

# **Financial Results for the First Half of Fiscal 2005**

**(April 1, 2005 to September 30, 2005)**

Nippon Steel Corporation

October 31, 2005

## **1. Management Policies**

### **(1) Medium-Term Consolidated Business Plan**

Nippon Steel formulated in March 2003 a Medium-Term Consolidated Business Plan to be implemented during fiscal 2003-2005 (April 1, 2003-March 31, 2006).

Pursuant to this Plan, Nippon Steel will strive to improve international competitiveness and profitability of its core steelmaking business as well as other business sectors, thereby realizing a stronger financial structure as early as possible.

In the steelmaking and steel fabrication sector, Nippon Steel will further enhance its world-class technology and R&D capabilities and improve its competitiveness in terms of quality and costs. Efforts will also be made on responding appropriately to the needs of users at home and abroad. At the same time, alliances with Japanese and foreign steelmakers will be further strengthened and deepened.

In other sectors, such as the engineering and construction sector, Nippon Steel will consistently work to capture new business opportunities to secure and expand earnings. To do this, emphasis will be placed on pursuing synergies with the steelmaking and steel fabrication sector and on leveraging a wealth of corporate resources—technological, human and physical—that spans many fields and has been accumulated through operation of its core business of steelmaking.

Nippon Steel will also aggressively pursue, as a key policy common to all business sectors, managerial decision making that places a fundamental emphasis on environmental considerations. Specific activities comprising a stepped-up commitment to curb global warming will be implemented in accordance with the "Voluntary Action Program for Environmental Protection by Steelmakers" that is aimed at reducing CO<sub>2</sub> emissions. The company will also promote initiatives to establish a recycling-oriented society by using the infrastructure of its works for such purposes as the effective utilization of plastic waste in coke ovens and the recycling of used tires in cold ferrous material melting furnaces. Nippon Steel will also pour energy into providing customers with environmental and energy solutions.

The consolidated financial performance goals targeted by the Plan for fiscal 2005 were: ordinary profits of around ¥250 billion, return on sales of around 9%, return on assets of around 9%, interest-bearing debt of around ¥1,600 billion and shareholders' equity of around ¥1,000 billion. Nippon Steel and its group companies worked strenuously toward the steady achievement of these goals and, as a result, attained them in fiscal 2004, one year earlier than scheduled.

Nippon Steel and its group companies are firmly and collectively resolved to improve consolidated profitability and financial structure, thereby demonstrating the full potential inherent in the total capabilities of the Nippon Steel and its group companies.

## **(2) Basic Policy concerning Stock Dividends**

Nippon Steel's policy is to distribute profits consistent with the consolidated operating results of each fiscal year in principle, taking into account various factors such as capital requirements for investment and other activities aimed at raising corporate value, prospects for future operating results and other relevant factors and by endeavoring to further reinforce the company's financial structure. Declaration of dividends for a fiscal year will be determined based on this policy.

Nippon Steel has decided not to declare an interim dividend for the first half of fiscal 2005 and will make its decision on possible declaration of dividends for fiscal 2005 when accounts are settled at the end of fiscal 2005. Meanwhile, the company has set the consolidated payout ratio at approximately 20% (non-consolidated payout ratio at approximately 30%) as an indicator for the distribution of profit in conformance with the consolidated operating results. However, because the company's first priority for the time being is to improve the corporate financial structure, a target of approximately 15-20% is in effect for the consolidated payout ratio (non-consolidated payout ratio of approximately 20-30%), which is slightly lower than the above indicator level.

## **(3) Corporate Governance: Underlying Views and Specific Approaches**

Nippon Steel seeks to ensure efficiency, soundness and transparency in its corporate management. By doing this, the company will steadily increase in value and fulfill its role as a trustworthy corporate partner in society. In order to accomplish these ends, Nippon Steel implements the following systems and measures with regard to corporate governance. At the end of 2004, Nippon Steel established "Group's Guiding

Principles” for Nippon Steel and its group companies. Nippon Steel and its group companies will share a commitment to these principles with the aim of realizing a group full of vitality.

**(i) Organs of Management and Status of Reinforcements to Corporate Governance and Risk Management System**

· **Organs of Management (Management Administration System)**

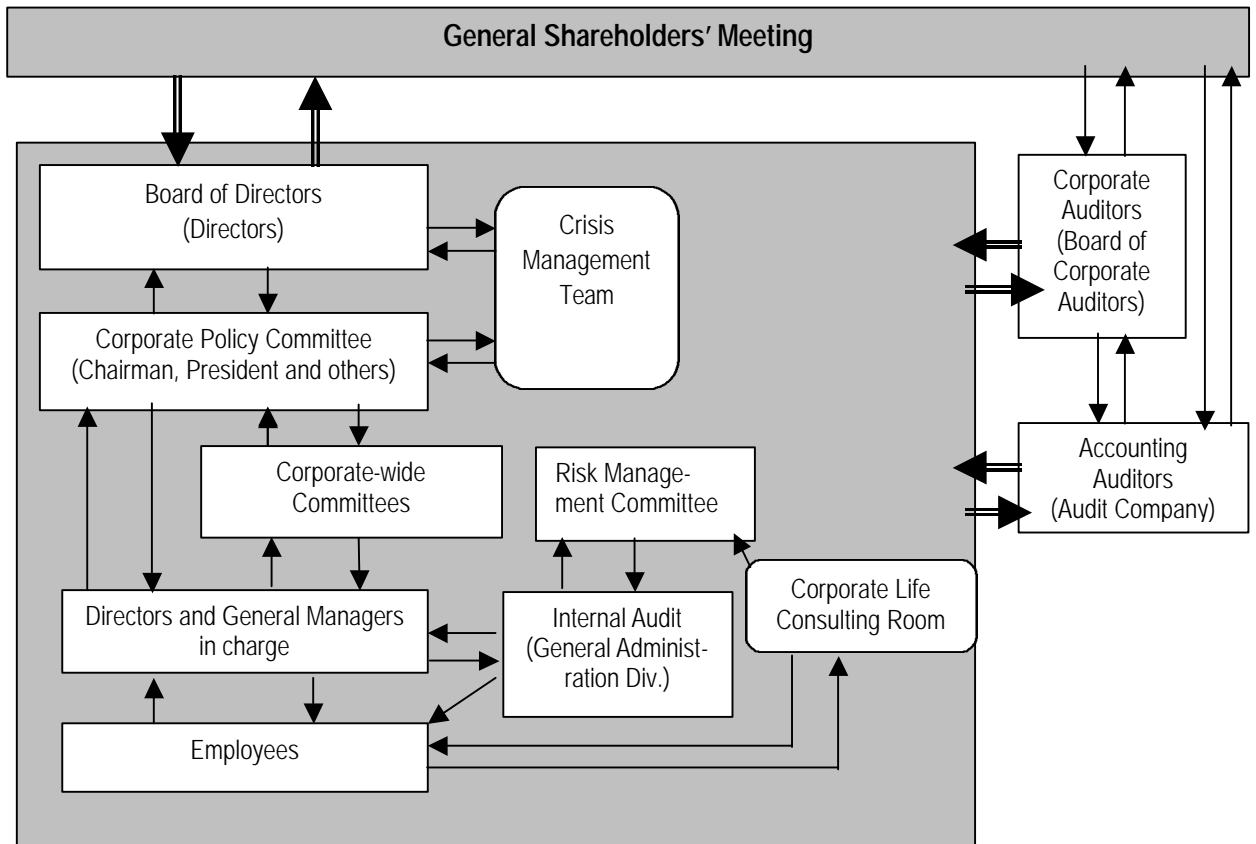
Nippon Steel has adopted an auditor system. In addition to the 37 members of the Board of Directors (none from outside the company), Nippon Steel has 6 corporate auditors (3 from outside the company). Since 1999 and prior to the amendment to the Japanese Commercial Code regarding outside auditors, fully half of Nippon Steel’s corporate auditors have been appointed from outside the company.

\*Of the outside corporate auditors, Mr. Shigemitsu Miki is Representative Director and Chairman of The Bank of Tokyo-Mitsubishi, Ltd., which has invested in and provided financing to Nippon Steel.

