

Financial Results for the First Half of Fiscal 2006

(April 1, 2006 to September 30, 2006)

Nippon Steel Corporation

October 26, 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 to 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. 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.

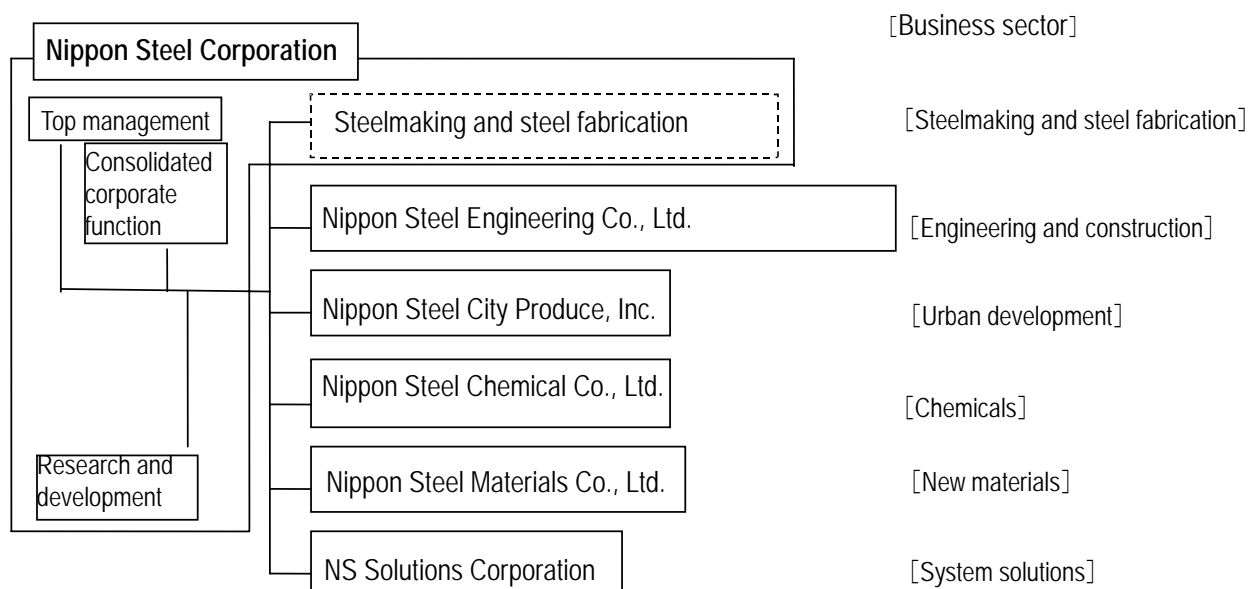
By so doing, the company intends to enable the respective subsidiaries to implement highly responsive and flexible management adapted to the characteristics

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	Results for FY 2005*
Sales	Approx. 4,200	4,000
Operating profits	500 or more	460
Ratio of ordinary profit to sales	12%	12%
Net income	300 or more	270
Earning per share	¥44 or more	¥40
Balance of interest-bearing debts	1,000 or less	1,223.8
Debt/equity ratio	0.5 or less	0.73

*Results for fiscal 2005, disregarding the effects of extraordinary factors

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 Plan (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 First Half of Fiscal 2006

In a general environment of worldwide economic expansion, the Japanese economy in the first half of fiscal 2006 (April 1 to September 30, 2006) continued on path of steady recovery. Favorable operating results posted by commercial companies, such as improvements in corporate profitability and expanded private investment in equipment, are affecting the household economy. Similarly, business activity continued to recover due mainly to steady demand in the domestic private sector.

In the steelmaking and steel fabrication sector, a core operating field of the Nippon Steel Group, the worldwide supply and demand situation remained tight in the field of high-grade steel products destined mainly for such manufacturing industries as automobiles and shipbuilding. Meanwhile, the supply and demand situation for commodity-grade steel products remained comparatively firm, absorbing the increased production in China into the steady demand in the US and other nations.

Crude steel production in the first of fiscal 2006 in Japan grew by 1.26 million tons over the corresponding period of the previous year to 58.06 million tons.

The Nippon Steel Group has started a new Medium-Term Consolidated Business Plan (fiscal 2006 to fiscal 2008). Pursuant to this plan, the competitiveness of each business sector within the Nippon Steel Group will be redressed, with an eye towards profit growth, by enhancing the group's technological edges, and by improving and reinforcing the consolidated management system. The group is making every effort to implement numerous measures targeted for the initial year of the Plan.

In July 2006, the engineering and construction sector and the new materials sector were spun-off as two newly inaugurated companies: Nippon Steel Engineering Co., Ltd. and Nippon Steel Materials Co., Ltd. With this step, Nippon Steel has established a new consolidated business promotion system composed of six business sectors (steelmaking and steel fabrication, engineering and construction, urban development, chemicals, new materials, and system solutions) with steelmaking and steel fabrication as a key operating sector under the control of Nippon Steel as a holding company, which assumes charge of steelmaking and steel fabrication. While sharing common brand values and group strategies, these six business sectors will conduct

parallel yet independent business operations to pursue higher earnings.

An overview of the consolidated operating performance of each business sector in the first half of fiscal 2006 follows.

Consolidated Operating Performance by Business Sector

(Billions of yen)

Business sector	Net Sales		Operating profit (loss)	
	First half of FY2006	First half of FY2005*	First half of FY2006	First half of FY2005*
Steelmaking and steel fabrication	1,618.4	1,549.8	241.9	284.4
Engineering and construction	159.3	127.7	1.2	(2.4)
Urban development	32.8	38.5	4.3	4.1
Chemicals	158.0	146.8	11.1	8.5
New materials	31.8	24.3	1.8	1.5
System solutions	70.1	64.7	5.1	4.6
Total	2,070.6	1,952.1	265.5	300.8
Elimination of intersegment transactions	(87.2)	(88.7)	0.8	0.4
Consolidated total	1,983.4	1,863.4	266.3	301.3

*First half of fiscal 2005: Results obtained after change in business sectors

- 1) “Chemicals” and “new materials,” which were included in the chemicals and nonferrous materials sector, are now positioned as independent businesses, and “titanium and aluminum operations,” which were part of the chemicals and nonferrous materials sector, have been transferred to “steelmaking and steel fabrication.”
- 2) “Other businesses” (electric power supply, services, and others) has been transferred to “steelmaking and steel fabrication.”

