

# SEMIANNUAL REPORT

For the Six-Month Period Ended September 30, 2002

# NISSHIN

NISSHIN STEEL CO., LTD.

# STEEL

Vol.123

## FINANCIAL HIGHLIGHTS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
Six-month periods ended September 30, 2002 and 2001

	Millions of yen (except per share amounts)		Thousands of U.S. dollars <sup>1</sup> (except per share amounts)
	2002	2001	2002
Net sales	¥199,090	¥203,727	\$1,623,899
Net loss	(6,256)	(13,315)	(51,028)
Net loss per share <sup>2</sup>	¥(6.31)	¥(13.39)	\$(0.05)
Cash dividends per share <sup>2</sup>	-	-	-
Total assets	¥624,889	¥624,643	\$5,096,974
Total shareholders' equity	221,447	235,391	1,806,256

Notes: 1. Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at ¥122.60=US\$1, the effective rate of exchange at September 30, 2002.

2. Per share figures are in exact yen and U.S. dollars.

### Operating Environment

In the first half of the year ending March 31, 2003, the domestic economy saw some signs of a gradual recovery supported by strong exports; however, private-sector capital investment and personal consumption remained weak, resulting in continuing sluggishness in overall business conditions.



Toshihiko Ono

In the steel industry, the ongoing rapid reduction of inventories contributed to an improvement in steel prices. Although domestic demand for steel, generally took a downturn, this was counteracted by a rise in exports, particularly to Southeast Asia, which signaled positive developments for the industry.

### Performance

Amid such an operating environment, the Nisshin Steel Group implemented far-reaching cost-cutting measures aimed at regaining profitability, which had significantly deteriorated in the previous year ended March 31, 2002. In addition to attaining ahead of schedule, rationalization targets set for the year ending March 31, 2004, in its New Medium-Term Management Plan, the Nisshin Steel Group carried out thorough implementation of stringent cost reductions in all facets of the business, fully committing itself to achieving the optimal performance. Furthermore, in pursuit of higher profitability, we devoted efforts to restore prices, which had fallen to unprecedented levels, and took measures that included increasing the proportion of value-added products to improve our marketing efficiency.

As a result of the aforementioned activities, in the first half of the year ending March 31, 2003, consolidated net sales rose to ¥199.1 billion. Although consistent efforts to better profitability worked to some extent, improved prices have just begun to be seen and the price of raw materials for stainless steel increased sharply, resulting in a ¥4.0 billion consolidated loss before special items. An amortization of transition amount of retirement benefits as well as a loss on the devaluation of marketable securities in our possession brought about a consolidated interim net loss of ¥6.3 billion.

After taking into serious consideration the uncertainty surrounding our business conditions, we have regrettably decided to forgo the payment of dividends for the interim period under review.

### Future Vision

Regarding future prospects, there are still concerns that the economy will take a turn for the worse, and conditions are expected to remain unstable. Exports are likely to slow down amid the intensifying stagnation of the U.S. economy, and stock prices will remain persistently sluggish in Japan due to apprehensions over deflationary pressure and nonperforming loans. In the steel industry, a climate conducive to price restoration is being formed as inventories are worked down to appropriate levels. However, the future of the industry is unpredictable and the market is entering an adjustment phase due to slack domestic demand coupled with the impact of trade restrictions on exports.

Nisshin Steel has designated the year ending March 31, 2003, as the year to start afresh. In an endeavor to recreate the Company, we will continue to work together to rebuild our revenue base. First and foremost, we will strive to achieve recurring profit for the entire year ending March 31, 2003. We are determined to attain earnings that meet shareholders' expectations through a V-shaped recovery. Furthermore, the Company is charging ahead to promote the efficiency and thorough reform of assets. In addition, while expanding overseas strategies and promoting multifaceted alliances to service customers that relocate their operations overseas, the Company will focus management resources on its areas of expertise—stainless steel, unique coated steel, and specialty steel—to maintain and enhance its international competitive edge.

We ask our shareholders for their continued support of the Nisshin Steel Group.

