

Financial Results for Fiscal 2005

(April 1, 2005 to March 31, 2006)

Nippon Steel Corporation

April 28, 2006

1. Management Policies

(1) Medium-Term Consolidated Business Plan

Nippon Steel and its group companies have formulated a new Medium-Term Consolidated Business Plan to be implemented during fiscal 2006-2008 (April 1, 2006-March 31, 2009). Its outline is as follows:

1) Profit Growth by Enhancing Technological Edges

—Operating policies in the steelmaking sector

With enhancement of its technological edges as a key theme, the sector will strive to strengthen its manufacturing capabilities in order to become a leading, all-encompassing steel supplier whose core is high-grade steel products.

- Steady capture of the demand for steel products mainly in the high-grade steel field through enhanced capabilities to respond customer needs
- Reinforcement and improvement of the technological and manufacturing capabilities that support steady capture of steel demand
- Reinforcement of operating bases for further development
- Integrated promotion of the measures to raise profitability and strengthen financial structures jointly with group companies working in iron- and steelmaking
- Enhancement of alliance with other steelmakers

—Operating policies in other sectors

In business sectors other than steelmaking, emphasis will be placed on realizing higher profitability and a stronger financial structure and securing a firmer presence in the market through the development of new products and services by enhancing technological edges and the promotion of solutions-oriented business operations.

2) Improvement and Reinforcement of Consolidated Management System

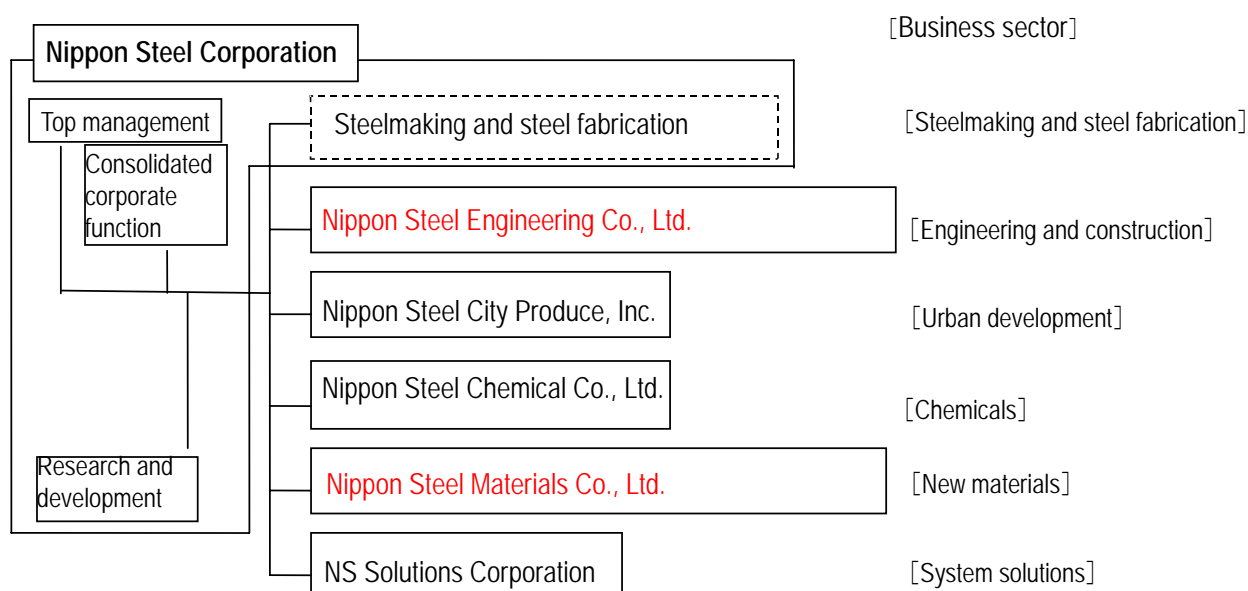
Nippon Steel will spin-off two business sectors, engineering and construction, and new materials, by the target date of July 2006. At the same time, the company will build a management organization in order to promote six business sectors—steelmaking, engineering and construction, urban development, chemicals, new materials, system solutions—with steelmaking as a key operating sector independently yet concurrently and enable them to achieve self-sustaining development.

By so doing, the company intends to enable the respective subsidiaries to implement highly responsive and flexible management adapted to the characteristics of their respective business to meet their customer needs.

Through all above, the respective segments shall achieve profit growth and enhance the value of Nippon Steel as a group.

The consolidated corporate functions, including the top management, will be within “Nippon Steel Corporation” in order to secure the efficiency and effectiveness of those functions. “Nippon Steel Corporation” will serve as the holding company of other five business segments which will also continue to operate steel business.

The individual business segments are to share the business strategies of Nippon Steel and are designed to maximize the group’s synergy through joint utilization of the R&D functions, etc. vested in the holding company.



By implementing the above measures, Nippon Steel shall rebuild the competitiveness of its individual business segments. At the same time, the company shall contribute to the development of a resource recycling-oriented society through promotion of zero emissions, development of new environment-friendly products, etc., help to curb global warming by saving of energy and reduction of CO₂ emissions, and strictly enforce compliance with laws. All these activities are intended to demonstrate the company’s emergence as a business enterprise trusted absolutely by both society and the markets.

In addition, in accordance with its corporate philosophy, the company shall strive to further enhance the value of the Nippon Steel brand by having the individual business segments make concerted efforts to attain the group’s objectives while

adapting themselves to their own business circumstances.

By implementing the above measures, Nippon Steel aims to achieve the following financial targets in fiscal 2008.

Consolidated Financial Targets

(In billions of yen)

| | Target for FY 2008 | Projection for FY 2005* |
|-----------------------------------|-----------------------|----------------------------|
| Sales | Approx. 4,200 | 4,000 |
| Operating profits | 500 or more | 440 |
| Ratio of ordinary profit to sales | 12% | 11% |
| Net income | 300 or more | 260 |
| Earning per share | ¥44 or more | ¥38 |
| Balance of interest-bearing debts | 1,000 or less | 1,100 |
| Debt/equity ratio | 0.5 or less | 0.74 |

*The projection for the second half of fiscal 2005, disregarding the effects of extraordinary factors, converted to annual basis.