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 cost-cutting efforts were made to absorb the rise in costs. At the same time, while Nippon Steel’s first priority was to maintain and improve the sales prices of its products, the company conducted production and shipping operations in a manner that would adequately meet emerging trends in the steel product market.

In order to meet robust demand for high-grade steel products, Nippon Steel strived to reinforce production capacity and improve product quality by making the most of new hot-dip galvanizing lines installed at the Kimitsu and Nagoya Works, and by making optimum use of the collective production capacity of Nippon Steel, its group

companies, and other allied companies. In addition, the company promoted concerted efforts by the production, marketing, technology, and research departments to accurately assess and meet robust customer demand for high-grade steel products.

Meanwhile, in the field of commodity-grade steel products, Nippon Steel took the cautious measure of reducing production, mainly of flat products for the domestic market, in the first quarter of fiscal 2006. This step took into account fluctuations in open market inventories while also ascertaining the level of practical demand.

Both the scope and depth of tie-up relations between Nippon Steel, Sumitomo Metal Industries, Ltd., and Kobe Steel, Ltd. have further been enhanced, thereby yielding considerable mutual benefits—the joint use of iron- and steelmaking facilities of Sumitomo Metals, the supply of hot-rolled coils to Sumitomo Metals, the promotion of cooperative measures of their group companies, and the technical exchange in the ironmaking field. In Nippon Steel's alliance with POSCO of Korea, notable results have already been produced in R&D, technical exchanges, raw material procurement, and many other fields. In October 2006, Nippon Steel and POSCO of Korea agreed to enhance their strategic alliance through such measures as the mutual supply of steel slabs in compliance with relining of blast furnaces of both companies, and collaboration on dry-dust recycling. Further, in order to push cooperative measures forward vigorously and resolutely, they also agreed to make additional cross-purchases of each company's shares. Specifically, Nippon Steel will additionally purchase about 2% of the total shares issued by POSCO, and POSCO will likewise make an additional purchase of Nippon Steel shares having substantially the same value. In addition, sustained emphasis has been placed on strengthening Nippon Steel's alliance with other domestic and foreign steelmakers, including Sanyo Special Steel Co., Ltd., which has become a Nippon Steel affiliate accounted for by the equity method.

By means of the selection and concentration of businesses, Nippon Steel continued to further consolidate its management and more effectively utilize the management resources of all group companies. Operations of the group company Nippon Steel Logistics Co., Ltd., a Nippon Steel consolidated subsidiary, were reorganized. Agreement was reached between Nippon Steel and Sumitomo Metal Industries, Ltd. to jointly operate a business to manufacture and sell cast rolls for steel rolling (the new company, Nippon Steel and Sumikin Rolls Corporation, was inaugurated in April 2006), and to integrate businesses that handle structural steel sheets

and civil engineering products.

At a time when the titanium market became increasingly tight due to the rapidly growing demand for fuel-efficient airplanes and a demand rise in the energy industry, the titanium business has remained quite firm—buttressed by the development of new applications that take advantage of excellent properties peculiar to titanium, such as the material for digital camera body, in addition to further advances in demand in main application fields such as automobiles and heat exchangers.

Consolidated sales in the steelmaking and steel fabrication sector in the first half of fiscal 2006 increased by ¥68.6 billion over the corresponding period of the previous year (¥1,549.8 billion) to ¥1,618.4 billion, but consolidated operating profits decreased by ¥42.5 billion from the corresponding period of the previous year (¥284.4 billion) to ¥241.9 billion. The decrease in operating profits was due to temporary rally from the effects of extraordinary factors (a main cause attributable to a decline in profits of ¥60.0 billion due to the difference in inventory appraisal and the carry-over of raw materials) in the corresponding period of the previous year; consequently, in substantial terms excluding the effects of extraordinary factors, consolidated operating profits increased in the first half of fiscal 2006.

Engineering and Construction

In the engineering and construction sector, Nippon Steel Engineering Co., Ltd. successfully secured a record-high backlog of orders. At the same time, the company moved to improve profitability through sales expansion and profit improvement of respective projects. In the domestic market, stepped-up efforts are being made to promote customer-based solutions projects centered on the marketing of waste treatment facilities by means of the private finance initiative (PFI) approach and the construction of iron- and steelmaking plants and logistics facilities. Overseas, the company is making sustained efforts to win energy development-related projects in Southeast Asia where demand for these projects is robust.

Consolidated sales in the engineering and construction sector in the first half of fiscal 2006 increased to ¥159.3 billion, a gain of ¥31.5 billion over the corresponding period of the previous year (¥127.7 billion), and consolidated operating profits increased to ¥1.2 billion, a gain of ¥3.7 billion over the corresponding period of the previous year (loss of ¥2.4 billion).

Urban Development

In the urban development sector, operations of Nippon Steel City Produce, Inc., centered on condominium sales in the Tokyo metropolitan area, are steady and have surpassed planned profit goals. Nippon Steel City Produce is promoting “asset value restoration business.” This effort includes the redevelopment of underutilized urban areas in addition to development projects that utilize idle company-owned land, such as the Yawata-Higashida comprehensive development project in Kitakyushu, the Hanada development project in Sakai, and the Otsu/Kyomi area development project in Himeji.

Consolidated sales in the urban development sector in the first half of fiscal 2006 decreased by ¥5.6 billion to ¥32.8 billion, from the corresponding period of the previous year (¥38.5 billion), but consolidated operating profits amounted to ¥4.3 billion, nearly the same level as that in the corresponding period of the previous year (¥4.1 billion).

Chemicals

In the chemicals sector, Nippon Steel Chemical Co., Ltd. and its group companies are primarily promoting diverse operations in the fields of chemicals, coal chemicals, and electronic materials. While raw material costs rose due to soaring crude oil and naphtha prices, the company moved to improve sales prices to meet the rising costs, and thus progress was favorable in the field of both chemicals and coal chemicals operations. In the field of electronic materials, demand still continues to expand in spite of growing competition among companies. As a result, chemicals operations as a whole showed steady results and surpassed planned profit goals.