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

· **Relationship between Management Organs and Corporate Governance and Others at Nippon Steel**

(Each arrow indicates report, instruction, audit, appointment, etc.)



· **Status of Reinforcements to Corporate Governance and Risk Management System**

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

In order to secure effectiveness and efficiency in business operations, matters of great importance to the management of Nippon Steel and its group companies are determined by the Board of Directors (who meet once or twice a month) after deliberation at the Corporate Policy Committee attended by the Chairman, President, Executive Vice Presidents and others (normally held once a week) in accordance with corporate regulations. As deliberating bodies subordinate and antecedent to the meetings

of the Corporate Policy Committee and the Board of Directors, a total of 16 company-wide committees have been established and operate according to specific purposes. They include the Ordinary Budget Committee, the Investment and Finance Committee, the Fund Management Committee, the Technology Development Committee and the Environmental Management Committee.

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

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

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

From the viewpoint of ensuring transparency of management, Nippon Steel has conventionally emphasized the dissemination of information by means of IR activities, websites and other means. Now, stress is also placed on the accurate and timely disclosure of information, as represented by further efforts towards greater agility in announcing financial results, started from fiscal 2002 and the quarterly disclosure of corporate performance, started from fiscal 2004.

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

Nippon Steel deeply regrets to report the indictment and cease-and-desist recommendations against it in accordance with the Japanese Antimonopoly Act over steel bridge projects. In order to prevent the recurrence of similar incidents, Nippon Steel has renewed its resolve to ensure legal compliance in everyday operations, intensive employee education and training, and strengthening of its internal audits.

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

For the execution of internal audits, Nippon Steel has established a "Risk Management Committee" that is chaired by the Executive Vice President in charge of general administration. While sharing information with corporate auditors, the Risk Management Committee periodically checks for adherence to the risk management and internal control system and for necessary improvements thereto. At the same time, it examines new tasks ahead and, when necessary, instructs the responsible division to work out specific solutions and reviews their progress. These are Nippon Steel's endeavors on a daily basis to enhance its internal audit. Further, Nippon Steel established a help line system (Corporate Life Consulting Room) in March 2003 that offers personal consultation to its employees and their families in the performance of their company responsibilities.

In addition, in order to strengthen the risk management system of Nippon Steel and its group companies as a whole, each company within the group has designated a person to be responsible for risk management. This facilitates the sharing of related information and the implementation of stepped-up measures between Nippon Steel and each of the group companies. In April 2005, Nippon Steel established the Corporate Risk Management Group (consisting of six persons, including those with additional posts) within the General Administration Division dedicated in, and thereby enhancing the company's ability in, pursuing more comprehensive internal audit planning and addressing various corporate risks.

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

Audit by corporate auditors puts emphasis on “proactive and tangible audit” aimed at preventing violations of laws and regulations, and implements an interactive audit to ascertain the status of legal compliance, corporate governance and risk management and other matters. Through the participation of outside corporate auditors with deep knowledge on corporate activities, the corporate auditors also audit corporate affairs of the company while being independent of the top management of Nippon Steel.

During the first half of fiscal 2005, meetings of the corporate auditors took place eight times. Meetings also take place between corporate auditors, representative directors and directors responsible for operations in each division, where various views are exchanged and auditors' opinions are expressed. Four persons are assigned as staffs dedicated to matters related to audit by corporate auditors.

With regard to accounting audit, Nippon Steel has appointed ChuoAoyama PricewaterhouseCoopers as an accounting auditor in accordance with the Japanese Commercial Code and also to deal with the accounting audit in accordance with the Japanese Securities and Exchange Law. Nippon Steel has no special interests in this audit firm and in the employees of this audit firm who engage in the accounting audit of Nippon Steel. The names of the certified public accounts engaged in and assistants



involved in the audit for the first half of fiscal 2005 are as follows.

- Name of certified public accountants who engaged in the audit (appointed employees):

Certified public accountants Hideki Katayama, Motohide Ozawa, and Masahiko Tezuka

The consecutive periods of their accounting audit services for Nippon Steel are as follows: Mr. Katayama: eleven years; Mr. Tezuka: eight years; and Mr. Ozawa: within seven years.

- Composition of assistants involved in the audit:

The composition of assistants involved in the audit is determined in accordance with the standards of the accounting auditor. Specifically, the main members consist of certified public accountants and junior certified public accountants, with the addition of computer systems specialists and other persons.

## **2. Operating Results and Financial Situations**

### **(1) Overview of First Half of Fiscal 2005**

Against the backdrop of a fundamentally expanding world economy, the solid nature of Japan's economic recovery became increasingly apparent in the first half of fiscal 2005. Reflecting this growth were gains in equipment investments, due to improved corporate performance, progress in inventory adjustments in the IT and digital-related fields and other factors.

In the steel industry, the world market experienced growing polarization across product lines. While the global availability of high-grade steel products destined for the manufacturing industries including automotive manufacturing and shipbuilding continued to contract sharply as a result of rapidly expanding demand, growth in China's steel production capacity and other factors caused a relaxation in the supply and demand relationship of commodity-grade steel products.

In the domestic market, steel demand remained firm. However, steel sheet inventories are on the rise due to an increase in steel imports and to a constant stream of orders placed and accepted that exceed consumption, a situation caused as a result of the previous year's tight supply and demand situation. Owing to this, inventory adjustments are now urgently needed.

National crude steel production during the first half of fiscal 2005 increased by 420,000 tons over the corresponding period of the previous year to reach 56.8 million tons.

Under these circumstances, Nippon Steel and its group companies have exerted maximum effort to establish a firm management structure.

An overview of the consolidated operating performance of each business sector in the first half of fiscal 2005 follows.

## (Consolidated Operating Performance by Business Sector)

(Billions of yen)

Business sector	Net Sales		Operating profit (loss)	
	First half of FY2005	First half of FY2004	First half of FY2005	First half of FY2004
Steelmaking and steel fabrication	1,509.1	1,208.9	282.4	130.5
Engineering and construction	127.7	87.0	(2.4)	(5.7)
Urban development	38.5	25.0	4.5	1.7
Chemicals and nonferrous materials	180.0	158.5	11.6	11.5
System solutions	64.7	65.7	4.6	4.1
Other businesses	33.0	36.5	0.2	0.1
Total	1,953.3	1,581.8	301.1	142.5
Elimination of intersegment transactions	(89.9)	(72.5)	0.2	(0.2)
Consolidated total	1,863.4	1,509.2	301.3	142.2

### Steelmaking and Steel Fabrication

In the steelmaking and steel fabrication sector, the operating environment was such that the costs of raw materials were soaring. In the midst of this environment, strenuous efforts to reduce costs were made to absorb the rise in costs while, at the same time, adequately carrying out production and shipping tasks in a manner that would meet emerging requirements in the steel market.

In the field of high-grade steel products, Nippon Steel continued efforts to improve sales prices by soliciting the understanding of customers. While at the same time, in order to improve its capacity to meet both higher quality and increasing demand for coated steel sheets in automobiles, electric appliances and other fields, the company decided in April 2005 to begin a new investment program to install a hot-dip galvanizing line at the Hirohata Works. Also included in this direction were renewal projects, currently underway, for a hot-dip galvanizing line at each of the Nagoya and Kimitsu Works. The elimination of bottlenecks in production processes such as these will further reinforce integrated production capacity and thus allow the company to meet the robust demand for steel products. Steps were also taken to improve supply capabilities by making optimum use of the production capacity possessed by the group companies of Nippon Steel and other allied companies. Further, Nippon Steel is making an all-out effort to improve equipment maintenance and to develop human resources with the aim of reinforcing practical production capabilities.

In the field of commodity-grade products, it was recognized that the company's

first priority was to maintain and improve sales prices. Based on this, Nippon Steel promoted the fine tuning of production and shipping operations both to meet product-based and user-based demands and to maintain appropriate inventory levels.

A steady emphasis on strengthening alliances between Nippon Steel and other domestic and foreign steelmakers has yielded a constant stream of accomplishments. In the alliance between Nippon Steel and POSCO of Korea, notable results have been produced in R&D, technical exchange, raw materials procurement and many other areas. After the initial 5-year term of their strategic alliance agreement, both companies agreed in August 2005 to extend the term of the agreement for five more years. At Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd., a joint venture established in China between Baoshan Iron & Steel Co., Ltd. (China), Nippon Steel and Arcelor (EU) to produce and sell automobile steel sheets, all production lines are now in operation.

