NISSHIN STEEL

ANNUAL REPORT 2004

Contents

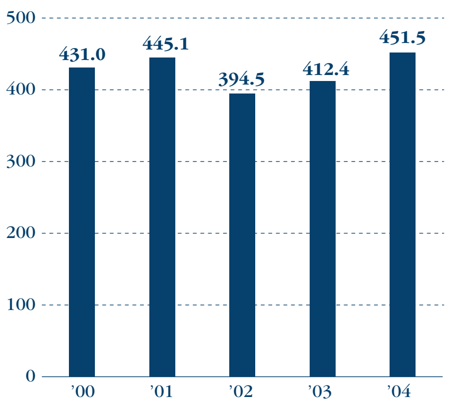
Consolidated Financial Highlights

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004, 2003 and 2002

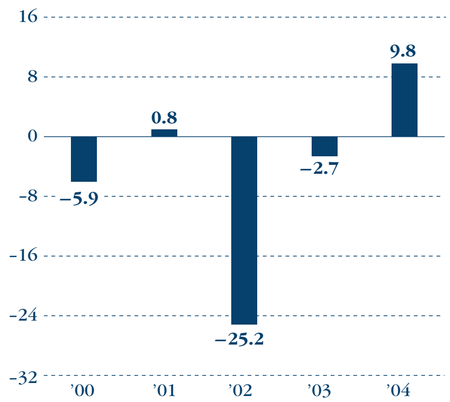
	Millions of yen (except per share amounts)			Percent change	Thousands of U.S. dollars[1] (except per share amounts)
	2004	2003	2002	(**2004**/2003)	**2004**
Net sales	**¥451,452**	¥ 412,412	¥ 394,494	9.5%	**$4,271,473**
Net income (loss)	**9,786**	(2,696)	(25,221)	–	**92,592**
Total assets	**637,247**	625,530	638,458	1.9	**6,029,397**
Total shareholders' equity	**249,416**	229,148	233,500	8.8	**2,359,883**
Net income (loss) per share[2]	**¥10.10**	¥ (2.73)	¥ (25.36)	– %	**$0.10**
Cash dividends per share[2]	**4.00**	2.00	–	100.0	**0.04**

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 ¥105.69 = US$1, the effective rate of exchange at March 31, 2004.
2. Per share figures are in yen and U.S. dollars.

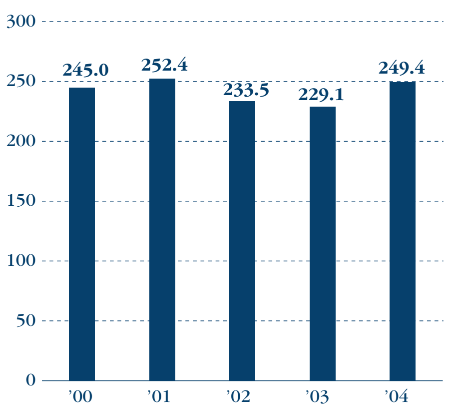
Net Sales
(Billions of yen)
(Years ended March 31)



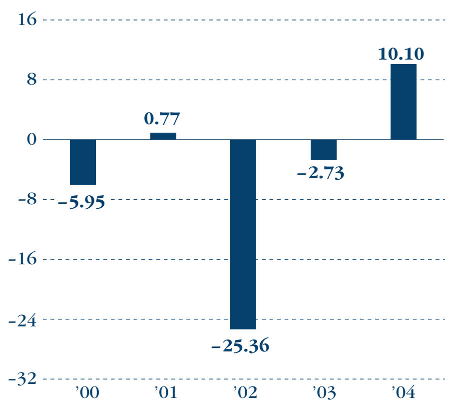
Net Income (Loss)
(Billions of yen)
(Years ended March 31)



Total Shareholders' Equity
(Billions of yen)
(March 31)



Net Income (Loss) per Share
(Yen)
(Years ended March 31)



To Our Shareholders and Investors

Overview of the Year to March 31, 2004

The global economy in the year ended March 31, 2004 raised expectations for a self-sustained recovery. Amid a rise in exports following economic growth in China and the United States, demand in Japan grew along with a sharp increase in private capital investment that reflected the improvement in corporate earnings. There were also signs of recovery in terms of consumer spending.