Consolidated sales in the chemicals sector in the first half of fiscal 2006 increased to ¥158.0 billion, a gain of ¥11.1 billion over the corresponding period of the previous year (¥146.8 billion), and consolidated operating profits increased to ¥11.1 billion, a gain of ¥2.5 billion over the corresponding period of the previous year (¥8.5 billion).

New Materials

In the new materials sector, operations are spearheaded by Nippon Steel Materials Co., Ltd., which is showing stable expansion in its IT-related business, one of the company’s major markets. Because of this, steady operating results have been

attained in the fields of metal foils for hard-disc drive suspensions, semiconductor packaging materials (gold bonding wire, micro-solder-balls, and spherical filler powders for sealing), and fine ceramics. In June 2006, Nippon Steel Materials established a new company to manufacture and sell polycrystalline silicon for use in solar cells, a product area that is clearly growing in demand, and started construction of its plant.

Consolidated sales in the new materials sector in the first half of fiscal 2006 increased to ¥31.8 billion, a gain of ¥7.4 billion over the corresponding period of the previous year (¥24.3 billion), and consolidated operating profits increased to ¥1.8 billion, a gain of ¥0.2 billion over the corresponding period of the previous year (¥1.5 billion).

System Solutions

In the system solutions sector, NS Solutions Corporation is promoting business growth by means of its core area of operation, system life-cycle total solutions—i.e., comprehensive solutions that integrate services ranging from system planning and structuring to system operations and maintenance. Operations centered on business solutions in the financial area show steady results. Further, the company has strived to strengthen its IT service business by commencing “survey organization services” for legal public notices on the website by companies and by bringing a new data center into full-scale operation.

Consolidated sales in the system solutions sector in the first half of fiscal 2006 increased to ¥70.1 billion, a gain of ¥5.3 billion over the corresponding period of the previous year (¥64.7 billion), and consolidated operating profits increased to ¥5.1 billion, a gain of ¥0.4 billion over the corresponding period of the previous year (¥4.6 billion).

As a result of the foregoing, consolidated sales in the first half of fiscal 2006 came to ¥1,983.4 billion, a gain of ¥120.0 billion over the corresponding period of the previous year (¥1,863.4 billion). Consolidated operating profits were ¥266.3 billion, a decrease of ¥34.9 billion from the corresponding period of the previous year (¥301.3 billion), and consolidated ordinary profits were ¥268.9 billion, a decrease of ¥25.5 billion from the corresponding period of the previous year (¥294.4 billion). However, both operating profits and ordinary profits increased in substantial terms excluding the temporary rally from the effects of extraordinary factors (a main cause contributable to

a decline in profits of ¥60.0 billion) in the first half of the previous year in the steelmaking steel fabrication sector. A total special profit of ¥18.5 billion was posted, and as a result, consolidated net income before income taxes and others for the first half of fiscal 2006 was ¥287.4 billion (¥302.5 billion in the corresponding period of the previous year).

After subtracting ¥101.7 billion as income tax-current, subtracting ¥15.0 billion as income tax-deferred, and subtracting ¥6.6 billion as minority interest in the net income of the consolidated subsidiaries, net income for the first half of fiscal 2006 was ¥164.1 billion (¥195.6 billion for the corresponding period of the previous year).

As for non-consolidated operations, sales for the first half of fiscal 2006 advanced to ¥1,252.7 billion, an increase of ¥7.2 billion over the corresponding period of the previous year (¥1,245.4 billion); operating profits came to ¥199.2 billion (¥236.3 billion in the corresponding period of the previous year); and ordinary profits came to ¥196.4 billion (¥220.0 billion in the corresponding period of the previous year). As a result of posting a total special profit of ¥13.8 billion, non-consolidated net income before income taxes and others for the first half of fiscal 2006 was ¥210.2 billion (¥228.1 billion in the corresponding period of the previous year), and non-consolidated net income was ¥127.2 billion (¥142.1 billion in the corresponding period of the previous year).

Acquisition of Treasury Stocks

At the meeting of the Board of Directors held on July 4, 2006, Nippon Steel decided to acquire its own stocks in accordance with the provisions of Article 459, paragraph 1, of the Japanese Corporate Law and as required by the Articles of Incorporation; the company subsequently purchased about 226.51 million stocks at approximately ¥100 billion during the period from July 5 to July 26, 2006.

Raising of Funds

Under a policy to implement the flexible investment activities to improve profit growth, which is targeted in the new Medium-Term Consolidated Business Plan, compatible with the maintenance and improvement of a sound financial structure, Nippon Steel decided to issue ¥300 billion in convertible bonds that are regarded by the major rating agents as having a high equity credit in October, 2006.

Payment of Interim-term Dividend

Based on its publicly released profit distribution policy and on operating results for the first half of fiscal 2006 and on forecast of operating results for all of fiscal 2006, Nippon Steel has decided, at the meeting of the Board of Directors held on October 26, 2006, to pay an interim-term dividend of ¥4 per share.

Nippon Steel's policy is in principle to distribute profits consistent with the consolidated operating results of each fiscal year, taking into account various factors such as the capital requirements for investment and other activities aimed at raising corporate value, the prospects for future operating results and other relevant factors, and by endeavoring to further reinforce the company's financial structure. Declaration of dividends for the fiscal year will be determined based on this policy at the end of fiscal 2006.

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 is to improve the corporate financial structure, a target of approximately 15-20% is in effect for the consolidated payout ratio (a non-consolidated payout ratio at approximately 20~30%), which is slightly lower than the above level.

Assets, Liabilities, Shareholders' Equity and Cash Flows at the End of First Half of Fiscal 2006

Consolidated assets at the end of the first half of fiscal 2006 increased by ¥48.5 billion from ¥4,542.7 billion posted at the end of the previous year to ¥4,591.3 billion. This resulted mainly from an increase in inventories due to the rise in raw material prices (¥74.9 billion) despite a decrease in investments in securities (¥35.0 billion) due to the decrease in the latent profits in investment in securities caused by the fall of stock prices.