Meanwhile, in September 2005, Nippon Steel decided to make two of its consolidated subsidiaries—Nippon Steel Logistics Co., Ltd. and Seitetu Unyu Co., Ltd.—wholly-owned subsidiaries of Nippon Steel through *kabushiki kokan* (share-for-share exchanges) set for December 27, 2005. Steps such as these are being taken to further strengthen consolidated management and to better and more effectively utilize the management resources of Nippon Steel and its group companies as a whole by optimizing the selection and concentration of business operations.

Even though the cost of raw materials soared, improved sales prices favorably affected the operating results of the steelmaking and steel fabrication sector in the first half of fiscal 2005. Consolidated sales increased to ¥1,509.1 billion, a gain of ¥300.1 billion over the corresponding period of the previous year (¥1,208.9 billion), and consolidated operating profits rose to ¥282.4 billion, a gain of ¥151.8 billion over the corresponding period of the previous year (¥130.5 billion)

### **Engineering and Construction**

The engineering and construction sector continues to face a severe operating environment. In spite of that, stepped-up efforts are being made to promote customer-based solutions projects that meet diversifying social and client needs in the domestic market. Overseas, the company is promoting oil and natural gas development projects in Southeast Asia and stepping up marketing of steelmaking plants in China by capitalizing on a subsidiary involved in steel-plant business there.

Consolidated sales in the engineering and construction sector in the first half of fiscal 2005 increased to ¥127.7 billion, a gain of ¥40.7 billion over the corresponding period of the previous year (¥87.0 billion), and consolidated operating losses decreased to ¥2.4 billion, an improvement of ¥3.2 billion over the corresponding period of the previous year (loss of ¥5.7 billion).

### **Urban Development**

In the urban development sector, Nippon Steel City Produce, Inc., a wholly-owned subsidiary, is promoting “asset value restoration business” as a developer with unique capabilities. This effort includes development projects that utilize idle company-owned land, the development of underutilized urban areas, and the sale of condominiums.

Consolidated sales in the urban development sector in the first half of fiscal 2005 increased to ¥38.5 billion, a gain of ¥13.4 billion over the corresponding period of the previous year (¥25.0 billion), and consolidated operating profits to ¥4.5 billion, a gain of ¥2.7 billion over the corresponding period of the previous year (¥1.7 billion).

### **Chemicals and Nonferrous Materials**

Chemicals operations are spearheaded by Nippon Steel Chemical Co., Ltd., a wholly-owned subsidiary that markets basic and fine chemicals, coke and coal tar chemicals, and electronic materials. While the sale of ESPANEX, adhesive-free copper-clad laminated sheets for flexible circuit boards, declined due to inventory adjustments in digital-related fields, improvements in the sales prices of chemical products led to improved business results in overall chemicals operations.

New materials operations proceeded with steady results. Among the major contributing factors was high demand from semiconductor and electronic device industries—a major market for new materials. Products in high demand include stainless steel foils for use as suspension materials in hard-disc drives that claim top market share, semiconductor packaging materials, and fine ceramics for use in semiconductor/liquid crystal-related devices.

In titanium operations, at the same time that worldwide demand for titanium used in aircraft and industrial applications is showing rapid recovery, sales of rolled titanium products used in various plants and heat exchangers destined for China and the Middle East are also growing. Further, favorable demand is expected to continue for

automobiles and other general industrial uses.

Consolidated sales of the chemicals and nonferrous materials sector as a whole in the first half of fiscal 2005 increased to ¥180.0 billion, a gain of ¥21.5 billion over the corresponding period of the previous year (¥158.5 billion), and consolidated operating profits amounted to ¥11.6 billion, nearly the same level as that in the corresponding period of the previous year (¥11.5 billion).

### **System Solutions**

NS Solutions Corporation, a subsidiary of Nippon Steel, promotes system solutions operations that encompass the integrated services from system planning and structuring to system operations and maintenance. To meet the increasing need of customers for information security, NS Solutions in April 2005 established NSSL Service Co., Ltd., a new company whose purpose is to provide services in that field.

Consolidated sales in the system solutions sector in the first half of fiscal 2005 decreased to ¥64.7 billion, a decline of ¥0.9 billion from the corresponding period of the previous year (¥65.7 billion), but consolidated operating profits increased to ¥4.6 billion, a gain of ¥0.5 billion over the corresponding period of the previous year (¥4.1 billion).

### **Other Businesses: Electric Power Supply, Services and Others**

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

Consolidated sales in other businesses in the first half of fiscal 2005 amounted to ¥33.0 billion, a decline of ¥3.4 billion from the corresponding period of the previous year (¥36.5 billion), and consolidated operating profits amounted to ¥0.2 billion, nearly the same level as that of the corresponding period of the previous year (¥0.1 billion).

As a result of the foregoing, consolidated sales in the first half of fiscal 2005 came to ¥1,863.4 billion, a gain of ¥354.1 billion over the corresponding period of the previous year (¥1,509.2 billion). Consolidated operating profits were ¥301.3 billion, a gain of ¥159.1 billion over the corresponding period of the previous year (¥142.2 billion), and consolidated ordinary profits were ¥294.4 billion, a gain of ¥158.5 billion over the corresponding period of the previous year (¥135.9 billion). A total special profit of ¥8.0 billion was posted, and as a result, consolidated income before income taxes and minority interest was ¥302.5 billion, a gain of ¥167.7 billion over the corresponding

period of the previous year (¥134.7 billion).

After subtracting ¥99.2 billion as income taxes-current, subtracting ¥0.4 billion as income taxes-deferred, and subtracting ¥7.0 billion as minority interest in net income of consolidated subsidiaries, net income for the first half of fiscal 2005 was ¥195.6 billion (¥81.0 billion for the corresponding period of the previous year).

As for non-consolidated operations, while raw material prices soared in the steelmaking and steel fabrication sector, improvements in sales prices of steel products led to favorable operating results. Sales for the first half of fiscal 2005 advanced to ¥1,245.4 billion, an increase of ¥303.9 billion over the corresponding period of the previous year (¥941.4 billion); operating profits rose to ¥236.3 billion, an increase of ¥141.8 billion over the corresponding period of the previous year (¥94.5 billion); and ordinary profits rose to ¥220.0 billion, an increase of ¥136.1 billion over the corresponding period of the previous year (¥83.8 billion). As a result of posting a total special profit of ¥8.1 billion, non-consolidated income before income taxes for the first half of fiscal 2005 came to ¥228.1 billion (¥86.2 billion in the corresponding period of the previous year), and non-consolidated net income rose to ¥142.1 billion (¥51.3 billion in the corresponding period of the previous year).

#### **Year-end Assets, Liabilities, Shareholders' Equity and Cash Flows**

Consolidated assets at the end of the first half of fiscal 2005 increased by ¥284.6 billion from ¥3,872.1 billion posted at the end of the previous fiscal year to ¥4,156.7 billion. This resulted from an increase in the latent profits in investments in securities (¥213.7 billion) due to the recovery of stock prices and the increase of affiliates accounted for by the equity method, and an increase in inventories (¥115.4 billion) due to the rise in raw material prices and other factors.

Consolidated liabilities at the end of the first half of fiscal 2005 increased by ¥2.9 billion from ¥2,592.1 billion at the end of the previous fiscal year to ¥2,595.1 billion, resulting from a reduction of interest-bearing debts (¥55.8 billion) and an increase in deferred tax liabilities due to the rise in market value of investment in securities (¥70.5 billion).

Shareholders' equity at the end of the first half of fiscal 2005 increased by ¥273.6 billion from ¥1,188.4 billion at the end of the previous fiscal year to ¥1,462.0 billion, despite the decrease caused primarily by cash dividends of ¥33.7 billion paid

through the appropriation of fiscal 2004's distributable profits. The increase derived mainly from consolidated net income of ¥195.6 billion for the first half of fiscal 2005 and an increase of ¥108.3 billion in unrealized gains on available-for-sale securities.