Capital Expenditure and Investing/Financing

(In billions of yen)

| | FY2006~2008 |
|------------------|-------------------------------|
| Cumulative total | Approx. 850 (Approx. 630)* |

*(): Depreciation

In the new Medium-Term Consolidated Business Plant (FY2006~2008), Nippon Steel aims to achieve both adequate investment for profit growth and further improvement of the overall financial structure. Stock dividends will be distributed in accordance with the company's distribution policy consistent with the consolidated operating results as set out below.

(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. Meanwhile, the company has set the consolidated payout ratio at approximately 20% (non-consolidated

payout ratio at approximately 30%) as an indicator for the distribution of profits in conformance with the consolidated operating results. However, because the company's first priority for the time being is to improve the corporate financial structure, a target of approximately 15-20% is in effect for the consolidated payout ratio (non-consolidated payout ratio at approximately 20-30%), which is slightly lower than the above-indicated level.

(3) Parent Company

Because Nippon Steel has no parent company, no description is made relating to this item (3).

2. Operating Results and Financial Situations

(1) Overview of Fiscal 2005

The Japanese economy in fiscal 2005 (April 1, 2005 to March 31, 2006) continued on path of steady recovery thanks to increasing exports, expanding equipment investment by private enterprise, and steady growth in personal consumption spurred by higher earnings and rising employment.

In the steel industry, because demand expanded for high-grade steel products, mainly for manufacturing industries such as automobiles and shipbuilding, the worldwide supply and demand situation for these products remained tight. On the other hand, the supply and demand situation for commodity-grade products showed a loosening trend due to expansion in Chinese production capacity and other factors. As a result, a bipolar trend in the overall steel market became more apparent.

National crude steel production in fiscal 2005 amounted to 112.71 million tons. Although there was a decrease in exports mainly of commodity-grade steel products, this high level, which is almost the same as the previous year, was achieved reflecting robust demand for steel products from domestic users, ..

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

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

(Consolidated Operating Performance by Business Sector)

(Billions of yen)

| | Net sales | | Operating profits | |
|--|-------------|-------------|-------------------|-------------|
| | Fiscal 2005 | Fiscal 2004 | Fiscal 2005 | Fiscal 2004 |
| Steelmaking and steel fabrication | 3,057.5 | 2,620.7 | 513.9 | 376.9 |
| Engineering and construction | 336.1 | 279.8 | 9.5 | 6.6 |
| Urban development | 104.0 | 89.2 | 14.1 | 8.5 |
| Chemicals and nonferrous materials | 373.0 | 331.1 | 27.0 | 26.3 |
| System solutions | 148.3 | 146.5 | 11.8 | 11.3 |
| Other businesses | 69.0 | 76.2 | (1.1) | 0.3 |
| Total | 4,088.2 | 3,543.8 | 575.3 | 430.2 |
| Elimination of intersegment transactions | (181.9) | (154.4) | 1.0 | (0.3) |
| Consolidated total | 3,906.3 | 3,389.3 | 576.3 | 429.9 |

Steelmaking and Steel Fabrication

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

In the field of high-grade steel products, Nippon Steel strived to reinforce its integrated production capacity by eliminating bottlenecks in the production process. These efforts were designed to meet a robust demand for high-grade steel products while at the same time improving supply capabilities by making optimum use of the collective production capacity of Nippon Steel and its group companies and other allied companies. In equipment investments, Nippon Steel decided the installation of a hot-dip galvanizing line at the Hirohata Works and the relining of the No. 1 blast furnace and installation of a basic-oxygen furnace at the Nagoya Works. In addition, new hot-dip galvanizing lines at the Nagoya and Kimitsu Works are slated for startup in the first half of fiscal 2006 for the purpose of better meeting user needs for higher quality and at reinforcing the company's integrated production capacity. Meanwhile, in the field of commodity-grade steel products, based on the recognition that the company's first priority was to maintain and improve sales prices, Nippon Steel implemented production cutbacks, mainly of steel products for exports and steel sheets for the domestic market.

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

In the field of R&D, emphasis has been placed on providing technical solutions that will garner customer trust, in addition to strengthening international cost competitiveness, developing highly differentiated products, and committing to environmental preservation and energy conservation.

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

Sustained emphasis has been placed on strengthening Nippon Steel's alliance with other domestic and foreign steelmakers. Tie-up relations between Nippon Steel,

Sumitomo Metal Industries, Ltd., and Kobe Steel, Ltd. have yielded considerable mutual benefits—the joint use of iron- and steelmaking facilities at Sumitomo Metals, the supply of hot-rolled coils to Sumitomo Metals, the technical exchange in the field of ironmaking, and the promotion of rationalizing measures among their group companies including their integrations and restructuring. For the purpose of securing promotion and enhancement of these tie-up measures, these three companies have purchased each other's shares. In order to enjoy growing benefits from tie-up relations and secure the common interests of shareholders, they have signed a Memorandum of Understanding that ensures a process by which the three companies will cooperatively study the impact on their strategic alliance and the possibility of countermeasures in the event that an unsolicited takeover offer is made for one of the three.

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

In Nippon Steel's alliance with POSCO of Korea, notable results have been produced in R&D, technical exchanges, raw materials procurement, and many other areas. After the initial five-year term of their strategic alliance agreement, both companies have agreed to extend the term of the agreement for another five years. The alliance between Nippon Steel and Arcelor of Europe has yielded a steady stream of positive results thanks to joint R&D programs centering on automotive steel sheets. Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (a joint venture established in China by Baoshan Iron & Steel Co., Ltd. of China, Arcelor, and Nippon Steel to manufacture and sell automotive steel sheets) has started commercial operations and is expanding production as scheduled.