In the Japanese steel industry, crude steel production exceeded 110 million metric tons, led by exports to Asia, particularly China, where robust demand from manufacturers and rapid growth continued. Improvement in sales prices of steel products gradually spread through the market, but from the middle of the fiscal term the worldwide increase in demand for steel, coupled with a sharp rise in ocean freight, placed a great deal of strain on companies.

Faced with this business environment, the Nisshin Steel Group continued to concentrate on rebuilding its business foundations. Consolidated net sales rose substantially, 9.5% from the previous fiscal year to ¥451,452 million, the result of the high level of sales to manufacturers, along with higher sales prices in Japan and around the world. In terms of earnings, a sharp increase in the price of raw materials, particularly for stainless steel, generated a significant cost burden, but continued efforts to streamline our operations, along with the relentless pursuit of earnings enhancement measures such as improvement in sales prices, resulted in income before special items of ¥26,497 million, a significant rise from the previous fiscal year. Net income, after special charges and gains such as additional funding for retirement benefits and disposal of low-performing assets, totaled ¥9,786 million, the first surplus in three fiscal years.

Cash dividends, in view of the importance of providing all shareholders with stable distributions, were ¥2.00 per share for the interim period. End-of-year dividends, taking into account future business development and other general factors, were set at ¥2.00 per share, raising the full-year distribution from ¥2.00 the previous fiscal year to ¥4.00.

The Final Year of the Medium-Term Management Plan

The exceptionally successful year ended March 31, 2004 was also the final year of our Medium-Term Management Plan, under which we carried out wide-ranging cost reduction programs, and made proactive efforts to streamline assets. In terms of sales and marketing, we strengthened our traditional development- and proposal-oriented sales models, which involve close relationships with customers, while seeking to maximize earnings through shifts in mix toward profitable products. At the same time, we increased earnings by strongly promoting improvement in domestic sales prices, which were still low compared to international prices.

In terms of production, the projects at the Kure Works to repair the No. 2 blast furnace and to change the mould of the No. 2 continuous casting machine to a vertical bending type was completed in November 2003, and the facilities resumed operations. These upgrades have enhanced our upstream production process and significantly improved our cost and quality competitiveness.

In product development, we consider contributions to environmental preservation through supplying adequate products to be one of our basic principles. A representative product is ZAM (hot-dipped zinc-aluminum-magnesium coated steel), which, with its high corrosion resistance, has a longer life compared to previous products. The benefits in waste reduction as well as energy and resource conservation are significant, with applications growing in environmentally friendly products. We have also expanded our lineup of chromium-free coated steel products—which are free of many of the substances that pose a serious environmental impact—adding a "precoated steel sheet for high-end processing." This sheet is suitable for deep drawing and other demanding processes, and is expected to find widespread applications in advanced household appliances and other consumer products.

In overseas operations, taking into consideration that China is likely to grow significantly in the future, construction was begun at Nisshin Steel's stainless steel cold-rolling joint venture, Ningbo Baoxin Stainless Steel Co., Ltd. (Ningbo, Zhejiang Province in China) to expand the facility to be one of the largest in the world by the close of the year ending March 31, 2006, with 600,000 tons of cold-rolling capacity. In the United States, we are cooperating with North American Stainless L.P., the U.S. business unit of the Spanish company Acerinox S.A., with which Nisshin Steel has a collaborative relationship, to produce automotive stainless steel pipes. We expect to launch operations sometime around July 2005—a step toward firmly establishing the "world's four-pole" supply networks (Japan, Asia, Europe and the United States) that we have been pursuing.