Toshihiko Ono  
President and CEO

**CONSOLIDATED BALANCE SHEETS**
**Nisshin Steel Co., Ltd. and its consolidated subsidiaries**  
**September 30, 2002 and 2001**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks	¥ 28,623	¥ 15,599	\$ 233,467
Marketable securities	3,001	3,617	24,478
Notes and accounts receivable:			
Trade	56,336	62,933	459,511
Unconsolidated subsidiaries and affiliates	18,235	13,514	148,736
Less: Allowance for doubtful accounts	1,085	1,027	8,850
	73,486	75,420	599,397
Inventories	84,685	91,967	690,742
Deferred income taxes	5,332	2,260	43,491
Other current assets	10,033	10,234	81,835
Total current assets	205,160	199,097	1,673,410
Investments and long-term receivables:			
Investments in securities	60,479	55,181	493,303
Investments in and advances to unconsolidated subsidiaries and affiliates	29,558	28,225	241,093
Deferred income taxes	18,347	14,115	149,649
Others	5,831	12,113	47,561
Less: Allowance for doubtful accounts	497	1,021	4,054
Total investments and long-term receivables	113,718	108,613	927,552
Property, plant and equipment, at cost:			
Buildings and structures	228,003	228,634	1,859,731
Machinery, equipment and vessels	781,804	775,277	6,376,868
	1,009,807	1,003,911	8,236,599
Less: Accumulated depreciation	780,463	761,485	6,365,930
	229,344	242,426	1,870,669
Land	63,228	63,401	515,726
Construction in progress	6,300	5,744	51,387
Total property, plant and equipment	298,872	311,571	2,437,782
Other assets	7,139	5,362	58,230
	¥ 624,889	¥ 624,643	\$5,096,974

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term loans	¥ 80,644	¥ 84,734	\$ 657,781
Current portion of long-term debt	45,799	25,980	373,564
Notes and accounts payable:			
Trade and construction	57,767	60,794	471,183
Unconsolidated subsidiaries and affiliates	7,988	8,417	65,155
	65,755	69,211	536,338
Income taxes payable	473	607	3,858
Other current liabilities	29,936	34,776	244,176
Total current liabilities	222,607	215,308	1,815,717
Long-term debt	120,981	122,037	986,794
Employees' retirement benefits	31,659	24,286	258,230
Reserve for rebuilding furnaces	15,284	14,665	124,667
Deferred income taxes	2,687	2,850	21,917
Negative goodwill	95	133	775
Other liabilities	1,439	1,411	11,737
Total liabilities	394,752	380,690	3,219,837
Minority interests in consolidated subsidiaries	8,690	8,562	70,881
Shareholders' equity:			
Common stock, no par value at September 30, 2002 and par value ¥50 per share at September 30, 2001 Authorized: 3,977,964 thousand shares at September 30, 2002 and 2001 Issued: 994,500 thousand shares at September 30, 2002 and 2001	79,913	79,913	651,819
Additional paid-in capital	49,893	49,893	406,958
Retained earnings	80,894	99,057	659,821
Adjustment on revaluation of land	335	-	2,732
Unrealized gain on available-for-sale securities	11,653	8,142	95,049
Foreign currency translation adjustment	(780)	(1,614)	(6,362)
	221,908	235,391	1,810,017
Less: Treasury stock, at cost	461	0	3,761
Total shareholders' equity	221,447	235,391	1,806,256
	¥624,889	¥624,643	\$5,096,974

**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**
**Nisshin Steel Co., Ltd. and its consolidated subsidiaries**  
**Six-month periods ended September 30, 2002 and 2001**

	Thousands of		
	Millions of yen	U.S. dollars (Note 3)	
	<b>2002</b>	<b>2001</b>	<b>2002</b>
Net sales	¥199,090	¥203,727	\$1,623,899
Cost of sales	175,218	182,819	1,429,184
Gross profit	23,872	20,908	194,715
Selling, general and administrative expenses	22,217	24,622	181,216
Operating income (loss)	1,655	(3,714)	13,499
Other (income) expenses:			
Interest and dividend income	(950)	(1,195)	(7,749)
Interest expense	1,822	1,932	14,861
Equity in losses of unconsolidated subsidiaries and affiliates	567	20	4,625
Service cost of temporarily transferred employees	1,586	2,128	12,936
Retirement benefit expense	1,770	835	14,437
Foreign exchange loss	880	-	7,178
Others, net	4	230	33
Loss before special items	(4,024)	(7,664)	(32,822)
Special items:			
Gain on sale of properties	436	12	3,556
Special items income and gain total	436	12	3,556
Loss on sale and disposition of properties	491	327	4,005
Loss on devaluation of marketable securities	934	9,018	7,618
Special early retirement benefit payments	251	1,644	2,047
Retirement benefit expense	3,734	3,734	30,457
Others	528	-	4,307
Special items expense and loss total	5,938	14,723	48,434
Loss before provision for income taxes	(9,526)	(22,375)	(77,700)
Provision for income taxes:			
Current	562	645	4,584
Deferred	(3,921)	(9,778)	(31,982)
Total provision for income taxes	(3,359)	(9,133)	(27,398)
Minority interests in earnings of consolidated subsidiaries	89	73	726
Net loss	(6,256)	(13,315)	(51,028)
Retained earnings:			
Balance at beginning of period	87,150	113,965	710,849
Increase due to change in the number of affiliates accounted for using the equity method	-	396	-
Appropriations: Cash dividends	-	1,989	-
Balance at end of period	¥ 80,894	¥ 99,057	\$ 659,821