Cash flows from operating activities during the first half of fiscal 2005 produced a total income of ¥169.5 billion (income of ¥192.4 billion in the corresponding period of the previous year). This total was obtained by adding ¥87.2 billion in depreciation and amortization and ¥10.5 billion in decrease of notes and accounts receivable-trade to ¥302.5 billion in consolidated net income before income taxes and minority interest; subtracting an increase of ¥115.1 billion in inventories and a decrease of ¥7.5 billion in notes and accounts payable-trade; and adding and subtracting payments for income taxes and other items.

Cash flows from investing activities during the first half of fiscal 2005 came to a total expenditure of ¥117.7 billion (expenditure of ¥71.6 billion in the corresponding period of the previous year). This resulted from outlays of ¥96.7 billion for the acquisition of tangible and intangible fixed assets and ¥27.9 billion for the acquisition of investments in securities.

A total of ¥104.7 billion after adding the breakdown in cash and bank deposits to the free cash flow (¥51.7 billion) arising from the above were appropriated for the repayment of loans totaling ¥56.0 billion and the payment of ¥33.7 billion in cash dividends.

As a result, the consolidated balance of interest-bearing debts and bonds and notes outstanding at the end of the first half of fiscal 2005 was reduced to ¥1,226.4 billion, and cash and cash equivalents amounted to ¥74.0 billion.

In order to procure the capital required for above cash flows, Nippon Steel closely heeded developments in the financial market to secure less expensive capital. In addition, the company committed itself to promoting more efficient use of funds through a consolidated cash management system (CMS) and the liquidation of consolidated asset holdings, thereby strengthening its consolidated financial structure.

## **(2) Forecast for Full-year Consolidated Operating Performance**

In the latter half of fiscal 2005, it will be necessary to closely monitor the effect of crude oil price fluctuations on both domestic and overseas economic activity. In a



global environment of economic expansion, triggered by growth in China and the United States, favorable corporate operating results are certain to affect personal consumption in Japan. Because of this, economic recovery in Japan is forecasted to continue on a steady track.

In steelmaking and steel fabrication operations, the consumption of steel products in the domestic market is expected to follow a favorable trend, supported by brisk demand from manufacturing industries. In export markets, production will continue to expand in the manufacturing industries of East Asia, a major market for Nippon Steel. As a result, it is anticipated that demand for steel products will remain steady. Under these circumstances, Nippon Steel will pursue an early completion of inventory adjustments for steel products, mainly steel sheets. The company will also continue efforts to ensure that production is steady and finely tuned to the needs according to both products and users and will, at the same time, strive to maintain and improve sales prices.

Because the business climate surrounding the engineering and construction sector, as well as other business sectors, will fluctuate, Nippon Steel will focus on seizing every opportunity to increase the profitability of these sectors and to strengthen their operational structures.

Nippon Steel will aim for the following operating performance goals in fiscal 2005 (April 1, 2005 to March 31, 2006):

#### **Consolidated**

(¥ billion)

	Sales	Operating profit	Ordinary profit	Net income
Fiscal 2005	3,865.0	525.0	495.0	320.0
Fiscal 2004	3,389.3	429.9	371.4	220.6

#### **Non-Consolidated**

(¥ billion)

	Sales	Operating profit	Ordinary profit	Net income
Fiscal 2005	2,550.0	400.0	355.0	230.0
Fiscal 2004	2,147.8	303.8	247.8	145.8

### (3) Trends in Cash Flow Indicators

Fiscal year	2001	2002	2003	2004	First half of 2005
Ratio of shareholders' equity (%)	22.5	21.0	25.3	30.7	35.2
Ratio of shareholders' equity at market price (%)	32.1	25.1	44.3	47.2	69.1
Debt redemption term (years)	9.3	5.6	5.4	2.4	-
Interest coverage ratio (times)	6.4	11.5	12.0	24.9	19.5

Notes:

Ratio of shareholders' equity: Shareholders' equity/Total assets

Ratio of shareholders' equity at market price: Current aggregate value of shares/Total assets

Debt redemption term: Interest-bearing debt/Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities/Interest expenses

- \* Each indicator is calculated from the figures in the consolidated financial statements.
- \* Current aggregate value of shares is calculated by multiplying the common stock price at term end by the number of shares outstanding at term end.
- \* Interest-bearing debts cover all debts bearing interests (short-term loans, commercial papers, bonds due within one year, convertible bonds due within one year, corporate bonds, convertible bonds and long-term loans).
- \* Cash flows from operating activities in the consolidated statements of cash flows are used for the cash flows from operating activities, and the interest expenses in the consolidated statements of cash flows are used for the interest expenses.
- \* The debt redemption term (years) is not described for the first half of fiscal 2005.

### (4) Risks Involved in Business and Other Operations

Of matters relating to business, financial and other circumstances of Nippon Steel and its group companies, the following matters may, among others, have a significant impact on investors' decisions.

#### 1) Changes in Steel Sales Conditions

Sales by the steelmaking and steel fabrication sector account for approximately 80% of Nippon Steel's total consolidated sales (in the current term), and any change in supply or demand in the global steel market could affect their operating performances. In a highly competitive environment involving both domestic and overseas steel manufacturers, the operating performance of Nippon Steel and its group companies could be adversely affected if their competitiveness in terms of technology, cost, quality

or other aspects grows weak relative to the competitiveness of other steel manufacturers.

Most of Nippon Steel's customers in the steelmaking and steel fabrication sector regularly purchase large quantities of steel products on the premise that they will sell the products by processing such steel. Consequently, changes in the purchasing policies of major customers could affect the operating performance of Nippon Steel.

In addition, operating performance can be affected by credit risks of trading companies and users, the major buyers of steel products.

## 2) Fluctuations in the Prices of Raw Materials and Fuels

Ocean freight costs and the price of raw materials and fuels—such as iron ore, coal, ferroalloys, scrap and other materials—used mainly in the steelmaking and steel fabrication sector are linked to the international supply and demand of resources. In recent years, the price of raw materials and freight costs have spiraled upward due to rapidly increasing production of steel products in East Asia, especially China. These prices and costs could fluctuate significantly, depending on the supply and demand situation.

## 3) Fluctuations in the Interest Rates of Loans, Bonds and Notes, and Other Changes in the Financial Markets

The consolidated balance of interest-bearing debt held by Nippon Steel at the end of the current half-year term amounted to ¥1,226.4 billion. Fluctuations in interest rates and other variables in the financial markets could affect operating performance.

## 4) Fluctuations in the Value of Assets (including Pension Plan Assets) such as Securities

The consolidated balance of investments in securities held by Nippon Steel at the end of the current half-year term amounted to ¥962.1 billion. Losses on evaluation of investments in securities can arise due to stagnation in the operations of companies in which Nippon Steel and its group companies have invested and because of a worsening tone in securities markets.

In addition to investments in securities, Nippon Steel holds ¥467.9 billion on an unconsolidated basis in pension plan assets (including employee retirement benefit trust assets). Fluctuations in the price or interest rates of domestic and overseas shares,

bonds and other items comprising the plan assets could have an impact on operating performance.

5) Fluctuations in Exchange Rates

Because Nippon Steel and its group companies conduct foreign currency transactions in the course of exporting products and importing raw materials etc. and because they hold assets and liabilities in foreign currencies, fluctuations in exchange rates could influence operating performance.

6) Environmental Regulations and Taxes Imposed on Business Operations

If, in the future, quantitative controls, environmental taxes or other environmental regulations are imposed on CO<sub>2</sub> emitters and fossil fuel consumers in Japan, the operating performance of Nippon Steel and its group companies may be affected due to constraints imposed by these regulations on the operations of the steelmaking and other business sectors.

7) Increase of Duties and Other Import Restrictions in Major Overseas Markets

The U.S. and other countries have levied anti-dumping duties on the export of certain steel products of Nippon Steel and its group companies. If import restriction measures including duty increases and import quotas are imposed in major overseas markets, this will restrict export transactions and could affect operating performance.