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

An agreement was made between Nippon Steel and Sumitomo Metals to jointly operate a business conducted by their respective subsidiaries to manufacture and sell

cast rolls for steel rolling (the new company, Nippon Steel & Sumikin Rolls Corporation, is slated for inauguration in April 2006), and a study has been initiated regarding the integration of business operations that handle structural steel sheets and road and civil engineering products. Further, Chukyo Seisen Co., Ltd., a subsidiary of Nippon Steel, and K.K. Chitac, a subsidiary of Marubeni-Itochu Steel Inc., will integrate their wire drawing businesses through a merger of both companies (the new company, Nippon Steel Tokai Steel Wire Co., Ltd., is slated for inauguration in June 2006).

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

Engineering and Construction

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

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

Consolidated sales in the engineering and construction sector in fiscal 2005 increased to ¥336.1 billion, a gain of ¥56.3 billion over the previous year (¥279.8 billion), and consolidated operating profits increased to ¥9.5 billion, a gain of ¥2.8 billion over the previous year (¥6.6 billion).

Urban Development

In the urban development sector, Top REIT Asset Management Co., Ltd., established jointly by Nippon Steel City Produce, Inc., Oji Real Estate Co., Ltd., and The Sumitomo Trust & Banking Co., Ltd., was listed on the Tokyo Stock Exchange in March 2006 as an asset management company that promotes real estate investment

trusts (J-REIT). Nippon Steel City Produce, Inc., a wholly-owned subsidiary of Nippon Steel, is promoting the “asset value restoration business”. This effort includes development projects that utilize idle company-owned land, such as the Yawata-Higashida comprehensive development project in Kitakyuushu and the Otsu area development project in Himeji, the redevelopment of underutilized urban areas, and the sale of condominiums.

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

Chemicals and Nonferrous Materials

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

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

In titanium operations, highly favorable operating results have been attained for titanium products used mainly in industrial plants and for heat exchangers used in China

and Middle Eastern nations, following the rapid increase of global demand for aviation and other industries. Strenuous efforts have been made to explore new usage of the products including automotive parts and products for private sectors.

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

System Solutions

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

Consolidated sales in the system solutions sector increased to ¥148.3 billion, a gain of ¥1.8 billion over the previous year (¥146.5 billion), and operating profits increased to ¥11.8 billion, a gain of ¥0.4 billion over the previous year (¥11.3 billion).

Other Businesses: Electric Power Supply, Services and Others

Nippon Steel supplies wholesale electricity to electric power companies from its Hirohata, Yawata, Kamaishi, Muroran, and Oita Works. In July 2005, by use of the Civil Rehabilitation Law, Nippon Steel transferred to Kamori Kanko Co., Ltd. the entire business of Space World, Inc., a consolidated Nippon Steel subsidiary that operates space-oriented training facilities, exhibition booths, and amusement facilities.

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

As a result of the foregoing, consolidated sales in fiscal 2005 came to ¥3,906.3 billion, or a gain of ¥516.9 billion over the previous year (¥3,389.3 billion). Consolidated operating profits were ¥576.3 billion, or a gain of ¥146.3 billion over the previous year (¥429.9 billion); and consolidated ordinary profits were ¥547.4 billion, or

a gain of ¥175.9 billion over the previous year (¥371.4 billion). A total special profit of ¥18.2 billion was posted, and as a result consolidated income before income taxes and minority interest and others was ¥565.6 billion, or a gain of ¥196.1 billion over the previous year (¥369.4 billion).

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

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

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

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

(consolidated payout ratio: 17.4%; non-consolidated payout ratio: 24.5%) for fiscal 2005, an increase of ¥4 per share over the previous year.

After careful deliberation, Nippon Steel decided to propose the payment of bonuses to its directors at its annual meeting of shareholders.

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

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

Consolidated liabilities at the end of fiscal 2005 increased by ¥168.5 billion from ¥2,592.1 billion at the end of the previous fiscal year to ¥2,760.7 billion, mainly resulting from a reduction of interest-bearing debts (¥58.4 billion) despite an increase in deferred tax liabilities due to an increase in latent profit of investment in securities (¥144.7 billion), an increase in accrued expenses and income taxes (¥53.0 billion).

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

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

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

securities, etc.

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

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

(2) Forecast for Fiscal 2006

The world economy has been maintaining its growth as a whole, while it is necessary to closely watch the effect that fluctuations in crude oil prices have on the world economy. The recovery of the Japanese economy is expected to continue with the support of expanding domestic demand in the private sector.

In the steelmaking and steel fabrication sector, demand for high-grade steel products in both domestic and overseas markets will continue to flourish. While it is necessary to continue to regard the effect of surplus capacity and production of commodity-grade steel products in China on the East Asian market, the commodity-grade steel market is now beginning to show some improvements.

Given such an operating environment, in the field of high-grade steel products, Nippon Steel and its group companies will continue to constantly improve product quality and production capacity through such measure as new capital outlays in response to buoyancy in demand. Meanwhile, for commodity-grade steel products, Nippon Steel remains determined to fine-tune production and shipping to accommodate emerging fluctuations in the demand environment.

In operating sectors other than steelmaking and steel fabrication, every possible effort will be made to enhance operating performance by reforming the company's consolidated management system in a manner that will best utilize the strengths peculiar to each business sector.

Nippon Steel aims to achieve the following operating performance for fiscal 2006 (April 1, 2006 to March 31, 2007).

• **Consolidated Operating Performance**

| | (Billions of yen) | | | |
|-------------------------|-------------------|------------------|-----------------|------------|
| | Net sales | Operating profit | Ordinary profit | Net income |
| Fiscal 2006 | 4,000 | 475 | 460 | 280 |
| 1st half of fiscal 2006 | 1,900 | 225 | 220 | 135 |

• **Non-Consolidated Operating Performance**

| | (Billions of yen) | | | |
|-------------------------|-------------------|------------------|-----------------|------------|
| | Net sales | Operating profit | Ordinary profit | Net income |
| Fiscal 2006 | 2,450 | 370 | 340 | 215 |
| 1st half of fiscal 2006 | 1,220 | 180 | 170 | 110 |

Nippon Steel deeply regrets 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.