	Yen	U.S. dollars (Note 3)
Net loss per share	¥(6.31)	¥(13.39)
Cash dividends per share	-	-

Weighted average number of shares issued and outstanding (thousands) 991,773      994,498

The accompanying notes are an integral part of these financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Nisshin Steel Co., Ltd. and its consolidated subsidiaries**  
**Six-month periods ended September 30, 2002 and 2001**

	Thousands of		
	Millions of yen	U.S. dollars (Note 3)	
	<b>2002</b>	<b>2001</b>	<b>2002</b>
<b>Cash flows from operating activities:</b>			
Loss before provision for income taxes	¥(9,526)	¥(22,375)	\$(77,700)
Depreciation and amortization	11,709	17,069	95,506
Interest and dividend income	(950)	(1,195)	(7,749)
Interest expense	1,822	1,932	14,861
Equity in losses of unconsolidated subsidiaries and affiliates	567	20	4,625
Loss on devaluation of marketable securities	934	9,018	7,618
Loss on sale and disposition of property, plant and equipment	22	315	179
(Increase) decrease in notes and accounts receivable	(3,290)	9,569	(26,835)
Decrease in inventories	4,665	1,752	38,051
Increase (decrease) in notes and accounts payable	1,649	(1,708)	13,450
Increase in reserve for rebuilding furnaces	446	508	3,638
Increase in employees' retirement benefits account	5,755	2,822	46,941
Others, net	(2,827)	(4,655)	(23,058)
	<b>10,976</b>	<b>13,072</b>	<b>89,527</b>
Receipt of interest and dividends	1,165	1,459	9,503
Payment of interest	(1,855)	(1,941)	(15,131)
Payment of income taxes	(346)	(2,121)	(2,822)
Net cash provided by operating activities	<b>9,940</b>	<b>10,469</b>	<b>81,077</b>
<b>Cash flows from investing activities:</b>			
Acquisition of marketable securities	(4,333)	(4,327)	(35,343)
Proceeds from sale and redemption of marketable securities	2,659	6,791	21,688
Acquisition of property, plant and equipment	(10,007)	(7,896)	(81,623)
Proceeds from sale of property, plant and equipment	962	158	7,847
Others, net	(327)	(861)	(2,667)
Net cash used in investing activities	<b>(11,046)</b>	<b>(6,135)</b>	<b>(90,098)</b>
<b>Cash flows from financing activities:</b>			
Decrease in short-term loans	(5,335)	(2,125)	(43,515)
Proceeds from long-term debt	6,250	1,448	50,979
Repayment and redemption of long-term debt	(4,301)	(1,990)	(35,082)
Cash dividends paid by the parent company	(5)	(1,984)	(41)
Others, net	(497)	(41)	(4,054)
Net cash used in financing activities	<b>(3,888)</b>	<b>(4,692)</b>	<b>(31,713)</b>
Foreign currency translation adjustment of cash and cash equivalents	(715)	(251)	(5,832)
Net decrease in cash and cash equivalents	(5,709)	(609)	(46,566)
Cash and cash equivalents at beginning of period	33,790	16,136	275,612
Increase in cash due to a merger of subsidiaries	78	-	636
Cash and cash equivalents at end of period	<b>¥28,159</b>	<b>¥15,527</b>	<b>\$229,682</b>

The accompanying notes are an integral part of these financial statements.

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nisshin Steel Co., Ltd. (the "Company") and its subsidiaries (together, the "Companies") in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

## 2. ACCOUNTING CHANGES

### (1) Depreciation of Tangible Fixed Assets

Prior to the period under review, depreciation of structures, all machinery and equipment at the Kure Works, Shunan Works and Osaka Works, cold-rolling mills at the Sakai Works and Toyo Works and vehicles and tools had been computed using the declining-balance method. Effective from the period under review, depreciation has been computed using the straight-line method.