8) Suspension of or Restraints on Business Operations Due to Disasters, Accidents or Other Reasons

Should a major typhoon, earthquake or other natural disasters strike the steelworks or other business facilities operated by Nippon Steel or its group companies, it could hinder the operations of these businesses and could affect operating performance. In addition, should serious accidents, injuries, equipment failures or other emergencies occur, the resulting suspension of or restraints on business operations could affect operating performance.

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

Nippon Steel was indicted and also received cease-and desist recommendation in accordance with the Japanese Antimonopoly Act in relation to steel bridge projects. Administrative acts such as imposition of surcharges or suspension of participation in biddings, could affect operating performance.

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# Financial Statements

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# CONSOLIDATED BALANCE SHEETS

NIPPON STEEL

ASSETS	Millions of yen		
	As of September 30, 2005	As of March 31, 2005	As of September 30, 2004
<b>Current assets :</b>			
Cash and bank deposits	76,150	127,629	62,101
Notes and accounts receivable-trade	401,824	414,524	313,541
Marketable securities	453	1,011	1,107
Inventories	681,357	565,915	607,549
Deferred tax assets	58,007	57,968	42,133
Other	108,318	95,859	94,739
Less: Allowance for doubtful accounts	(9,388)	(5,696)	(4,249)
<b>Total current assets</b>	<b>1,316,723</b>	<b>1,257,212</b>	<b>1,116,923</b>
<b>Fixed assets :</b>			
Tangible fixed assets :			
Buildings and structures	446,604	450,097	459,920
Machinery and equipment	822,959	808,647	802,431
Land	327,523	328,295	326,016
Other	82,077	87,291	79,403
	1,679,164	1,674,333	1,667,772
Intangible fixed assets :	8,619	10,027	14,068
Investments and others :			
Investments in securities	962,161	748,403	689,427
Long-term loans receivable	5,185	6,084	7,798
Deferred tax assets	48,180	50,803	68,161
Other	144,228	136,080	128,721
Less: Allowance for doubtful accounts	(7,551)	(10,834)	(10,544)
	1,152,204	930,537	883,564
<b>Total fixed assets</b>	<b>2,839,988</b>	<b>2,614,898</b>	<b>2,565,404</b>
<b>Total assets</b>	<b>4,156,711</b>	<b>3,872,110</b>	<b>3,682,328</b>

<b>LIABILITIES</b>	Millions of yen		
	As of September 30, 2005	As of March 31, 2005	As of September 30, 2004
<b>Current liabilities :</b>			
Notes and accounts payable - trade	378,170	384,345	327,525
Short-term loans and long-term loans due within one year	436,902	381,648	412,968
Commercial paper	46,000	70,000	31,000
Bonds due within one year	10,000	10,000	-
Accrued expenses	262,740	253,623	216,566
Provision for loss on accidents at works	-	-	3,000
Other	341,102	355,159	279,507
<b>Total current liabilities</b>	<b>1,474,916</b>	<b>1,454,777</b>	<b>1,270,568</b>
<b>Long-term liabilities :</b>			
Bonds and notes	281,650	281,450	381,450
Long-term loans	451,769	539,039	625,098
Deferred tax liabilities	162,550	91,994	90,629
Deferred tax liabilities of Unrealized gains on revaluation of land	7,955	7,771	7,972
Accrued pension and severance costs	124,306	122,398	118,712
Allowance for retirement benefits directors and corporate auditors	5,587	6,277	5,714
Reserve for repairs to blast furnaces	50,893	50,021	50,287
Other	35,542	38,454	31,357
<b>Total long-term liabilities</b>	<b>1,120,254</b>	<b>1,137,407</b>	<b>1,311,221</b>
<b>Total liabilities</b>	<b>2,595,171</b>	<b>2,592,185</b>	<b>2,581,790</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>99,523</b>	<b>91,515</b>	<b>84,028</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock</b>	<b>419,524</b>	<b>419,524</b>	<b>419,524</b>
<b>Additional paid-in capital</b>	<b>109,868</b>	<b>109,848</b>	<b>109,839</b>
<b>Retained earnings</b>	<b>670,523</b>	<b>508,393</b>	<b>369,863</b>
<b>Unrealized gains on revaluation of land</b>	<b>11,105</b>	<b>11,943</b>	<b>12,231</b>
<b>Unrealized gains on available-for-sale securities</b>	<b>278,648</b>	<b>170,322</b>	<b>137,557</b>
<b>Foreign currency translation adjustments</b>	<b>(15,474)</b>	<b>(19,794)</b>	<b>(20,972)</b>
Less: Treasury stock, at cost	(12,180)	(11,829)	(11,534)
<b>Total shareholders' equity</b>	<b>1,462,016</b>	<b>1,188,409</b>	<b>1,016,510</b>
<b>Total liabilities and shareholders' equity</b>	<b>4,156,711</b>	<b>3,872,110</b>	<b>3,682,328</b>

**CONSOLIDATED STATEMENTS OF INCOME**

NIPPON STEEL

	For the 6-month period ended September 30, 2005	For the 6-month period ended September 30, 2004	Millions of yen For the year ended March 31, 2005
<b>Operating revenues :</b>			
Net sales	1,863,404	1,509,266	3,389,356
<b>Operating costs and expenses :</b>			
Cost of sales	1,429,863	1,236,020	2,693,603
Selling, general and administrative expenses	132,224	131,029	265,805
	1,562,087	1,367,049	2,959,408
<b>Operating profit</b>	<b>301,316</b>	142,216	429,948
<b>Non-operating profit and loss :</b>			
Non-operating profit :			
Interest and dividend income	7,014	3,909	9,336
Equity in net income of unconsolidated subsidiaries and affiliates	14,460	11,224	22,931
Miscellaneous	7,632	11,016	13,942
	29,108	26,150	46,210
Non-operating loss :			
Interest expenses	8,362	10,442	20,278
Miscellaneous	27,579	22,005	84,432
	35,942	32,448	104,711
<b>Ordinary profit</b>	<b>294,482</b>	135,919	371,446
<b>Special profit and loss :</b>			
Special profit :			
Gain on sales of tangible fixed assets	7,691	2,879	4,294
Gain on sales of investments in securities and investments in subsidiaries and affiliates	342	4,891	5,030
	8,034	7,770	9,324
Special loss :			
the new accounting standard for retirement benefits	-	2,159	4,295
Provision for loss on accidents at works	-	4,716	-
Loss on accidents at works	-	-	3,066
Loss on restructuring of subsidiary's business structures	-	2,034	3,923
	-	8,911	11,285
<b>Income before income taxes and minority interest</b>	<b>302,517</b>	134,779	369,485
Income taxes - current	99,259	48,698	155,082
Income taxes - deferred	489	125	(17,869)
Minority interest in net income (loss) of consolidated subsidiaries	7,083	4,916	11,671
<b>Net income</b>	<b>195,685</b>	81,039	220,601



**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

NIPPON STEEL

Millions of yen

	Common stock	Additional paid-in capital	Retained earnings
<b>Balance at March 31, 2004</b>	<b>419,524</b>	<b>105,850</b>	<b>298,734</b>
Net income for the year ended March 31, 2005	-	-	220,601
Decrease due to the change in the number of consolidated companies	-	-	(870)
Cash dividends	-	-	(10,141)
Directors' and corporate auditors' bonuses	-	-	(37)
Increase due to reversal of unrealized gains on revaluation of land	-	-	107
Increase due to disposal of treasury stock	-	3,998	-
<b>Balance at March 31, 2005</b>	<b>419,524</b>	<b>109,848</b>	<b>508,393</b>
Net income for the 6-month period ended September 30, 2005	-	-	195,685
Increase due to the change in the number of consolidated companies	-	-	110
Cash dividends	-	-	(33,752)
Directors' and corporate auditors' bonuses	-	-	(45)
Increase due to reversal of unrealized gains on revaluation of land	-	-	131
Increase due to disposal of treasury stock	-	20	-
<b>Balance at September 30, 2005</b>	<b>419,524</b>	<b>109,868</b>	<b>670,523</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