(Resolution on a System to Secure Operational Fairness)

In order to be fully compliant with related laws and regulations and to secure the reliability of financial statements and the effectiveness and efficiency of operations, Nippon Steel has decided a basic policy concerning internal governance, to improve its internal governance framework and adequately implement it, while also committing itself to continual improvement in search of enhanced corporate governance.

(Decision about the Adoption of Takeover Defense Measures)

Nippon Steel decided at a meeting of the Board of Directors held on March 29, 2006, to adopt the “Fair Rules for the Acquisition of Substantial Shareholdings (Takeover Defense Measures),” which sets forth a clear path that bidders may follow when commencing a takeover proposal. The measures designated in the “Fair Rules” are designed to enable the shareholders of Nippon Steel to make an informed judgment (based on sufficient information coupled with sufficient time to consider the proposal) as to whether to accept a takeover proposal. The measures are also aimed to prevent excessive stock accumulation on a scale large enough to be detrimental to either corporate value or the common interests of the shareholders. The measures require that

a bidder provide the Board of Directors of Nippon Steel with sufficient information and with a reasonable period to consider the takeover proposal and to pursue alternatives.

If a bidder (“Bidder”) proposes to acquire 15% or more of the company’s voting shares and the Fair Rules’ requirements (for sufficient information and reasonable time to consider a proposal) are fulfilled by that proposal, the mechanism set forth by the Fair Rules provides that the registered shareholders of Nippon Steel at that point in time shall have the opportunity to directly determine whether the issuance of stock acquisition rights as a countermeasure should be implemented. Stock acquisition rights shall be issued upon the resolution of the Board only if: (i) the Bidder has not followed the procedures set forth in the Fair Rules, (ii) the Board has determined, following consultation with, and/or receipt of advice from, its outside counsel and an investment banking firm, both of international reputation, that the Bidder fits within one of the four categories that are considered harmful to corporate value by the Japanese courts concerning takeover defenses, and the Bidder’s proposal would cause an apparent damage to the common interests of the shareholders, or (iii) the shareholders have approved the issuance of the rights. Nippon Steel has already announced the Fair Rules in a notification dated March 29, 2006, entitled the “Adoption of Fair Rules for the Acquisition of Substantial Shareholdings (Takeover Defense Measures) and Shelf Registration of Stock Acquisition Rights.”

(3) Trends in Cash Flow Indicators

| Fiscal year | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|------|------|------|------|
| Ratio of shareholders’ equity (%) | 22.5 | 21.0 | 25.3 | 30.7 | 36.9 |
| Ratio of shareholders’ equity at market price (%) | 32.1 | 25.1 | 44.3 | 47.2 | 66.7 |
| Debt redemption term (years) | 9.3 | 5.6 | 5.4 | 2.4 | 3.1 |
| Interest coverage ratio (times) | 6.4 | 11.5 | 12.0 | 24.9 | 23.7 |

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, corporate 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 is used for the interest expenses.

(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 term amounted to ¥1,223.8 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 term amounted to ¥1,196.8 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 ¥503.7 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 CO₂ 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.

Financial Statements

Consolidated Financial Statements :

| | |
|------------------------------------|-----|
| Balance Sheets | 1-2 |
| Statements of Income | 3 |
| Statements of Shareholders' Equity | 4 |
| Statements of Cash-Flows | 5 |
| Segment Information | 6 |

Non-Consolidated Financial Statements :

| | |
|----------------------|-----|
| Balance Sheets | 7-8 |
| Statements of Income | 9 |

Consolidated Balance Sheets

NIPPON STEEL

As of March 31, 2006 and 2005

| ASSETS | Millions of yen | |
|---|------------------|------------------|
| | 2006 | 2005 |
| Current assets : | | |
| Cash and bank deposits | 159,923 | 127,629 |
| Notes and accounts receivable-trade | 537,014 | 414,524 |
| Marketable securities | 252 | 1,011 |
| Inventories | 644,859 | 565,915 |
| Deferred tax assets | 78,604 | 57,968 |
| Other | 98,070 | 95,859 |
| Less: Allowance for doubtful accounts | (14,116) | (5,696) |
| Total current assets | 1,504,608 | 1,257,212 |
| Fixed assets : | | |
| Tangible fixed assets : | | |
| Buildings and structures | 434,437 | 450,097 |
| Machinery and equipment | 827,081 | 834,956 |
| Land | 320,269 | 328,295 |
| Construction in progress | 72,601 | 60,983 |
| | 1,654,390 | 1,674,333 |
| Intangible fixed assets : | | |
| Patents and utility rights | 18,006 | 4,420 |
| Software | 955 | 2,817 |
| Excess of cost over the underlying net equity of investments in subsidiaries | - | 2,790 |
| | 18,961 | 10,027 |
| Investments and others : | | |
| Investments in securities, unconsolidated subsidiaries and affiliates | 1,196,837 | 748,403 |
| Deferred tax assets | 43,714 | 50,803 |
| Other | 131,607 | 142,165 |
| Less: Allowance for doubtful accounts | (7,353) | (10,834) |
| | 1,364,806 | 930,537 |
| Total fixed assets | 3,038,158 | 2,614,898 |
| Total assets | 4,542,766 | 3,872,110 |