This change decreased depreciation expenses by ¥3,613 million and loss before special items and loss before provision for income taxes by ¥2,580 million for the period under review, relative to what they would have been had the previous method been used.

### (2) Accounting Standard for Treasury Stock and Reversal of Legal Reserves

Accounting Standard for Treasury Stock and Reversal of Legal Reserves (Corporate Accounting Standards, No. 1) has been applied effective from the period under review. This change had no material effect on profit and loss for the period.

## 3. UNITED STATES DOLLAR AMOUNTS

The Companies maintain their accounting records in yen except for subsidiaries in the United States, which maintain their accounting records in U.S. dollars. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars on a basis of ¥122.60=US\$1, the effective rate of exchange at September 30, 2002. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that the yen amounts have been or could be readily converted, realized or settled in dollars at ¥122.60=US\$1 or at any other rate.

## DIRECTORY

As of December 31, 2002

### DOMESTIC

#### Registered Head Office

Shinkokusai Building,  
4-1, Marunouchi 3-chome,  
Chiyoda-ku, Tokyo 100-8366,  
Japan  
Telephone: (81-3) 3216-5511  
Facsimile: (81-3) 3214-1895

#### Branches

Osaka, Nagoya, Chugoku

#### Sales Offices

Hokkaido, Tohoku, Niigata,  
Hokuriku, Shikoku, Okayama,  
Kyushu

#### Works

Kure, Sakai, Toyo, Osaka,  
Ichikawa, Shunan, Amagasaki

### OVERSEAS

#### Singapore Representative Office

16 Raffles Quay #20-01,  
Hong Leong Bldg.,  
Singapore 048581  
Telephone: (65) 6221-1277/8  
Facsimile: (65) 6224-2357

#### Düsseldorf Office

Immermannstrasse 45,  
40210 Düsseldorf, Germany  
Telephone: (49-211) 353921  
Facsimile: (49-211) 365460

#### Shanghai Office

Orient International Plaza C-7,  
No. 85 Lou Shang Guan Road,  
Shanghai, People's Republic of  
China  
Telephone: (86-21) 6278-7577  
Facsimile: (86-21) 6278-7590

#### Hong Kong Office

3406A, Tower One,  
Lippon Center,  
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Hong Kong, S.A.R.,  
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Telephone: (852) 2521-8872  
Facsimile: (852) 2521-8962

#### (Subsidiaries)

#### Nisshin Steel USA, LLC

375 Park Avenue,  
New York, NY 10152, U.S.A.  
Telephone: (1-212) 317-3500  
Facsimile: (1-212) 421-0496

## BOARD OF DIRECTORS

As of December 31, 2002

#### Chairman of the Board of Directors

Kazuo Hoshino\*

#### President & Chief Executive Officer

Toshihiko Ono\*

#### Managing Directors

Takaoki Uesugi  
Hideo Suzuki  
Takashi Sugiyama  
Hiromi Toyota  
Hisao Kawase  
Hiroshi Hotta  
Takenao Yasuda

#### Directors

Michio Ryo  
Kazuo Yamamoto  
Takashi Nagai  
Shigeaki Matsunaga  
Makoto Yada  
Hitoshi Asanuma  
Takuo Tanaka

#### Standing Auditors

Nobuji Monzen  
Toshiaki Ouchi  
Hiroaki Shinagawa

#### Auditor

Hidehiko Iwasaki

\*Representative Director

## **INVESTOR INFORMATION**

**As of September 30, 2002**

### ***NISSHIN STEEL CO., LTD.***

#### **Registered Head Office**

Shinkokusai Building,  
4-1, Marunouchi 3-chome,  
Chiyoda-ku, Tokyo 100-8366,  
Japan  
Telephone: (81-3) 3216-5511  
Facsimile: (81-3) 3214-1895

#### **Year of Establishment**

1928

#### **Common Stock:**

Authorized: 3,977,964 thousand shares  
Issued: 994,500 thousand shares  
Paid-in capital: ¥79,913,126 thousand

#### **Number of Shareholders**

66,684

#### **Independent Certified Public Accountants**

ChuoAoyama Audit Corporation

For further information, please contact the Public Relations Team.

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