NIPPON STEEL

	For the 6-month period ended September 30, 2005	For the 6-month period ended September 30, 2004	Millions of yen For the year ended March 31, 2005
<b>Cash flows from operating activities :</b>			
Income before income taxes and minority interest	302,517	134,779	369,485
Adjustments to reconcile net income to net cash provided by operating activities :			
Depreciation and amortization	87,281	85,954	180,571
Interest and dividend income (accrual basis)	(7,014)	(3,909)	(9,609)
Interest expense (accrual basis)	8,362	10,442	20,244
Exchange losses (gains) on foreign currency transactions	(3,481)	(1,487)	(1,006)
Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates	466	902	2,512
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	(14,460)	(11,224)	(22,931)
Loss (gain) on sales of investments in securities	(328)	(5,815)	(5,004)
Amortization of transition obligation in respect of new accounting standard for retirement benefits	-	2,159	4,295
Provision for loss on accidents at works	-	2,800	-
Loss on restructuring of subsidiary's business structures	-	2,034	4,143
Loss on disposal of tangible and intangible fixed assets	5,702	4,192	17,524
Gain on sales of tangible and intangible fixed assets	(7,688)	(2,918)	(3,769)
Changes in allowance for doubtful accounts	614	(1,077)	6,129
Changes in notes and accounts receivable-trade	10,585	103,030	9,181
Changes in inventories	(115,156)	(67,632)	(38,722)
Changes in notes and accounts payable-trade	(7,554)	(13,208)	38,436
Other	37,742	5,380	49,501
Interest and dividend income (cash basis)	8,782	4,758	10,868
Interest expense (cash basis)	(8,693)	(11,146)	(21,696)
Income taxes (cash basis)	(128,129)	(45,579)	(70,708)
<b>Net cash provided by operating activities</b>	<b>169,548</b>	<b>192,435</b>	<b>539,445</b>
<b>Cash flows from investing activities :</b>			
Acquisition of investments in securities	(27,906)	(19,466)	(29,559)
Proceeds from sales of investments in securities	1,468	18,421	20,622
Acquisition of tangible and intangible fixed assets	(96,775)	(82,668)	(189,260)
Proceeds from sales of tangible and intangible fixed assets	4,380	6,675	12,699
Other	1,056	5,361	10,502
<b>Net cash used in investing activities</b>	<b>(117,776)</b>	<b>(71,676)</b>	<b>(174,995)</b>
<b>Cash flows from financing activities :</b>			
Net increase (decrease) in short-term loans	14,556	(15,822)	(114,972)
Net increase (decrease) in commercial paper	(24,000)	-	39,000
Proceeds from long-term loans	26,970	59,545	74,409
Payments of long-term loans	(73,540)	(43,762)	(87,119)
Proceeds from issuance of bonds and notes	-	34,837	34,836
Redemption of bonds and notes	-	(148,729)	(238,729)
Payments for purchase of treasury stock	(61)	(15,985)	(16,213)
Cash dividends	(33,752)	(10,141)	(10,141)
Other	(14,894)	(1,170)	(2,472)
<b>Net cash used in financing activities</b>	<b>(104,722)</b>	<b>(141,227)</b>	<b>(321,402)</b>
Effect of exchange rate changes on cash and cash equivalents	3,374	976	1,032
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(49,575)</b>	<b>(19,491)</b>	<b>44,079</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>124,511</b>	<b>80,393</b>	<b>80,393</b>
<b>Increase (decrease) from the change in the number of companies consolidated</b>	<b>(904)</b>	<b>8</b>	<b>38</b>
<b>Cash and cash equivalents at the end of period (year)</b>	<b>74,031</b>	<b>60,910</b>	<b>124,511</b>

## CONSOLIDATED SEGMENT INFORMATION

NIPPON STEEL

	Millions of yen		
	For the 6-month period ended September 30, 2005	For the 6-month period ended September 30, 2004	For the year ended March 31, 2005
<b>Sales</b>			
Steelmaking and steel fabrication			
Customers	1,494,886	1,198,374	2,592,476
Intersegment	14,218	10,570	28,256
Total Sales	1,509,105	1,208,944	2,620,732
Engineering and construction			
Customers	110,356	69,044	239,369
Intersegment	17,442	17,988	40,496
Total Sales	127,799	87,032	279,866
Urban development			
Customers	35,365	22,302	83,669
Intersegment	3,151	2,744	5,606
Total Sales	38,516	25,046	89,275
Chemicals and nonferrous materials			
Customers	140,751	132,839	282,399
Intersegment	39,329	25,730	48,768
Total Sales	180,081	158,570	331,168
System solutions			
Customers	51,876	53,272	121,641
Intersegment	12,909	12,463	24,889
Total Sales	64,786	65,736	146,531
Other businesses			
Customers	30,167	33,433	69,800
Intersegment	2,901	3,095	6,444
Total Sales	33,069	36,529	76,244
Elimination of intersegment transactions	(89,953)	(72,594)	(154,463)
<b>Consolidated total</b>	<b>1,863,404</b>	<b>1,509,266</b>	<b>3,389,356</b>
<b>Operating profit (loss)</b>			
Steelmaking and steel fabrication	282,480	130,591	376,926
Engineering and construction	(2,483)	(5,762)	6,696
Urban development	4,525	1,764	8,503
Chemicals and nonferrous materials	11,686	11,593	26,374
System solutions	4,683	4,161	11,384
Other businesses	208	156	384
Elimination of intersegment transactions	214	(288)	(321)
<b>Consolidated total</b>	<b>301,316</b>	<b>142,216</b>	<b>429,948</b>

**NON-CONSOLIDATED BALANCE SHEETS***Nippon Steel Corporation*

ASSETS	Millions of yen		
	As of September 30, 2005	As of March 31, 2005	As of September 30, 2004
<b>Current assets :</b>			
Cash and bank deposits	20,133	73,150	7,514
Notes and accounts receivable-trade	180,101	177,085	113,070
Inventories	429,981	349,481	379,976
Deferred tax assets	30,500	31,700	20,400
Other	114,971	102,329	94,801
Less: Allowance for doubtful accounts	(11,100)	(5,742)	(4,114)
<b>Total current assets</b>	<b>764,588</b>	<b>728,005</b>	<b>611,648</b>
<b>Fixed assets :</b>			
Tangible fixed assets :			
Buildings and structures	271,934	274,254	280,863
Machinery and equipment	605,381	592,774	596,361
Land	200,280	201,940	201,270
Other	66,654	68,543	63,651
	<b>1,144,250</b>	<b>1,137,512</b>	<b>1,142,146</b>
Intangible fixed assets :	1,381	1,494	1,671
Investments and others :			
Investments in securities	1,045,421	844,426	788,103
Other	117,307	110,748	109,319
Less: Allowance for doubtful accounts	(4,197)	(2,196)	(2,149)
	<b>1,158,531</b>	<b>952,978</b>	<b>895,272</b>
<b>Total fixed assets</b>	<b>2,304,162</b>	<b>2,091,985</b>	<b>2,039,090</b>
<b>Total assets</b>	<b>3,068,751</b>	<b>2,819,991</b>	<b>2,650,739</b>

LIABILITIES	Millions of yen		
	As of September 30, 2005	As of March 31, 2005	As of September 30, 2004
<b>Current liabilities :</b>			
Notes and accounts payable - trade	188,556	183,403	161,800
Short-term loans and long-term loans due within one year	258,283	155,279	125,315
Commercial paper	46,000	70,000	31,000
Bonds due within one year	10,000	10,000	-
Accrued expenses	244,967	252,401	214,447
Provision for loss on accidents at works	-	-	3,000
Other	218,362	207,848	161,041
<b>Total current liabilities</b>	<b>966,170</b>	<b>878,934</b>	<b>696,604</b>
<b>Long-term liabilities :</b>			
Bonds and notes	265,000	265,000	365,000
Long-term loans	314,396	409,090	474,695
Deferred tax liabilities	167,200	85,400	64,700
Accrued pension and severance costs	63,986	62,985	63,876
Allowance for retirement benefits directors and corporate auditors	2,402	3,022	2,718
Reserve for repairs to blast furnaces	49,124	48,398	47,951
Provision for loss on guarantees	-	40,792	38,292
Other	9,007	7,182	1,947
<b>Total long-term liabilities</b>	<b>871,117</b>	<b>921,870</b>	<b>1,059,182</b>
<b>Total liabilities</b>	<b>1,837,287</b>	<b>1,800,805</b>	<b>1,755,786</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Common stock</b>	<b>419,524</b>	<b>419,524</b>	<b>419,524</b>
<b>Capital surplus</b>	<b>109,816</b>	<b>109,811</b>	<b>109,803</b>
<b>Retained earnings :</b>			
Special tax-purpose reserve	86,953	90,268	165,268
Voluntary reserves	160,000	75,000	-
Unappropriated retained earnings	206,410	179,691	85,247
	<b>453,363</b>	<b>344,960</b>	<b>250,516</b>
<b>Unrealized gains on available-for-sale securities</b>	<b>259,391</b>	<b>155,471</b>	<b>125,556</b>
Less: Treasury stock, at cost	(10,633)	(10,583)	(10,449)
<b>Total shareholders' equity</b>	<b>1,231,463</b>	<b>1,019,186</b>	<b>894,952</b>
<b>Total liabilities and shareholders' equity</b>	<b>3,068,751</b>	<b>2,819,991</b>	<b>2,650,739</b>