Consolidated liabilities at the end of the first half of fiscal 2006 increased by ¥84.0 billion from ¥2,760.7 billion at the end of the previous year to ¥2,844.7 billion, mainly resulting from cash dividends and income taxes paid through the appropriation of fiscal 2005's distributable profits and an increase of interest-bearing debts by ¥121.8 billion to ¥1,345.6 billion due to the capital procurement made to acquire the treasury stocks despite a decrease in deferred income liabilities (¥30.7 billion) due to a decrease

in latent profit of investment in securities.

Net assets at the end of the first half of fiscal 2006 decreased by ¥35.4 billion from ¥1,782.0 billion at the end of the previous year (the amount obtained by adding the minority interest in consolidated subsidiaries to the total shareholders' equity at the end of the previous year) to ¥1,746.5 billion, mainly resulting from cash dividends (¥59.8 billion) made through the appropriation of fiscal 2005's distributable profits, acquisition of treasury stocks (¥100.1 billion) and a decrease in unrealized gains on available-for-sale-securities (¥57.2 billion) despite an increase derived from consolidated net income of ¥164.1 billion for the first half of fiscal 2006.

Cash flows from operating activities during the first half of fiscal 2006 produced a total income of ¥158.4 billion (income of ¥169.5 billion in the corresponding period of the previous year). This total was obtained by adding ¥88.5 billion in depreciation and amortization and an increase of ¥41.0 billion in notes and accounts payable-trade to ¥287.4 billion in consolidated net income before income taxes and minority interest; subtracting an increase of ¥74.5 billion in inventories; and adding and subtracting payments for income taxes and other items.

Cash flows from investing activities during the first half of fiscal 2006 came to a total expenditure of ¥136.4 billion (expenditure of ¥117.7 billion in the corresponding period of the previous year). This resulted from outlays of ¥120.9 billion for the acquisition of tangible and intangible fixed assets and of ¥45.7 billion for the acquisition of investments in securities, etc.

A total after adding the procurement by commercial papers and loans (¥119.6 billion) and the withdrawal in cash and bank deposits (¥18.8 billion) and other items to the free cash flow (¥21.9 billion) arising from the above were appropriated for the acquisition of its own stocks (¥100.1 billion) and the payment of cash dividends ¥59.8 billion 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 the first half of fiscal 2006 came to ¥1,345.6 billion, and the cash and cash equivalents to ¥137.5 billion.

(2) Forecast for Full-year Consolidated Operating Performance

In the latter half of fiscal 2006 (October 1, 2006 to March 31, 2007), the economy both in Japan and overseas is forecasted to remain firm, although concerns persist with regard to rising crude oil prices, deceleration of the US economy, and other adverse factors.

In the steelmaking and steel fabrication sector, the manufacturing industries of Japan will maintain high levels of operation. While demand in both the domestic and export markets for high-grade steel products is expected to expand, it will be necessary to closely watch the effect of production growth in China and the trend in supply demand in the US on the commodity-grade steel market.

Given such an operating environment, in the field of high-grade steel products, Nippon Steel will implement appropriate steps to improve quality and to reinforce production capacity through capital investments and other measures to meet robust demand. At the same time, in the field of commodity-grade steel products, Nippon Steel will take a flexible approach that considers fluctuations in inventories in both the domestic and overseas markets while simultaneously monitoring actual demand.

Aside from the steelmaking and steel fabrication sector, every possible effort will be made to improve profitability in each of the other operating sectors, thereby reinforcing their overall operating performance. This will be accomplished by synchronizing these efforts with the nation's increasingly apparent business recovery.

Nippon Steel will aim for the following operating performance goals in fiscal 2006 (April 1, 2006 to March 31, 2007):

Consolidated

(Billions of yen)

Year	Sales	Operating profit	Ordinary profit	Net income
Fiscal 2006 (forecast)	4,150.0	530.0	525.0	310.0
Fiscal 2005 (actual)	3,906.3	576.3	547.4	343.9

Non-Consolidated

(Billions of yen)

Year	Sales	Operating profit	Ordinary profit	Net income
Fiscal 2006(forecast)	2,500.0	395.0	375.0	240.0
Fiscal 2005 (actual)	2,591.3	433.9	388.7	244.0

A recently increasing trend is the worldwide reorganization of steel enterprises. To contend with this, Nippon Steel, together with its group companies, is determined to improve its consolidated corporate value and to secure the solid presence of Nippon Steel and its group companies as the No. 1 comprehensive supplier of medium- and high-grade steels in the global steel industry. This will be accomplished by steadily implementing the new three-year Medium-Term Consolidated Business Plan that started in April 2006.

(3) Trends in Cash Flow Indicators

Fiscal year	2002	2003	2004	2005	First half of 2006
Ratio of net worth (%)	21.0	25.3	30.7	36.9	35.6
Ratio of net worth at market price (%)	25.1	44.3	47.2	66.7	67.9
Debt redemption term (years)	5.6	5.4	2.4	3.1	–
Interest coverage ratio (times)	11.5	12.0	24.9	23.7	21.3

Notes:

Ratio of net worth: Net worth (net assets – minority interests)/Total assets

Ratio of net worth 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.

* The debt redemption term (years) is not described for the first half of fiscal 2006.

(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 Supply and Demand

Sales by the steelmaking and steel fabrication sector account for about 80% of total Nippon Steel's total consolidated sales and any change in supply or demand in the global steel market could affect their operating performances. In a highly competitive operating 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 Price 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 manufacturing operations of 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 in Financial Markets

The consolidated balance of interest-bearing debt held by Nippon Steel at the end of the current term amounted to ¥1,345.6 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 first half of fiscal 2006 amounted to ¥1,161.7 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 ¥489.3 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 could affect operating performance.