New Medium- to Long-Term Business Strategies

The Nisshin Steel Group has designated the year ending March 31, 2005, through the year ending March 31, 2009) as "the time for the second start-up," formulating its 15th Medium-Term Management Plan with the aim of "strive to achieve sustainable profit growth while strengthening the financial base." The 15th Medium-Term Management Plan consists of two parts: the Management Vision, which lays out the management directions over the entire five-year period, and the Profit Plan, consisting of the earnings plan for the first two fiscal years (the years ending March 31, 2005 and March 31, 2006), which will be vital for the realization of the vision.

Management Vision
(Period: Year Ending March 31, 2005 through the Year Ending March 31, 2009)

The Nisshin Steel Group holds improvement in corporate value as its highest goal. Through our measures to strengthen the business foundations, we will enhance the operational cash flow capabilities (¥200 billion over five years), and undertake strategic investments in growth businesses to further strengthen our operations. The earnings gained will establish a cycle that will lead to the next stage of growth.

(1) To strengthen the foundation of existing business, we will invest ¥100 billion over five years (not to exceed the amount of depreciation), maintain and increase competitiveness, and implement the following measures:
- Enhance capabilities in technology, products development and marketing.
- Improve profitability.
- Strengthen management of the Nisshin Steel Group.
- Boost asset efficiency.
- Address safety, disaster prevention, equipment maintenance and environmental issues.
- Invest in IT to upgrade operating processes and management efficiency.
- Reform human resources management, systems and organization.

(2) To ensure competitiveness in international markets, and provide for future earnings growth, we will implement the following measures utilizing strategic investment of financial resources totaling ¥50 billion over five years:
- Expand operations in overseas growth markets (China and the United States).
- Expand overseas production bases.
- Strengthen competitiveness in procurement of raw materials.
- Pursue alliances and relevant agendas.

(3) We will utilize ¥50 billion over five years for returns to shareholders and debt reduction.

Profit Plan
(Period: Year Ending March 31, 2005 through the Year Ending March 31, 2009)

(1) Earnings Targets

Principal targets for the year ending March 31, 2006 under the current plan are as follows.

	Consolidated target
Net sales	¥480 billion
Income before special items	¥35 billion
Net income	¥16 billion
Net cash from operating activities	¥45 billion
Interest-bearing debt	¥195 billion
Return on assets (ROA)	6%
Return on investment (ROI)	8%
Debt-to-equity ratio	0.8 times

Notes: ROA = Business profit (income before special items + interest expense)/total assets.
ROI = Business profit/(interest-bearing debt + shareholders' equity).

(2) Specific Strategies

Sales and Marketing Strategies

Maximize profitability by strengthening development- and proposal-oriented sales, and improving the product mix.

- Raise the percentage of strategic products (stainless steel, specialty steel, special coated products) from the current 36% to 41% by the year ending March 31, 2006, aiming for 50% in the future.
- Increase sales of proprietary products (for example, ZAM sales expanded to 30,000 tons/month).
- Enhance marketing capabilities as well as delivery and product competitiveness (one-stop sales, improved overseas capabilities, market-oriented development, effective use of IT, etc.).
- Establish marketing and overseas supply networks for strategic products to cater to the global strategies of customers.

R&D and Product Development Strategies

Anticipate social trends and sophistication and diversification of customer needs, develop products that are highly functional and profitable, and launch new products on the market.

- Develop and market products that lessen the burden on the environment.
- Build "win-win" relationships by developing products that meet customer needs for greater sophistication and diversification, while helping them reduce costs.
- Raise the percentage of new products from the current 15% to 23% by the year ending March 31, 2006.

Cost Reduction Strategies

- In addition to the beneficial effects from the upgrades at the Kure Works to repair the No. 2 blast furnace and to change the mould of the No. 2 continuous casting machine to a vertical bending type, reduce variable costs through improvements in energy efficiency and defect rate, procurement of less expensive raw materials, and streamlining logistics.
- Reduce fixed costs through rationalizing administrative and planning work.

Basic Philosophy Regarding Corporate Governance and Implementation of Initiatives

Board of Directors and Executive Officer System

To provide for a flexible response to sudden changes in the business environment, effective from the year ended March 31, 2003, the term of office for directors was shortened to one year. In June 2003, we adopted the Executive Officer system as a means of separating strategic management and operational execution, and clarifying responsibility and authority.