**NON-CONSOLIDATED STATEMENTS OF INCOME***Nippon Steel Corporation*

	Millions of yen		
	For the 6-month period ended September 30, 2005	For the 6-month period ended September 30, 2004	For the year ended March 31, 2005
<b>Operating revenues :</b>			
Net sales	1,245,429	941,480	2,147,863
<b>Operating costs and expenses :</b>			
Cost of sales	917,253	761,359	1,671,098
Selling, general and administrative expenses	91,844	85,603	172,877
	<b>1,009,098</b>	846,962	1,843,976
<b>Operating profit</b>	<b>236,331</b>	94,518	303,886
<b>Non-operating profit and loss :</b>			
Non-operating profit :			
Interest and dividend income	8,765	5,305	10,812
Miscellaneous	4,824	9,358	8,495
	<b>13,590</b>	14,664	19,307
Non-operating loss :			
Interest expenses	6,101	7,833	14,739
Miscellaneous	23,776	17,498	60,628
	<b>29,878</b>	25,331	75,368
<b>Ordinary profit</b>	<b>220,042</b>	83,850	247,826
<b>Special profit and loss :</b>			
Special profit :			
Gain on sales of tangible fixed assets	7,737	2,782	2,494
Gain on sales of investments in securities and investments in subsidiaries and affiliates	375	4,364	2,670
	<b>8,113</b>	7,146	5,164
Special loss :			
Provision for loss on accidents at works	-	4,716	-
Loss on accidents at works	-	-	3,066
	-	4,716	3,066
<b>Income before income taxes</b>	<b>228,156</b>	86,280	249,924
Income taxes - current	73,500	34,300	114,300
Income taxes - deferred	12,500	600	(10,200)
<b>Net income</b>	<b>142,156</b>	51,380	145,824

## Recent Quarterly Operating Results

Fiscal 2004 (April 1, 2004 to March 31, 2005)

	1st quarter	2nd quarter	Interim term	3rd quarter	4th quarter	2nd half	Fiscal 2004
	Apr.-June 2004	July-Sept. 2004	Apr.-Sept. 2004	Oct.-Dec. 2004	Jan.-Mar. 2005	Oct. 2004-Mar. 2005	Apr. 2004-Mar. 2005
	¥million	¥million	¥million	¥million	¥million	¥million	¥million
Sales	702,156	807,110	1,509,266	859,494	1,020,595	1,880,089	3,389,356
Steelmaking and steel fabrication	560,305	648,639	1,208,944	692,034	719,753	1,411,787	2,620,732
Engineering and construction	41,953	45,079	87,032	47,767	145,066	192,833	279,866
Urban development	11,042	14,004	25,046	22,103	42,125	64,229	89,275
Chemicals and nonferrous materials	69,517	89,053	158,570	83,467	89,130	172,597	331,168
System solutions	29,691	36,044	65,736	26,786	54,008	80,794	146,531
Other businesses	17,273	19,256	36,529	18,806	20,909	39,715	76,244
Elimination of intersegment transactions	(27,626)	(44,967)	(72,594)	(31,472)	(50,397)	(81,869)	(154,463)
Operating profits	55,989 【8.0%】	86,227 【10.7%】	142,216 【9.4%】	125,864 【14.6%】	161,866 【15.9%】	287,731 【15.3%】	429,948 【12.7%】
Steelmaking and steel fabrication	52,583 【9.4%】	78,008 【12.0%】	130,591 【10.8%】	112,667 【16.3%】	133,666 【18.6%】	246,334 【17.4%】	376,926 【14.4%】
Engineering and construction	2,036 【4.9%】	3,725 【8.3%】	5,762 【6.6%】	799 【1.7%】	11,659 【8.0%】	12,458 【6.5%】	6,696 【2.4%】
Urban development	1,328 【12.0%】	435 【3.1%】	1,764 【7.0%】	3,088 【14.0%】	3,651 【8.7%】	6,739 【10.5%】	8,503 【9.5%】
Chemicals and nonferrous materials	3,842 【5.5%】	7,751 【8.7%】	11,593 【7.3%】	6,952 【8.3%】	7,828 【8.8%】	14,781 【8.6%】	26,374 【8.0%】
System solutions	1,610 【5.4%】	2,551 【7.1%】	4,161 【6.3%】	1,854 【6.9%】	5,368 【9.9%】	7,222 【8.9%】	11,384 【7.8%】
Other businesses	438 【2.5%】	594 【3.1%】	156 【0.4%】	393 【2.1%】	165 【0.8%】	227 【0.6%】	384 【0.5%】
Elimination of intersegment transactions	(900)	(611)	(288)	(108)	(141)	(32)	(321)
Ordinary profits	47,479 【6.8%】	88,439 【11.0%】	135,919 【9.0%】	106,402 【12.4%】	129,124 【12.7%】	235,527 【12.5%】	371,446 【11.0%】
Net income	23,302 【3.3%】	57,736 【7.2%】	81,039 【5.4%】	66,074 【7.7%】	73,487 【7.2%】	139,561 【7.4%】	220,601 【6.5%】
Net income per share	¥ 3.47	¥ 8.56	¥ 12.05	¥ 9.80	¥ 10.90	¥ 20.69	¥ 32.73

Fiscal 2005 (April 1, 2005 to March 31, 2006)

					Forecast for interim term of fiscal 2005 (data released on September 8, 2005)		Forecast for fiscal 2005 (data released on September 8, 2005)	
	1st quarter	2nd quarter	Interim term	Forecast for fiscal 2005	Apr.-Sept. 2005	Apr. 2005-Mar. 2006	Apr. 2005-Mar. 2006	
	Apr.-June 2005	July-Sept. 2005	Apr.-Sept. 2005	Apr. 2005-Mar. 2006	Apr.-Sept. 2005	Apr. 2005-Mar. 2006	Apr. 2005-Mar. 2006	
	¥million	¥million	¥million	¥million	¥million	¥million	¥million	
Sales	904,771	958,633	1,863,404	3,865,000	1,840,000	3,880,000	3,880,000	
Steelmaking and steel fabrication	738,231	770,874	1,509,105	3,065,000	1,490,000	3,090,000	3,090,000	
Engineering and construction	57,283	70,515	127,799	300,000	120,000	300,000	300,000	
Urban development	21,134	17,383	38,516	103,000	38,000	103,000	103,000	
Chemicals and nonferrous materials	86,500	93,581	180,081	370,000	180,000	360,000	360,000	
System solutions	27,202	37,583	64,786	150,000	64,000	150,000	150,000	
Other businesses	17,194	15,875	33,069	68,000	33,000	68,000	68,000	
Elimination of intersegment transactions	(42,776)	(47,177)	(89,953)	(191,000)	(85,000)	(191,000)	(191,000)	
Operating profits	146,091 【16.1%】	155,225 【16.2%】	301,316 【16.2%】	525,000 【13.6%】	275,000 【14.9%】	510,000 【13.1%】	510,000	
Steelmaking and steel fabrication	137,347 【18.6%】	145,133 【18.8%】	282,480 【18.7%】	468,000 【15.3%】	263,000 【17.7%】	458,000 【14.8%】	458,000	
Engineering and construction	1,481 【2.6%】	1,001 【1.4%】	2,483 【1.9%】	9,000 【3.0%】	3,000 【2.5%】	9,000 【3.0%】	9,000	
Urban development	3,538 【16.7%】	987 【5.7%】	4,525 【11.7%】	10,000 【9.7%】	4,000 【10.5%】	10,000 【9.7%】	10,000	
Chemicals and nonferrous materials	6,165 【7.1%】	5,520 【5.9%】	11,686 【6.5%】	26,000 【7.0%】	10,000 【5.6%】	25,000 【6.9%】	25,000	
System solutions	1,686 【6.2%】	2,998 【8.0%】	4,683 【7.2%】	12,000 【8.0%】	4,000 【6.3%】	12,000 【8.0%】	12,000	
Other businesses	104 【0.6%】	313 【2.0%】	208 【0.6%】	0 【0.0%】	0 【-】	0 【-】	0	
Elimination of intersegment transactions	(1,060)	(1,275)	(214)	(0)	(3,000)	(4,000)	(4,000)	
Ordinary profits	153,139 【16.9%】	141,343 【14.7%】	294,482 【15.8%】	495,000 【12.8%】	270,000 【14.7%】	490,000 【12.6%】	490,000	
Net income	91,612 【10.1%】	104,073 【10.9%】	195,685 【10.5%】	320,000 【8.3%】	180,000 【9.8%】	310,000 【8.0%】	310,000	
Net income per share	¥ 13.59	¥ 15.43	¥ 29.02	¥ 47.45	¥ 26.69	¥ 45.97	¥ 45.97	