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CONSOLIDATED BALANCE SHEETS

NIPPON STEEL

ASSETS	Millions of yen		
	As of September 30, 2006	As of March 31, 2006	As of September 30, 2005
Current assets :			
Cash and bank deposits	141,228	159,923	76,150
Notes and accounts receivable-trade	537,595	537,014	401,824
Marketable securities	548	252	453
Inventories	719,794	644,859	681,357
Deferred tax assets	68,060	78,604	58,007
Other	113,420	98,070	108,318
Less: Allowance for doubtful accounts	(11,269)	(14,116)	(9,388)
Total current assets	1,569,378	1,504,608	1,316,723
Fixed assets :			
Tangible fixed assets :			
Buildings and structures	433,022	434,437	446,604
Machinery and equipment	807,075	800,195	822,959
Land	315,503	320,269	327,523
Other	114,519	99,487	82,077
	1,670,120	1,654,390	1,679,164
Intangible fixed assets :	18,706	18,961	8,619
Investments and others :			
Investments in securities	1,161,746	1,196,837	962,161
Long-term loans receivable	3,570	4,900	5,185
Deferred tax assets	44,181	43,714	48,180
Other	130,796	126,706	144,228
Less: Allowance for doubtful accounts	(7,174)	(7,353)	(7,551)
	1,333,120	1,364,806	1,152,204
Total fixed assets	3,021,947	3,038,158	2,839,988
Total assets	4,591,325	4,542,766	4,156,711

LIABILITIES	Millions of yen		
	As of September 30, 2006	As of March 31, 2006	As of September 30, 2005
Current liabilities :			
Notes and accounts payable - trade	437,484	394,105	378,170
Short-term loans and long-term loans due within one year	458,826	398,996	436,902
Commercial paper	196,000	150,000	46,000
Bonds due within one year	50	50	10,000
Accrued expenses	288,360	290,556	262,740
Reserve for losses on engineering work in progress	1,601	721	-
Provision for environmental spending	10,032	11,941	-
Other	332,250	375,000	341,102
Total current liabilities	1,724,607	1,621,372	1,474,916
Long-term liabilities :			
Bonds and notes	281,676	281,688	281,650
Long-term loans	408,850	392,998	451,769
Deferred tax liabilities	206,064	236,771	162,550
Deferred tax liabilities of Unrealized gains on revaluation of land	9,101	9,806	7,955
Accrued pension and severance costs	123,841	122,265	124,306
Allowance for retirement benefits directors and corporate auditors	3,465	6,597	5,587
Reserve for repairs to blast furnaces	51,743	50,921	50,893
Other	35,419	38,339	35,542
Total long-term liabilities	1,120,162	1,139,388	1,120,254
Total liabilities	2,844,770	2,760,760	2,595,171
Minority interest in consolidated subsidiaries	-	104,117	99,523
SHAREHOLDERS' EQUITY			
Common stock	-	419,524	419,524
Additional paid-in capital	-	111,671	109,868
Retained earnings	-	818,572	670,523
Unrealized gains on revaluation of land	-	9,980	11,105
Unrealized gains on available-for-sale securities	-	389,209	278,648
Foreign currency translation adjustments	-	(10,868)	(15,474)
Less: Treasury stock, at cost	-	(60,200)	(12,180)
Total shareholders' equity	-	1,677,889	1,462,016
Total liabilities and shareholders' equity	-	4,542,766	4,156,711
NET ASSETS			
Shareholders' equity :			
Common stock	419,524	-	-
Additional paid-in capital	111,688	-	-
Retained earnings	932,619	-	-
Treasury stock, at cost	(160,977)	-	-
	1,302,855	-	-
Adjustments for valuation, foreign currency translation and others :			
Unrealized gains on available-for-sale securities	331,947	-	-
Deferred hedge income	1,973	-	-
Unrealized gains on revaluation of land	8,945	-	-
Foreign currency translation adjustments	(11,866)	-	-
	330,999	-	-
Minority interest in consolidated subsidiaries	112,700	-	-
Total net assets	1,746,555	-	-
Total liabilities and net assets	4,591,325	-	-

CONSOLIDATED STATEMENTS OF INCOME

NIPPON STEEL

	For the 6-month period ended September 30, 2006	For the 6-month period ended September 30, 2005	Millions of yen For the year ended March 31, 2006
Operating revenues :			
Net sales	1,983,431	1,863,404	3,906,301
Operating costs and expenses :			
Cost of sales	1,566,661	1,429,863	3,063,154
Selling, general and administrative expenses	150,401	132,224	266,828
	1,717,063	1,562,087	3,329,982
Operating profit	266,368	301,316	576,319
Non-operating profit and loss :			
Non-operating profit :			
Interest and dividend income	8,762	7,014	14,512
Equity in net income of unconsolidated subsidiaries and affiliates	16,731	14,460	28,227
Miscellaneous	10,067	7,632	25,945
	35,561	29,108	68,685
Non-operating loss :			
Interest expenses	7,370	8,362	15,787
Miscellaneous	25,651	27,579	81,817
	33,021	35,942	97,604
Ordinary profit	268,907	294,482	547,400
Special profit and loss :			
Special profit :			
Gain on sales of tangible fixed assets	14,203	7,691	14,881
Gain on sales of investments in securities and investments in subsidiaries and affiliates	4,334	342	3,325
	18,537	8,034	18,207
Income before income taxes and minority interest	287,444	302,517	565,607
Income taxes - current	101,700	99,259	223,254
Income taxes - deferred	15,021	489	(17,061)
Minority interest in net income (loss) of consolidated subsidiaries	6,617	7,083	15,510
Net income	164,105	195,685	343,903

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND OTHERS

NIPPON STEEL

	Millions of yen			
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost
Balance at March 31, 2006	419,524	111,671	818,572	(60,200)
Cash dividends			(59,834)	
Net income for the 6-month period ended September 30, 2006			164,105	
Acquisition of treasury stock				(100,776)
Disposal of treasury stock		17		
Increase due to the change in the number of consolidated companies			8,741	
Increase due to reversal of unrealized gains on revaluation of land			1,034	
Balance at September 30, 2006	419,524	111,688	932,619	(160,977)

	Millions of yen				
	Unrealized gains on available- for-sale securities	Deferred hedge income	Unrealized gains on revaluation of land	Foreign currency translation adjustments	Minority interest in consolidated subsidiaries
Balance at March 31, 2006	389,209	-	9,980	(10,868)	104,117
Changes for the 6-month period ended September 30, 2006	(57,262)	1,973	(1,034)	(997)	8,583
Balance at September 30, 2006	331,947	1,973	8,945	(11,866)	112,700

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NIPPON STEEL

	Millions of yen		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2005	419,524	109,848	508,393
Net income for the year ended March 31, 2005			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