| LIABILITIES | 2006 | Millions of yen 2005 |
|---|------------------|--------------------------------|
| Current liabilities : | | |
| Notes and accounts payable - trade | 394,105 | 384,345 |
| Short-term loans and long-term loans due within one year | 398,996 | 381,648 |
| Commercial paper | 150,000 | 70,000 |
| Bonds due within one year | 50 | 10,000 |
| Accrued expenses | 290,556 | 253,623 |
| Reserve for losses on engineering work in progress | 721 | - |
| Provision for environmental spending | 11,941 | - |
| Other | 375,000 | 355,160 |
| Total current liabilities | 1,621,372 | 1,454,777 |
| Long-term liabilities : | | |
| Bonds and notes | 281,688 | 281,450 |
| Long-term loans | 392,998 | 539,039 |
| Deferred tax liabilities | 246,578 | 99,766 |
| Accrued pension and severance costs | 122,265 | 122,398 |
| Allowance for retirement benefits directors and corporate auditors | 6,597 | 6,277 |
| Reserve for repairs to blast furnaces | 50,921 | 50,021 |
| Excess of the underlying net equity over cost of investments in subsidiaries | 526 | - |
| Other | 37,813 | 38,454 |
| Total long-term liabilities | 1,139,388 | 1,137,407 |
| Total liabilities | 2,760,760 | 2,592,185 |
| Minority interest in consolidated subsidiaries | 104,117 | 91,515 |
| SHAREHOLDERS' EQUITY | | |
| Common stock | 419,524 | 419,524 |
| Additional paid-in capital | 111,671 | 109,848 |
| Retained earnings | 818,572 | 508,393 |
| Unrealized gains on revaluation of land | 9,980 | 11,943 |
| Unrealized gains on available-for-sale securities | 389,209 | 170,322 |
| Foreign currency translation adjustments | (10,868) | (19,794) |
| Less: Treasury stock, at cost | (60,200) | (11,829) |
| Total shareholders' equity | 1,677,889 | 1,188,409 |
| Total liabilities and shareholders' equity | 4,542,766 | 3,872,110 |

Consolidated Statements of Income

NIPPON STEEL

Years ended March 31, 2006 and 2005

| | 2006 | Millions of yen 2005 |
|---|----------------|-------------------------|
| Operating revenues : | | |
| Net sales | 3,906,301 | 3,389,356 |
| Operating costs and expenses : | | |
| Cost of sales | 3,063,154 | 2,693,603 |
| Selling, general and administrative expenses | 266,828 | 265,805 |
| | 3,329,982 | 2,959,408 |
| Operating profit | 576,319 | 429,948 |
| Non-operating profit and loss : | | |
| Non-operating profit : | | |
| Interest and dividend income | 14,512 | 9,336 |
| Equity in net income of unconsolidated subsidiaries and affiliates | 28,227 | 22,931 |
| Miscellaneous | 25,945 | 13,942 |
| | 68,685 | 46,210 |
| Non-operating loss : | | |
| Interest expenses | 15,787 | 20,278 |
| Miscellaneous | 81,817 | 84,432 |
| | 97,604 | 104,711 |
| Ordinary profit | 547,400 | 371,446 |
| Special profit and loss : | | |
| Special profit : | | |
| Gain on sales of tangible fixed assets | 14,881 | 4,294 |
| Gain on sales of investments in securities and investments in subsidiaries and affiliates | 3,325 | 5,030 |
| | 18,207 | 9,324 |
| Special loss : | | |
| Amortization of transition obligation in respect of the new accounting standard for retirement benefits | - | 4,295 |
| Loss on accidents at works | - | 3,066 |
| Loss on restructuring of subsidiary's business structures | - | 3,923 |
| | - | 11,285 |
| Income before income taxes and minority interest | 565,607 | 369,485 |
| Income taxes - current | 223,254 | 155,082 |
| Income taxes - deferred | (17,061) | (17,869) |
| Minority interest in net income (loss) of consolidated subsidiaries | 15,510 | 11,671 |
| Net income | 343,903 | 220,601 |

Consolidated Statements of Shareholders' Equity

NIPPON STEEL

Years ended March 31, 2006 and 2005

Millions of yen

| | Common stock | Additional paid-in capital | Retained earnings |
|--|-----------------|----------------------------------|----------------------|
| Balance at March 31, 2004 | 419,524 | 105,850 | 298,734 |
| Net income for the year ended March 31, 2005 | - | - | 220,601 |
| Decrease due to the change in the number of consolidated companies | - | - | (870) |
| Cash dividends | - | - | (10,141) |
| Directors' and corporate auditors' bonuses | - | - | (37) |
| Increase due to reversal of unrealized gains on revaluation of land | - | - | 107 |
| Increase due to disposal of treasury stock | - | 3,998 | - |
| Balance at March 31, 2005 | 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 | 419,524 | 111,671 | 818,572 |

Consolidated Statements of Cash-Flows

NIPPON STEEL

Years ended March 31, 2006 and 2005

| | Millions of yen | |
|--|------------------|------------------|
| | 2006 | 2005 |
| Cash flows from operating activities : | | |
| Income before income taxes and minority interest | 565,607 | 369,485 |
| Adjustments to reconcile net income to net cash provided by operating activities : | | |
| Depreciation and amortization | 183,365 | 180,571 |
| Interest and dividend income (accrual basis) | (14,512) | (9,609) |
| Interest expense (accrual basis) | 15,787 | 20,244 |
| Exchange losses (gains) on foreign currency transactions | (4,504) | (1,006) |
| Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates | 913 | 2,512 |
| Equity in net (income) loss of unconsolidated subsidiaries and affiliates | (28,227) | (22,931) |
| Loss (gain) on sales of investments in securities new accounting standard for retirement benefits | (3,335) | (5,004) |
| | - | 4,295 |
| Loss on restructuring of subsidiary's business structures | - | 4,143 |
| Loss on disposal of tangible and intangible fixed assets | 9,866 | 17,524 |
| Gain on sales of tangible and intangible fixed assets | (13,998) | (3,769) |
| Changes in allowance for doubtful accounts | 5,302 | 6,129 |
| Changes in notes and accounts receivable-trade | (131,251) | 9,181 |
| Changes in inventories | (79,617) | (38,722) |
| Changes in notes and accounts payable-trade | 15,650 | 38,436 |
| Other | 82,505 | 49,501 |
| Interest and dividend income (cash basis) | 17,804 | 10,868 |
| Interest expense (cash basis) | (16,596) | (21,696) |
| Income taxes (cash basis) | (211,760) | (70,708) |
| Net cash provided by operating activities | 392,996 | 539,445 |
| Cash flows from investing activities : | | |
| Acquisition of investments in securities | (47,106) | (29,559) |
| Proceeds from sales of investments in securities | 9,709 | 20,622 |
| Acquisition of tangible and intangible fixed assets | (201,462) | (189,260) |
| Proceeds from sales of tangible and intangible fixed assets | 12,875 | 12,699 |
| Other | (909) | 10,502 |
| Net cash used in investing activities | (226,894) | (174,995) |
| Cash flows from financing activities : | | |
| Net increase (decrease) in short-term loans | 10,241 | (114,972) |
| Net increase (decrease) in commercial paper | 80,000 | 39,000 |
| Proceeds from long-term loans | 60,612 | 74,409 |
| Payments of long-term loans | (190,088) | (87,119) |
| Proceeds from issuance of bonds and notes | - | 34,836 |
| Redemption of bonds and notes | (10,000) | (238,729) |
| Payments for purchase of treasury stock | (50,166) | (16,213) |
| Cash dividends | (33,752) | (10,141) |
| Other | (2,956) | (2,472) |
| Net cash used in financing activities | (136,110) | (321,402) |
| Effect of exchange rate changes on cash and cash equivalents | 3,845 | 1,032 |
| Net increase (decrease) in cash and cash equivalents | 33,837 | 44,079 |
| Cash and cash equivalents at beginning of the year | 124,511 | 80,393 |
| Increase (decrease) from the change in the number of companies consolidated | (1,634) | 38 |
| Cash and cash equivalents at the end of period (year) | 156,713 | 124,511 |

