tons |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| For the years ended March 31 | 2008              | 2007              | 2006              | 2005              | 2004              | 2003              | 2002              | 2001              | 2000              | 1999              | 1998              | 1998              | 1998              |
| Crude steel output           | 33,110            | 31,596            | 31,200            | 29,879            | 30,146            | 29,902            | 26,140            | 27,837            | 25,620            | 23,201            | 26,619            | 26,619            | 26,619            |
| Steel products shipments**   | 32,900            | 31,514            | 29,595            | 29,514            | 29,388            | 29,171            | 26,312            | 26,789            | 25,633            | 24,026            | 26,580            | 26,580            | 26,580            |

| Employees             | Persons | Persons | Persons | Persons | Persons | Persons | Persons | Persons | Persons | Persons | Persons | Persons | Persons |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| As of March 31        | 2008    | 2007    | 2006    | 2005    | 2004    | 2003    | 2002    | 2001    | 2000    | 1999    | 1998    | 1998    | 1998    |
| Number of employees** | 15,083  | 14,346  | 15,212  | 15,081  | 15,138  | 16,481  | 17,370  | 18,918  | 19,816  | 21,414  | 22,560  | 22,560  | 22,560  |

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

- Transfer of some companies engaged in "Chemicals, non-ferrous metals, and ceramics" to "Steelmaking and steel fabrication," and an accompanying change in business designation from that of "Chemicals, non-ferrous metals, and ceramics" to "Chemicals and non-ferrous 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".

\*\* On July 1, 2006, Nippon Steel spun off two business sectors, engineering and construction, and new materials.

At the same time, the company repositioned as the operating domain its six business sectors, steelmaking and steel fabrication, 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."

\*\* Including sub-products

\*\* Excluding employees seconded to subsidiaries and other organizations. The number of such employees at March 31, 2008 and 2007, was 2,626 and 3,387, 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=¥100.19 at the latest balance sheet date.

## ● Nippon Steel Corporation

### Head Office

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

## ● Date of Establishment

March 31, 1970

## ● Common Stock

¥419,524 million

## ● Common Stock: Issued

6,806,980,977 shares

## ● Common Stock: Authorized

9,917,077,000 shares

## ● Number of Shareholders

417,124

## ● Ten Major Shareholders

|                                        |      |
|----------------------------------------|------|
| Japan Trustee Services Bank, Ltd.      | 6.1% |
| Sumitomo Metal Industries, Ltd.        | 4.2% |
| The Master Trust Bank of Japan, Ltd.   | 3.7% |
| CBHK-Korea Securities Depository       | 3.5% |
| Nippon Life Insurance Company          | 3.3% |
| Trust & Custody Services Bank, Ltd.    | 2.8% |
| Mizuho Corporate Bank, Ltd.            | 2.7% |
| Meiji Yasuda Life Insurance Company    | 2.1% |
| State Street Bank & Trust Company      | 2.0% |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 2.0% |

## ● 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