	For the 6-month period ended September 30, 2006	For the 6-month period ended September 30, 2005	Millions of yen For the year ended March 31, 2006
Cash flows from operating activities :			
Income before income taxes and minority interest	287,444	302,517	565,607
Adjustments to reconcile net income to net cash provided by operating activities :			
Depreciation and amortization	88,508	87,281	183,365
Interest and dividend income (accrual basis)	(8,762)	(7,014)	(14,512)
Interest expense (accrual basis)	7,370	8,362	15,787
Exchange losses (gains) on foreign currency transactions	(1,585)	(3,481)	(4,504)
Amortization of excess of cost over the underlying net equity of investments in subsidiaries and affiliates	343	466	913
equity in net (income) loss of unconsolidated subsidiaries and affiliates	(16,731)	(14,460)	(28,227)
Loss (gain) on sales of investments in securities	(4,454)	(328)	(3,335)
Loss on disposal of tangible and intangible fixed assets	3,523	5,702	9,866
Gain on sales of tangible and intangible fixed assets	(14,203)	(7,688)	(13,998)
Changes in allowance for doubtful accounts	(2,991)	614	5,302
Changes in notes and accounts receivable-trade	1,381	10,585	(131,251)
Changes in inventories	(74,512)	(115,156)	(79,617)
Changes in notes and accounts payable-trade	41,068	(7,554)	15,650
Other	(4,437)	37,742	82,505
Interest and dividend income (cash basis)	11,328	8,782	17,804
Interest expense (cash basis)	(7,444)	(8,693)	(16,596)
Income taxes (cash basis)	(147,403)	(128,129)	(211,760)
Net cash provided by operating activities	158,443	169,548	392,996
Cash flows from investing activities :			
Acquisition of investments in securities	(45,797)	(27,906)	(47,106)
Proceeds from sales of investments in securities	7,343	1,468	9,709
Acquisition of tangible and intangible fixed assets	(120,971)	(96,775)	(201,462)
Proceeds from sales of tangible and intangible fixed assets	25,377	4,380	12,875
Other	(2,401)	1,056	(909)
Net cash used in investing activities	(136,448)	(117,776)	(226,894)
Cash flows from financing activities :			
Net increase (decrease) in short-term loans	89,938	14,556	10,241
Net increase (decrease) in commercial paper	46,000	(24,000)	80,000
Proceeds from long-term loans	95,388	26,970	60,612
Payments of long-term loans	(111,662)	(73,540)	(190,088)
Redemption of bonds and notes	(12)	-	(10,000)
Payments for purchase of treasury stock	(100,111)	(61)	(50,166)
Cash dividends	(59,834)	(33,752)	(33,752)
Other	(1,789)	(14,894)	(2,956)
Net cash used in financing activities	(42,084)	(104,722)	(136,110)
Effect of exchange rate changes on cash and cash equivalents	1,280	3,374	3,845
Net increase (decrease) in cash and cash equivalents	(18,809)	(49,575)	33,837
Cash and cash equivalents at beginning of the year	156,713	124,511	124,511
Increase (decrease) from the change in the number of companies consolidated	(336)	(904)	(1,634)
Cash and cash equivalents at the end of period (year)	137,567	74,031	156,713

CONSOLIDATED SEGMENT INFORMATION

NIPPON STEEL

Millions of yen

	For the 6-month period ended September 30, 2006	For the 6-month period ended September 30, 2005	For the year ended March 31, 2006
Sales			
Steelmaking and steel fabrication			
Customers	1,605,395	1,534,892	3,111,638
Intersegment	13,028	14,927	32,231
Total Sales	1,618,423	1,549,820	3,143,870
Engineering and construction			
Customers	133,469	110,356	297,791
Intersegment	25,907	17,442	38,387
Total Sales	159,376	127,799	336,179
Urban development			
Customers	29,832	35,365	98,149
Intersegment	3,042	3,151	5,895
Total Sales	32,875	38,516	104,045
Chemicals			
Customers	124,936	107,020	223,005
Intersegment	33,110	39,839	75,494
Total Sales	158,047	146,860	298,499
New materials			
Customers	31,313	23,892	53,666
Intersegment	540	497	1,281
Total Sales	31,853	24,390	54,948
System solutions			
Customers	58,483	51,876	122,049
Intersegment	11,622	12,909	26,290
Total Sales	70,105	64,786	148,339
Elimination of intersegment transactions	(87,251)	(88,769)	(179,580)
Consolidated total	1,983,431	1,863,404	3,906,301
Operating profit (loss)			
Steelmaking and steel fabrication	241,903	284,410	517,687
Engineering and construction	1,250	(2,483)	9,517
Urban development	4,314	4,150	13,039
Chemicals	11,119	8,559	19,381
New materials	1,841	1,574	2,990
System solutions	5,137	4,683	11,806
Elimination of intersegment transactions	802	421	1,896
Consolidated total	266,368	301,316	576,319

NON-CONSOLIDATED BALANCE SHEETS*Nippon Steel Corporation*

ASSETS	Millions of yen		
	As of September 30, 2006	As of March 31, 2006	As of September 30, 2005
Current assets :			
Cash and bank deposits	69,623	90,655	20,133
Notes and accounts receivable-trade	180,851	295,340	180,101
Inventories	421,031	404,922	429,981
Deferred tax assets	38,100	50,500	30,500
Other	113,996	114,551	114,971
Less: Allowance for doubtful accounts	(13,944)	(16,626)	(11,100)
Total current assets	809,659	939,344	764,588
Fixed assets :			
Tangible fixed assets :			
Buildings and structures	266,203	267,968	271,934
Machinery and equipment	617,505	616,596	605,381
Land	191,606	195,486	200,280
Other	64,722	64,839	66,654
	1,140,038	1,144,891	1,144,250
Intangible fixed assets :	865	1,303	1,381
Investments and others :			
Investments in securities	1,224,011	1,264,763	1,045,421
Other	102,606	100,377	117,307
Less: Allowance for doubtful accounts	(2,427)	(4,121)	(4,197)
	1,324,191	1,361,019	1,158,531
Total fixed assets	2,465,094	2,507,214	2,304,162
Total assets	3,274,754	3,446,558	3,068,751