Consolidated Segment Information

NIPPON STEEL

Years ended March 31, 2006 and 2005

| | 2006 | Millions of yen 2005 |
|--|------------------|-------------------------|
| Sales | | |
| Steelmaking and steel fabrication | | |
| Customers | 3,025,896 | 2,592,476 |
| Intersegment | 31,614 | 28,256 |
| Total Sales | 3,057,510 | 2,620,732 |
| Engineering and construction | | |
| Customers | 297,791 | 239,369 |
| Intersegment | 38,387 | 40,496 |
| Total Sales | 336,179 | 279,866 |
| Urban development | | |
| Customers | 98,149 | 83,669 |
| Intersegment | 5,895 | 5,606 |
| Total Sales | 104,045 | 89,275 |
| Chemicals and nonferrous materials | | |
| Customers | 298,309 | 282,399 |
| Intersegment | 74,763 | 48,768 |
| Total Sales | 373,072 | 331,168 |
| System solutions | | |
| Customers | 122,049 | 121,641 |
| Intersegment | 26,290 | 24,889 |
| Total Sales | 148,339 | 146,531 |
| Other businesses | | |
| Customers | 64,105 | 69,800 |
| Intersegment | 4,952 | 6,444 |
| Total Sales | 69,057 | 76,244 |
| Elimination of intersegment transactions | (181,903) | (154,463) |
| Consolidated total | 3,906,301 | 3,389,356 |
| Operating profit (loss) | | |
| Steelmaking and steel fabrication | 513,977 | 376,926 |
| Engineering and construction | 9,517 | 6,696 |
| Urban development | 14,155 | 8,503 |
| Chemicals and nonferrous materials | 27,037 | 26,374 |
| System solutions | 11,806 | 11,384 |
| Other businesses | (1,185) | 384 |
| Elimination of intersegment transactions | 1,010 | (321) |
| Consolidated total | 576,319 | 429,948 |

Non-Consolidated Balance Sheets

Nippon Steel Corporation

As of March 31, 2006 and 2005

| ASSETS | Millions of yen | |
|---------------------------------------|------------------|------------------|
| | 2006 | 2005 |
| Current assets : | | |
| Cash and bank deposits | 90,655 | 73,150 |
| Notes and accounts receivable-trade | 295,340 | 177,085 |
| Inventories | 404,922 | 349,481 |
| Deferred tax assets | 50,500 | 31,700 |
| Other | 114,551 | 102,329 |
| Less: Allowance for doubtful accounts | (16,626) | (5,742) |
| Total current assets | 939,344 | 728,005 |
| Fixed assets : | | |
| Tangible fixed assets : | | |
| Buildings and structures | 267,968 | 274,254 |
| Machinery and equipment | 616,596 | 609,224 |
| Land | 195,486 | 201,940 |
| Construction in progress | 64,839 | 52,092 |
| | 1,144,891 | 1,137,512 |
| Intangible fixed assets : | | |
| Patents and utility rights | 998 | 1,214 |
| Software | 304 | 279 |
| Intangible fixed assets : | 1,303 | 1,494 |
| Investments and others : | | |
| Investments in securities | 1,264,763 | 844,426 |
| Other | 100,377 | 110,748 |
| Less: Allowance for doubtful accounts | (4,121) | (2,196) |
| | 1,361,019 | 952,978 |
| Total fixed assets | 2,507,214 | 2,091,985 |
| Total assets | 3,446,558 | 2,819,991 |

| LIABILITIES | Millions of yen | |
|---|------------------|------------------|
| | 2006 | 2005 |
| Current liabilities : | | |
| Notes and accounts payable - trade | 198,870 | 183,403 |
| Short-term loans and long-term loans due within one year | 263,264 | 155,279 |
| Commercial paper | 150,000 | 70,000 |
| Bonds due within one year | - | 10,000 |
| Accrued expenses | 286,404 | 252,401 |
| Reserve for losses on engineering work in progress | 286 | - |
| Provision for environmental spending | 11,638 | - |
| Other | 232,781 | 207,848 |
| Total current liabilities | 1,143,245 | 878,934 |
| Long-term liabilities : | | |
| Bonds and notes | 265,000 | 265,000 |
| Long-term loans | 281,851 | 409,090 |
| Deferred tax liabilities | 237,300 | 85,400 |
| Accrued pension and severance costs | 65,197 | 62,985 |
| Allowance for retirement benefits directors and corporate auditors | 2,780 | 3,022 |
| Reserve for repairs to blast furnaces | 49,011 | 48,398 |
| Provision for loss on guarantees | - | 40,792 |
| Other | 10,185 | 7,182 |
| Total long-term liabilities | 911,326 | 921,870 |
| Total liabilities | 2,054,572 | 1,800,805 |
| SHAREHOLDERS' EQUITY | | |
| Common stock | 419,524 | 419,524 |
| Capital surplus | 111,556 | 109,811 |
| Retained earnings : | | |
| Special tax-purpose reserve | 86,953 | 90,268 |
| Voluntary reserves | 160,000 | 75,000 |
| Unappropriated retained earnings | 308,288 | 179,691 |
| | 555,241 | 344,960 |
| Unrealized gains on available-for-sale securities | 364,252 | 155,471 |
| Less: Treasury stock, at cost | (58,589) | (10,583) |
| Total shareholders' equity | 1,391,985 | 1,019,186 |
| Total liabilities and shareholders' equity | 3,446,558 | 2,819,991 |