At the same time, to further strengthen the essential functions of the Board of Directors (formulating management strategies and supervising operations), we reduced the number of Board members from 25 to no more than 10 (currently eight). We also established a Managerial Advisory Board, which provides comprehensive advice on overall company management from an objective viewpoint, and enhances our business operations.

Further, with the aim of allowing for more flexible and timely appointment of our Group's board members, the system of retirement benefits for directors was abolished in June 2003.

Audit System

The Board of Auditors, comprising four auditors (two of whom are external) appointed at the general meeting of shareholders, ensures the propriety of the

Board of Directors and individual directors' execution of their duties.

In April 2004, from the standpoint of further promoting compliance implementation, we established an Audit Office to improve the internal auditing organization. This office supports the auditors (including the outside auditors), conducts regular internal audits focusing on priority issues, and reports to management and auditors as appropriate.

Compliance Structure

Nisshin Steel is improving and strengthening its compliance structure by establishing Corporate Action Standards and a Code of Conduct that define the behavior standards for every director and employee in the Company. We have also established a Compliance Implementation Committee, which includes an external member (an attorney). In addition, we are creating a system within the Company to provide consultation and a means to report compliance issues, and a structure that will enable us to prevent or correct conduct that may be in violation of laws or regulations.

Outlook for the Year Ending March 31, 2005

Despite concerns of greater geopolitical risks such as those surrounding the confusion in Iraq, the global economy is expected to stay on a growth track. The Japanese economy is showing signs of recovery as well and is expected to come back strongly along with an improvement in business confidence, although countering deflation remains a challenge. In the steel industry, the domestic and overseas markets are projected to retain a balanced supply and demand position in the immediate future. However, there are no simple solutions to the problems of raw materials for steel (which invites price appreciation and procurement instability on a worldwide scale), or the sharp rise in ocean freight. There are strong calls for efforts to create an appropriate pricing scheme for steel products supported by stable supplies and prices of raw materials.

The Nisshin Steel Group, in the face of the ever-changing business environment, is determined to remain viable in the future, and is pushing forward with renewed purpose to improve and strengthen its business foundations with the aim of further growth. To realize this goal, we have implemented the new Medium-Term Management Plan, consisting of a management vision that dictates management directions over the next five years, and a profit plan for the next two years that will make this vision a reality. The new Medium-Term Management Plan aims to achieve sustainable profit growth and increase competitiveness while strengthening the financial base. Specifically, we are concentrating our efforts toward achieving non-consolidated income before special items of ¥30 billion by the close of the year ending March 31, 2006). Furthermore, we have designated the next five years as "the time for the second start-up." We are enhancing operational cash flow capabilities and investing in growth businesses, as we seek to rise to a new level built on new successes, and establish a growth cycle in a new era for Nisshin Steel.

Current forecasts, taking into account the operating environment and the future business improvement measures for the Group, are as follows.

	Consolidated forecasts (billions of yen)	
	Interim	Full year
Net sales	240	480
Income before special items	15	29
Net income	6	11

I wish to offer my sincere appreciation to all shareholders and investors for their continued support.

June 2004

Toshihiko Ono

Toshihiko Ono
President and Chief Executive Officer

Management's Discussion and Analysis

Operating Results

Consolidated net sales rose 9.5% from the year ended March 31, 2003, to ¥451,452 million. The significant increase was the result of the high sales volume, mainly to the robust manufacturing industry, along with rising sales prices in Japan and overseas.

There was a sharp increase in the price of raw materials, particularly for stainless steel, which generated a significant cost burden. However, our continued efforts to streamline operations as well as our relentless implementation of measures to enhance earnings, such as by correcting sales prices, resulted in the improvement in the cost of sales as a proportion of net sales by 2.9 percentage points, from 85.5% to 82.6%, even though cost of sales increased 5.7%, to ¥372,975 million. Selling, general and administrative expenses declined 1.8%, to ¥42,744 million.