LIABILITIES	Millions of yen		
	As of September 30, 2006	As of March 31, 2006	As of September 30, 2005
Current liabilities :			
Notes and accounts payable - trade	202,095	198,870	188,556
Short-term loans and long-term loans due within one year	307,305	263,264	258,283
Commercial paper	196,000	150,000	46,000
Bonds due within one year	-	-	10,000
Accrued expenses	209,686	286,404	244,967
Reserve for losses on engineering work in progress	-	286	-
Provision for environmental spending	10,024	11,638	-
Other	168,955	232,781	218,362
Total current liabilities	1,094,068	1,143,245	966,170
Long-term liabilities :			
Bonds and notes	265,000	265,000	265,000
Long-term loans	314,753	281,851	314,396
Deferred tax liabilities	191,600	237,300	167,200
Accrued pension and severance costs	53,147	65,197	63,986
Allowance for retirement benefits directors and corporate auditors	-	2,780	2,402
Reserve for repairs to blast furnaces	49,714	49,011	49,124
Other	10,536	10,185	9,007
Total long-term liabilities	884,752	911,326	871,117
Total liabilities	1,978,820	2,054,572	1,837,287
SHAREHOLDERS' EQUITY			
Common stock	-	419,524	419,524
Capital surplus	-	111,556	109,816
Retained earnings :			
Special tax-purpose reserve	-	86,953	86,953
Voluntary reserves	-	160,000	160,000
Unappropriated retained earnings	-	308,288	206,410
	-	555,241	453,363
Unrealized gains on available-for-sale securities	-	364,252	259,391
Less: Treasury stock, at cost	-	(58,589)	(10,633)
Total shareholders' equity	-	1,391,985	1,231,463
Total liabilities and shareholders' equity	-	3,446,558	3,068,751
NET ASSETS			
Shareholders' equity :			
Common stock	419,524	-	-
Capital surplus	111,560	-	-
Retained earnings :			
Voluntary reserves	82,439	-	-
Accumulated earnings carried forward	540,247	-	-
	622,687	-	-
Treasury stock, at cost	(158,676)	-	-
	995,096	-	-
Adjustments for valuation, foreign currency translation and others :			
Unrealized gains on available-for-sale securities	299,640	-	-
Deferred hedge income	1,197	-	-
	300,837	-	-
Total net assets	1,295,934	-	-
Total liabilities and net assets	3,274,754	-	-

NON-CONSOLIDATED STATEMENTS OF INCOME*Nippon Steel Corporation*

	Millions of yen		
	For the 6-month period ended September 30, 2006	For the 6-month period ended September 30, 2005	For the year ended March 31, 2006
Operating revenues :			
Net sales	1,252,717	1,245,429	2,591,388
Operating costs and expenses :			
Cost of sales	970,051	917,253	1,971,069
Selling, general and administrative expenses	83,372	91,844	186,386
	1,053,423	1,009,098	2,157,455
Operating profit	199,294	236,331	433,933
Non-operating profit and loss :			
Non-operating profit :			
Interest and dividend income	11,705	8,765	17,722
Miscellaneous	7,147	4,824	16,756
	18,853	13,590	34,479
Non-operating loss :			
Interest expenses	5,563	6,101	11,497
Miscellaneous	16,183	23,776	68,174
	21,746	29,878	79,671
Ordinary profit	196,401	220,042	388,740
Special profit and loss :			
Special profit :			
Gain on sales of tangible fixed assets	8,218	7,737	10,295
Gain on sales of investments in securities and investments in subsidiaries and affiliates	5,661	375	2,997
	13,879	8,113	13,293
Income before income taxes	210,280	228,156	402,034
Income taxes - current	71,300	73,500	166,600
Income taxes - deferred	11,700	12,500	(8,600)
Net income	127,280	142,156	244,034

**NON CONSOLIDATED STATEMENTS OF
SHAREHOLDERS' EQUITY AND OTHERS**

NIPPON STEEL

Millions of yen

	Common stock	Capital surplus	Other capital surplus reserve	Voluntary reserves	Accumulated earnings carried forward	Treasury stock, at cost	Unrealized gains on available-for- sale securities	Deferred hedge income
Balance at March 31, 2006	419,524	111,532	23	246,953	308,288	(58,589)	364,252	-
Cash dividends					(59,834)			
Withdraw voluntary reserve				7,770	(7,770)			
Reserve of voluntary reserve				(172,284)	172,284			
Net income for the 6-month period ended September 30, 2006					127,280			
Acquisition of treasury stock						(100,111)		
Disposal of treasury stock				4		25		
Change for the 6-month period ended September 30,2006(net)							(64,612)	1,197
Balance at September 30, 2006	419,524	111,532	28	82,439	540,247	(158,676)	299,640	1,197

Recent Quarterly Operating Results**Fiscal 2006 (April 1, 2006 to March 31, 2007)**