Non-Consolidated Statements of Income

Nippon Steel Corporation

Years ended March 31, 2006 and 2005

| | 2006 | Millions of yen 2005 |
|--|----------------|-------------------------|
| Operating revenues : | | |
| Net sales | 2,591,388 | 2,147,863 |
| Operating costs and expenses : | | |
| Cost of sales | 1,971,069 | 1,671,098 |
| Selling, general and administrative expenses | 186,386 | 172,877 |
| | 2,157,455 | 1,843,976 |
| Operating profit | 433,933 | 303,886 |
| Non-operating profit and loss : | | |
| Non-operating profit : | | |
| Interest and dividend income | 17,722 | 10,812 |
| Miscellaneous | 16,756 | 8,495 |
| | 34,479 | 19,307 |
| Non-operating loss : | | |
| Interest expenses | 11,497 | 14,739 |
| Miscellaneous | 68,174 | 60,628 |
| | 79,671 | 75,368 |
| Ordinary profit | 388,740 | 247,826 |
| Special profit and loss : | | |
| Special profit : | | |
| Gain on sales of tangible fixed assets | 10,295 | 2,494 |
| Gain on sales of investments in securities and investments in subsidiaries and affiliates | 2,997 | 2,670 |
| | 13,293 | 5,164 |
| Special loss : | | |
| Loss on accidents at works | - | 3,066 |
| | - | 3,066 |
| Income before income taxes | 402,034 | 249,924 |
| Income taxes - current | 166,600 | 114,300 |
| Income taxes - deferred | (8,600) | (10,200) |
| Net income | 244,034 | 145,824 |

Recent Quarterly Operating Results

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

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

| | | | | | | | Fiscal 2005 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|
| | 1st quarter | 2nd quarter | 1st half | 3rd quarter | 4th quarter | 2nd half | |
| | Apr.-June 2005 | July-Sept. 2005 | Apr.-Sept. 2005 | Oct.-Dec. 2005 | Jan.-Mar. 2006 | Oct. 2005-Mar. 2006 | |
| | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million | ¥million |
| Sales | 904,771 | 958,633 | 1,863,404 | 952,701 | 1,090,195 | 2,042,896 | 3,906,301 |
| Steelmaking and steel fabrication | 738,231 | 770,874 | 1,509,105 | 762,259 | 786,145 | 1,548,405 | 3,057,510 |
| Engineering and construction | 57,283 | 70,515 | 127,799 | 71,918 | 136,461 | 208,379 | 336,179 |
| Urban development | 21,134 | 17,383 | 38,516 | 15,711 | 49,816 | 65,528 | 104,045 |
| Chemicals and nonferrous materials | 86,500 | 93,581 | 180,081 | 97,160 | 95,831 | 192,991 | 373,072 |
| System solutions | 27,202 | 37,583 | 64,786 | 30,479 | 53,074 | 83,553 | 148,339 |
| Other businesses | 17,194 | 15,875 | 33,069 | 17,606 | 18,381 | 35,988 | 69,057 |
| Elimination of intersegment transactions | (42,776) | (47,177) | (89,953) | (42,435) | (49,514) | (91,950) | (181,903) |
| Operating profits | 146,091 [16.1%] | 155,225 [16.2%] | 301,316 [16.2%] | 123,138 [12.9%] | 151,864 [13.9%] | 275,002 [13.5%] | 576,319 [14.8%] |
| Steelmaking and steel fabrication | 137,347 [18.6%] | 145,133 [18.8%] | 282,480 [18.7%] | 108,970 [14.3%] | 122,526 [15.6%] | 231,496 [15.0%] | 513,977 [16.8%] |
| Engineering and construction | ▲ 1,481 [▲2.6%] | ▲ 1,001 [▲1.4%] | ▲ 2,483 [▲1.9%] | 2,365 [3.3%] | 9,635 [7.1%] | 12,000 [5.8%] | 9,517 [2.8%] |
| Urban development | 3,538 [16.7%] | 987 [5.7%] | 4,525 [11.7%] | 1,881 [12.0%] | 7,748 [15.6%] | 9,629 [14.7%] | 14,155 [13.6%] |
| Chemicals and nonferrous materials | 6,165 [7.1%] | 5,520 [5.9%] | 11,686 [6.5%] | 8,218 [8.5%] | 7,132 [7.4%] | 15,350 [8.0%] | 27,037 [7.2%] |
| System solutions | 1,686 [6.2%] | 2,998 [8.0%] | 4,683 [7.2%] | 2,025 [6.6%] | 5,096 [9.6%] | 7,122 [8.5%] | 11,806 [8.0%] |
| Other businesses | ▲ 104 [▲0.6%] | 313 [2.0%] | 208 [0.6%] | ▲ 347 [▲2.0%] | ▲ 1,046 [▲5.7%] | ▲ 1,394 [▲3.9%] | ▲ 1,185 [▲1.7%] |
| Elimination of intersegment transactions | (1,060) | (▲ 1,275) | (▲ 214) | (▲ 25) | (▲ 771) | (▲ 796) | (▲ 1,010) |
| Ordinary profits | 153,139 [16.9%] | 141,343 [14.7%] | 294,482 [15.8%] | 122,294 [12.8%] | 130,622 [12.0%] | 252,917 [12.4%] | 547,400 [14.0%] |
| Net income | 91,612 [10.1%] | 104,073 [10.9%] | 195,685 [10.5%] | 74,422 [7.8%] | 73,795 [6.8%] | 148,217 [7.3%] | 343,903 [8.8%] |
| Net income per share | ¥ 13.59 | ¥ 15.43 | ¥ 29.02 | ¥ 11.03 | ¥ 11.03 | ¥ 22.06 | ¥ 51.08 |

| | | | | | | | Fiscal 2004 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|
| | 1st quarter | 2nd quarter | 1st half | 3rd quarter | 4th quarter | 2nd half | |
| | Apr.-June 2004 | July-Sept. 2004 | Apr.-Sept. 2004 | Oct.-Dec. 2004 | Jan.-Mar. 2005 | Oct. 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 |