As a result, operating income jumped to ¥35,733 million, 2.2 times the previous year's total.

Other (income) expenses improved ¥548 million from the year ended March 31, 2003, to ¥9,236 million.

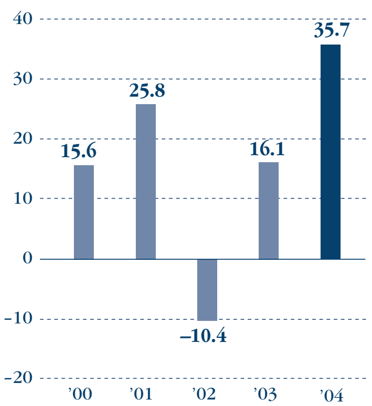
As a result, income before special items rose significantly, to ¥26,497 million, 4.2 times the prior year's figure. Special items included such charges and gains as retirement benefit expense and disposal of low-performing assets, allowing for net income of ¥9,786 million (compared to a net loss for the year ended March 31, 2003 of ¥2,696 million), the first surplus in three years.

Cash dividends, in view of the importance of providing all shareholders with stable distributions, were ¥2.00 per share for the interim period. End-of-year dividends, taking into account future business development and other general factors, were set at ¥2.00 per share, raising the full-year distribution from ¥2.00 the year ended March 31, 2003, to ¥4.00.

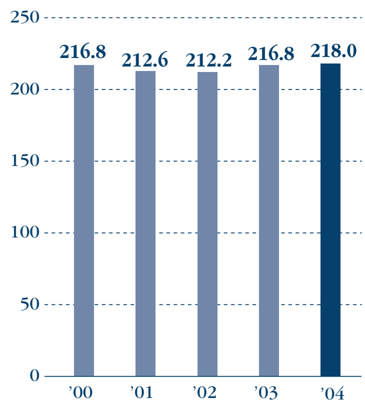
Financial Position

Total assets at the close of the year ended March 31, 2004 increased ¥11,717 million, from ¥625,530 million the year ended March 31, 2003, to ¥637,247 million. Although there were declines in total property, plant and equipment (down ¥11,405 million) due to selective capital investment and disposal of assets, and deferred income taxes (down ¥11,873 million) following elimination of the net loss carried forward,

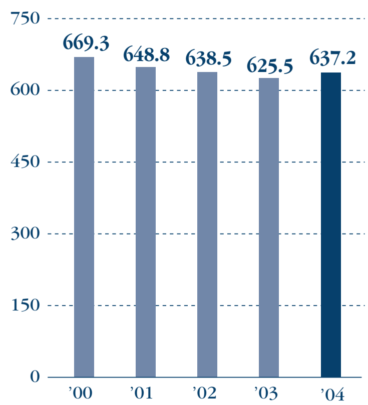
Operating Income (Loss)
(Billions of yen)



Total Current Assets
(Billions of yen)



Total Assets
(Billions of yen)



investments in securities increased ¥25,014 million due to unrealized gain on listed shares following a rise in share prices.

Total liabilities declined by ¥8,074 million from the close of the year ended March 31, 2003, to ¥379,728 million, due to a contraction of interest-bearing liabilities (down ¥25,690 million) such as long-term debt and short-term loans.

Total shareholders' equity rose ¥20,268 million from the close of the year ended March 31, 2003, to ¥249,416 million, the result of net income of ¥9,786 million, and an increase in unrealized gain on available-for-sale securities.

Cash Flows

Net cash provided by operating activities during the year ended March 31, 2004, totaled ¥40,605 million. This was due mainly to income before provision for income taxes of ¥18,266 million, depreciation and amortization of ¥24,413 million and increase in employees' retirement benefits account of ¥5,867 million, with the deduction of ¥14,219 million in increase in notes and accounts receivable.

Net cash used in investing activities totaled ¥10,703 million, due mainly to acquisition of property, plant and equipment of ¥19,884 million, against sale of property, plant and equipment, and sale and redemption of marketable securities.