	Fiscal 2006					Forecast for 1st half of fiscal 2006 (data released on September 7, 2006)		Forecast for fiscal 2006 (data released on September 7, 2006)	
	1st quarter	2nd quarter	1st half	Forecast for 2nd half	Forecast for fiscal 2006 (data released on October 26, 2006)				
	Apr.-June 2006	July-Sept. 2006	Apr.-Sept. 2006	Oct. 2006-Mar. 2007	Apr. 2006-Mar. 2007	Apr. 2006-Sep. 2006	Apr. 2006-Mar. 2007		
	Million	Million	Million	Million	Million	Million	Million		
Sales	942,788	1,040,642	1,983,431	2,166,569	4,150,000	1,970,000	4,100,000		
Steelmaking and steel fabrication	776,579	841,844	1,618,423	1,736,577	3,355,000	1,630,000	3,320,000		
Engineering and construction	71,800	87,576	159,376	190,624	350,000	155,000	350,000		
Urban development	14,032	18,843	32,875	62,125	95,000	30,000	90,000		
Chemicals	75,059	82,988	158,047	161,953	320,000	155,000	320,000		
New materials	15,704	16,149	31,853	33,147	65,000	25,000	60,000		
System solutions	30,832	39,273	70,105	84,895	155,000	65,000	150,000		
Elimination of intersegment transactions	(41,220)	(46,031)	(87,251)	(102,749)	(190,000)	(90,000)	(190,000)		
Operating profits	119,590 [12.7%]	146,777 [14.1%]	266,368 [13.4%]	263,632 [12.2%]	530,000 [12.8%]	255,000 [12.9%]	510,000 [12.4%]		
Steelmaking and steel fabrication	109,582 [14.1%]	132,321 [15.7%]	241,903 [14.9%]	233,097 [13.4%]	475,000 [14.2%]	235,000 [14.4%]	460,000 [13.9%]		
Engineering and construction	55 [0.1%]	1,194 [1.4%]	1,250 [0.8%]	8,750 [4.6%]	10,000 [2.9%]	2,000 [1.3%]	10,000 [2.9%]		
Urban development	1,571 [1.2%]	2,742 [14.6%]	4,314 [13.1%]	5,686 [9.2%]	10,000 [10.5%]	4,000 [13.3%]	10,000 [11.1%]		
Chemicals	4,190 [5.6%]	6,928 [8.3%]	11,119 [7.0%]	8,881 [5.5%]	20,000 [6.3%]	9,000 [5.8%]	19,000 [5.9%]		
New materials	935 [6.0%]	905 [5.6%]	1,841 [5.8%]	1,659 [5.0%]	3,500 [5.4%]	1,500 [6.0%]	3,000 [5.0%]		
System solutions	2,532 [8.2%]	2,604 [6.6%]	5,137 [7.3%]	7,863 [9.3%]	13,000 [8.4%]	4,000 [6.2%]	12,500 [8.3%]		
Elimination of intersegment transactions	721	80	802	(2,302)	(1,500)	(500)	(4,500)		
Ordinary profits	123,079 [13.1%]	145,828 [14.0%]	268,907 [13.6%]	256,093 [11.8%]	525,000 [12.7%]	250,000 [12.7%]	500,000 [12.2%]		
Net income	74,748 [7.9%]	89,356 [8.6%]	164,105 [8.3%]	145,895 [6.7%]	310,000 [7.5%]	160,000 [8.1%]	300,000 [7.3%]		
Net income per share	11.26	13.93	25.15	23.19	48.34	24.52	46.37		

[]: Return on sales
() in "Elimination of intersegment transactions" row indicate negative numbers

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

	Fiscal 2005						
	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	Fiscal 2005
	Apr.-June 2005	July-Sept. 2005	Apr.-Sept. 2005	Oct.-Dec. 2005	Jan.-Mar. 2006	Oct. 2005-Mar. 2006	Apr. 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

[Change in business segments]

- "Chemicals" and "new materials", which were included in the chemicals and nonferrous materials sector, are now positioned as independent businesses, and "titanium and aluminum operations", which were part of the chemicals and nonferrous materials sector, have been transferred to "steelmaking and steel fabrication."
- "Other businesses" (electric power supply, services, and others) has been transferred to "steelmaking and steel fabrication."

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 2006

Japanese Steel Industry

1. Crude Steel Production

(millions of tons)

	1st half		2nd half		total
	1st quarter	2nd quarter	3rd quarter	4th quarter	
2005FY	28.96	27.83	56.80	55.91	112.71
2006FY	28.97	29.09	58.06	-	-

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	0.304
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
Mar. 2005	5.24	98.0	3.93	0.294
Apr. 2005	5.30	110.1	4.03	0.279
May 2005	5.53	112.9	4.21	0.275
June 2005	5.48	108.1	4.21	0.274
July 2005	5.60	114.1	4.30	0.271
Aug. 2005	5.80	124.9	4.66	0.253
Sep. 2005	5.73	111.6	4.58	0.231
Oct. 2005	5.78	111.6	4.56	0.230
Nov. 2005	5.59	108.3	4.43	0.231
Dec. 2005	5.54	116.8	4.26	0.245
Jan. 2006	5.70	117.9	4.45	0.268
Feb. 2006	5.55	117.5	4.36	0.280
Mar. 2006	5.28	98.0	4.14	0.295
Apr. 2006	5.29	111.8	4.09	0.285
May 2006	5.43	115.4	4.15	0.280
June 2006	5.26	101.3	4.04	0.280
July 2006	5.33	104.7	4.05	0.278
Aug. 2006	5.41	112.0	4.17	0.273

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

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

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	
2005FY	7.88	7.93	7.90	7.61	15.52
2006FY	7.54	7.87	-	-	-

4. Crude Steel Production

(Consolidated basis)

(millions of tons)

	1st half		2nd half		total
	1st quarter	2nd quarter	3rd quarter	4th quarter	
2005FY	8.56	8.52	8.34	8.54	16.88
2006FY	8.45	8.71	-	-	-

(Non-consolidated basis)

(millions of tons)

	1st half		2nd half		total
	1st quarter	2nd quarter	3rd quarter	4th quarter	
2005FY	7.85	7.88	7.62	7.85	15.47
2006FY	7.70	8.01	-	-	-

5. Steel Products Shipment

(millions of tons)

	1st half		2nd half		total
	1st quarter	2nd quarter	3rd quarter	4th quarter	
2005FY	7.43	7.33	7.17	7.67	14.84
2006FY	7.59	7.83	-	-	-

6. Average Price of Steel Products

(thousands of yen / ton)

	1st half		2nd half		total
	1st quarter	2nd quarter	3rd quarter	4th quarter	
2005FY	70.8	76.0	75.6	74.7	75.2
2006FY	71.6	75.2	-	-	-

7. Export Ratio of Steel Products (Value basis)

(%)

	1st half		2nd half		total
	1st quarter	2nd quarter	3rd quarter	4th quarter	
2005FY	32.2	31.1	29.8	30.5	30.1
2006FY	32.2	32.4	-	-	-

8. Foreign Exchange Rate

(¥/US\$)

	1st half		2nd half		total
	1st quarter	2nd quarter	3rd quarter	4th quarter	
2005FY	107	112	116	117	113
2006FY	115	116	-	-	-

9. Unrealized Gains on Available-for-Sale Securities

(billion yen)

	1st half of 2006 FY	2005 FY
Consolidated	556.9 (331.9)	653.0 (389.2)
Non-consolidated	502.7 (299.6)	611.2 (364.2)
	【Nikkei 225】	【17,059 yen】
	【16,127 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	Approx. 280.0	205.0
Non-consolidated	Approx. 210.0	165.0

•Depreciation (billion yen)

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