[] : 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

Contact: Tatsuro Shirasu, General Manager, Public Relations Center-Tel: 81-3-3275-5014

Supplementary Information on the Financial Result for Fiscal 2005

Japanese Steel Industry

1. Crude Steel Production

(millions of tons)

| | 1st half | | 2nd half | | total |
|--------|-------------|-------------|-------------|-------------|--------|
| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | |
| 2004FY | 28.22 | 28.16 | 56.38 | 56.51 | 112.89 |
| 2005FY | 28.96 | 27.83 | 56.80 | 55.91 | 112.71 |

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 |
| 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 | 5.73 | 111.8 | 4.58 | 0.231 |
| Oct. 2005 | 5.79 | 111.7 | 4.56 | 0.231 |
| Nov. 2005 | 5.59 | 108.4 | 4.43 | 0.231 |
| Dec. 2005 | 5.55 | 117.3 | 4.26 | 0.246 |
| Jan. 2006 | 5.70 | 117.6 | 4.45 | 0.268 |
| Feb. 2006 | 5.57 | 117.9 | 4.36 | 0.280 |

*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 | | 2nd half | | total |
|--------|-------------|-------------|-------------|-------------|-------|
| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | |
| 2004FY | 7.00 | 7.66 | 7.66 | 7.75 | 15.41 |
| 2005FY | 7.88 | 7.93 | 7.90 | 7.61 | 15.52 |

4. Crude Steel Production

(Consolidated basis)

(millions of tons)

| | 1st half | | 2nd half | | total |
|--------|-------------|-------------|-------------|-------------|-------|
| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | |
| 2004FY | 7.78 | 8.30 | 8.34 | 8.37 | 16.71 |
| 2005FY | 8.56 | 8.52 | 8.34 | 8.54 | 16.88 |

(Non-consolidated basis)

(millions of tons)

| | 1st half | | 2nd half | | total |
|--------|-------------|-------------|-------------|-------------|-------|
| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | |
| 2004FY | 7.04 | 7.57 | 7.61 | 7.66 | 15.27 |
| 2005FY | 7.85 | 7.88 | 7.62 | 7.85 | 15.47 |

5. Steel Products Shipment

(millions of tons)

| | 1st half | | 2nd half | | total |
|--------|-------------|-------------|-------------|-------------|-------|
| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | |
| 2004FY | 6.94 | 7.36 | 7.41 | 7.81 | 15.22 |
| 2005FY | 7.43 | 7.33 | 7.17 | 7.67 | 14.84 |

6. Average Price of Steel Products

(thousands of yen / ton)

| | 1st half | | 2nd half | | total |
|--------|-------------|-------------|-------------|-------------|-------|
| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | |
| 2004FY | 55.9 | 60.1 | 63.0 | 66.6 | 64.9 |
| 2005FY | 70.8 | (*) 76.0 | 75.6 | 74.7 | 75.2 |

(*) 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)

(%)

| | 2005 FY | | 2004 FY | | 2003 FY | | total |
|--------|-------------|-------------|----------|-------------|-------------|----------|-------|
| | 1st quarter | 2nd quarter | 1st half | 3rd quarter | 4th quarter | 2nd half | |
| 2004FY | 29.8 | 32.3 | 31.1 | 31.0 | 33.0 | 32.1 | 31.6 |
| 2005FY | 32.2 | 31.1 | 31.6 | 29.8 | 30.5 | 30.1 | 30.9 |

8. Foreign Exchange Rate

(¥/US\$)

| | 2005 FY | | 2004 FY | | 2003 FY | | total |
|--------|-------------|-------------|----------|-------------|-------------|----------|-------|
| | 1st quarter | 2nd quarter | 1st half | 3rd quarter | 4th quarter | 2nd half | |
| 2004FY | 109 | 110 | 109 | 107 | 104 | 106 | 107 |
| 2005FY | 107 | 112 | 109 | 116 | 117 | 117 | 113 |

9. Unrealized Gains on Available-for-Sale Securities

(billion yen)

| | 2005 FY | 1st half of 2005 FY | 2004 FY |
|------------------|---------------|---------------------|---------------|
| Consolidated | 652.8 (389.1) | 467.4 (278.6) | 285.7 (170.3) |
| Non-consolidated | 611.2 (364.2) | 435.1 (259.3) | 260.7 (155.4) |
| | 【Nikkei 225】 | 【17,060 yen】 | 【13,574 yen】 |
| | | | 【11,669 yen】 |

* Figures in parentheses were after adopting deferred tax accounting.

10. Amount of Capital Expenditure and Depreciation

•Capital Expenditure (billion yen)

| | 2006 FY (estimated) | 2005 FY |
|------------------|---------------------|---------|
| Consolidated | 270.0 | 205.0 |
| Non-consolidated | 210.0 | 165.0 |

•Depreciation (billion yen)

| | 2006 FY (estimated) | 2005 FY |
|------------------|---------------------|---------|
| Consolidated | 195.0 | 183.3 |
| Non-consolidated | 140.0 | 130.6 |

11. Special Profit and Losses (Consolidated basis)

(billion yen)

| | 2005 FY | 2004 FY |
|--|---------|---------|
| Gain on sales of fixed assets | 14.9 | 4.2 |
| Gain on sales of investments in securities | 3.3 | 5.0 |
| Amortization of transition obligation in respect of new accounting standard for retirement benefit | - | ▲ 4.2 |
| Loss on accidents | - | ▲ 3.0 |
| Loss on restructuring of subsidiary's business structures | - | ▲ 3.9 |
| Special Profit and loss | 18.1 | ▲ 1.9 |