【 】: Return on sales

( ) in "Elimination of intersegment transactions" row indicate negative numbers

Nippon Steel Corporation

Code Number: 5401

Listings: Tokyo, Osaka, Nagoya, Fukuoka and Sapporo Stock Exchanges

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## Supplementary Information on the Financial Result for the First Half of Fiscal 2005

### Japanese Steel Industry

#### 1. Crude Steel Production

(millions of tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
	2004FY	28.22	28.16	56.38	28.75	27.76	56.51
2005FY	28.96	27.83	56.80	-	-	-	-

#### 2. Inventory Volume

At the end of:	Inventory at manufacturers and distributors (millions of tons)	Inventory /shipment ratio (%)	Rolled sheets *1 (millions of tons)	H-flange beams *2 (millions of tons)
Aug. 2001	6.19	136.3 (Peak)	4.70 (Peak)	0.320
Sep. 2001	6.15	125.4	4.63	0.307
Mar. 2002	5.42	107.6	3.93	0.314
Sep. 2002	5.12	102.2	3.71	0.264
Mar. 2003	5.33	104.0	3.76	0.256
Sep. 2003	5.67	114.1	4.13	0.274
Mar. 2004	5.03	94.7	3.77	0.240
Apr. 2004	5.13	105.5	3.80	0.264
May 2004	5.33	111.7	3.81	0.290
June. 2004	5.20	104.6	3.74	0.304
July. 2004	5.13	101.0	3.72	0.310
Aug. 2004	5.60	123.3	4.06	0.317
Sep. 2004	5.37	101.3	3.86	0.312
Oct. 2004	5.46	109.2	3.81	0.300
Nov. 2004	5.30	101.4	3.76	0.294
Dec. 2004	5.36	111.1	3.84	0.296
Jan. 2005	5.50	114.2	4.02	0.301
Feb. 2005	5.42	116.2	3.98	0.296
Mar. 2005	5.26	98.2	3.93	0.294
Apr. 2005	5.30	109.6	4.03	0.279
May 2005	5.51	112.2	4.19	0.276
June. 2005	5.48	108.3	4.21	0.274
July. 2005	5.60	114.1	4.30	0.271
Aug. 2005	5.81	125.0	4.66	0.253
Sep. 2005	5.74	112.0*3	4.59	0.231

\*1 Hot-rolled, cold-rolled and coated sheets

\*2 Inventories of distributors dealing with H-flange beams manufactured by Nippon Steel Corporation

\*3 Preliminary report



**Nippon Steel (Non-consolidated basis)****3. Pig Iron Production (Nippon Steel Corporation and Hokkai Iron & Coke Co., Ltd)**

(millions of tons)

	1st half		1st half	2nd half		total	
	1st quarter	2nd quarter		3rd quarter	4th quarter		
2004FY	7.00	7.66	14.65	7.66	7.75	15.41	30.07
2005FY	7.88	7.93	15.81	-	-	-	-

**4. Crude Steel Production**

(Consolidated basis)

(millions of tons)

	1st half		1st half	2nd half		total	
	1st quarter	2nd quarter		3rd quarter	4th quarter		
2004FY	7.78	8.30	16.08	8.34	8.37	16.71	32.79
2005FY	8.56	8.52	17.08	-	-	-	-

(Non-consolidated basis)

(millions of tons)

	1st half		1st half	2nd half		total	
	1st quarter	2nd quarter		3rd quarter	4th quarter		
2004FY	7.04	7.57	14.61	7.61	7.66	15.27	29.88
2005FY	7.85	7.88	15.73	-	-	-	-

**5. Steel Products Shipment**

(millions of tons)

	1st half		1st half	2nd half		total	
	1st quarter	2nd quarter		3rd quarter	4th quarter		
2004FY	6.94	7.36	14.29	7.41	7.81	15.22	29.51
2005FY	7.43	7.33	14.76	-	-	-	-

**6. Average Price of Steel Products**

(thousands of yen / ton)

	1st half		1st half	2nd half		total	
	1st quarter	2nd quarter		3rd quarter	4th quarter		
2004FY	55.9	60.1	58.1	63.0	66.6	64.9	61.6
2005FY	70.8	(*) 76.0	73.4	-	-	-	-

(\*) The increase of the average price for the 2nd quarter (compared to that for the 1st quarter) includes positive price adjustments to the 1st quarter sales.

**7. Export Ratio of Steel Products (Value basis)**

(%)

	1st half		1st half	2nd half		total	
	1st quarter	2nd quarter		3rd quarter	4th quarter		
2004FY	29.8	32.3	31.1	31.0	33.0	32.1	31.6
2005FY	32.2	31.1	31.6	-	-	-	-

8. Foreign Exchange Rate

(¥/US\$)

			1st half			2nd half	total
	1st quarter	2nd quarter		3rd quarter	4th quarter		
2004FY	109	110	109	107	104	106	107
2005FY	107	112	109	-	-	(*) 110	-

(\*) inter-office rate

9. Impact of ¥1 appreciation /US\$ on Profit (Non-consolidated basis)

(billion yen)

1st half of 2004 FY gain 0.1 ( 0.1 billion dollars, import surplus )

2st half of 2004 FY loss 0.5 ( 0.5 billion dollars, export surplus )

1st half of 2005 FY gain 0.3 ( 0.3 billion dollars, import surplus )

10. Unrealized Gains on Available-for-Sale Securities

(billion yen)

	1st half of 2005 FY	2004 FY
Consolidated	467.4 (278.6)	285.7 (170.3)
Non-consolidated	435.1 (259.3)	260.7 (155.4)
	【Nikkei 225】 【3,574 yen】	【1,669 yen】

\* Figures in parentheses :Gains after deferred tax

11. Amount of Capital Expenditure and Depreciation

## • Capital Expenditure (billion yen)

	2005 FY (estimated)	2004 FY
Consolidated	Approx. 210.0	185.0
Non-consolidated	Approx. 170.0	140.0

## • Depreciation (billion yen)

	2005 FY (estimated)	2004 FY
Consolidated	Approx. 192.0	180.5
Non-consolidated	Approx. 140.0	129.9

12. Special Profit and Losses

(billion yen)

	1st half of 2005 FY	1st half of 2004 FY
Gain on sales of fixed assets	7.6	2.8
Gain on sales of investments in securities	0.3	4.8
Amortization of transition obligation in respect of new accounting standard for retirement benefit	-	2.1
Loss on accidents	-	4.7
Loss on restructuring of subsidiary's business structures	-	2.0
Special Profit and loss	8.0	1.1

2005FY(estimated) :13billion yen