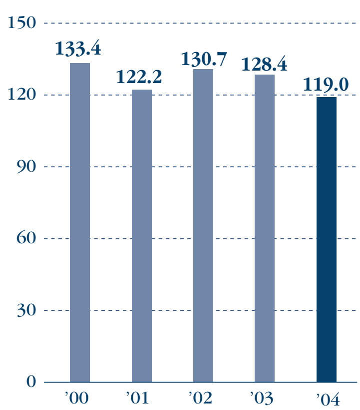
Net cash used in financing activities totaled ¥31,875 million. Of the free cash flow generated by the above, ¥25,690 million was used for reduction of liabilities such as long-term debt and short-term loans, and ¥3,864 million for cash dividends.

As a result, cash and cash equivalents at the close of the year ended March 31, 2004, totaled ¥27,816 million.

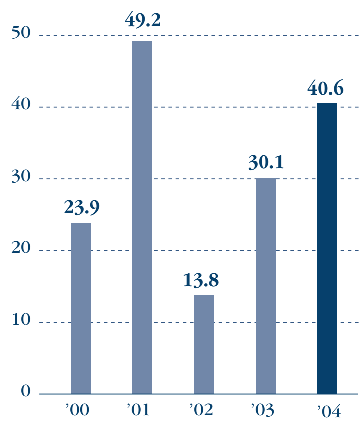
Forward-Looking Statements

The forecasts presented in this report are based on certain assumptions, rationally established by the Company at the time of preparation. Projected results may differ materially due to changes in the business environment or product demand in principal markets (Japan, Asia, etc.), significant fluctuations in exchange rates, or major shifts in capital market rates.

Long-Term Debt
(Billions of yen)



Net Cash Provided by Operating Activities
(Billions of yen)



Consolidated Seven-Year Summary

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Years ended March 31,	2004	2003
Results for the year:		
Net sales	**¥451,452**	¥412,412
Gross profit	**78,477**	59,607
Operating income (loss)	**35,733**	16,097
Income (loss) before special items	**26,497**	6,313
Income (loss) before provision for income taxes	**18,266**	(1,252)
Net income (loss)	**9,786**	(2,696)
Year-end financial position:		
Total current assets	**¥218,019**	¥216,768
Total property, plant and equipment	**287,674**	299,079
Total assets	**637,247**	625,530
Total current liabilities	**207,772**	213,808
Long-term debt	**118,977**	128,382
Total shareholders' equity	**249,416**	229,148
Cash flows:[1]		
Net cash provided by operating activities	**¥ 40,605**	¥ 30,118
Net cash used in investing activities	**(10,703)**	(17,214)
Net cash (used in) provided by financing activities	**(31,875)**	(14,514)
Per share amounts:[2]		
Net income (loss) per share	**¥10.10**	¥(2.73)
Cash dividends per share	**4.00**	2.00
Weighted average number of shares issued and outstanding (thousands)	**968,593**	985,679

Notes: 1. Consolidated statements of cash flows have been prepared since the year ended March 31, 2000.
2. Per share figures are in yen.

Millions of yen (except per share amounts and weighted average number of shares issued and outstanding)				
2002	2001	2000	1999	1998
¥ 394,494	¥ 445,096	¥ 430,956	¥ 398,584	¥ 462,661
35,951	73,236	69,404	60,014	80,418
(10,385)	25,813	15,583	1,428	17,942
(17,096)	16,180	5,610	(561)	14,406
(39,316)	3,139	(8,878)	(4,343)	11,363
(25,221)	767	(5,919)	(4,968)	3,294
¥ 212,226	¥ 212,580	¥ 216,843	¥ 259,270	¥ 299,059
302,129	320,599	327,421	323,680	307,089
638,458	648,846	669,266	648,439	670,257
219,726	224,896	234,163	213,234	238,801
130,680	122,171	133,352	127,787	113,199
233,500	252,377	244,999	251,533	260,389
¥ 13,796	¥ 49,186	¥ 23,919	¥ –	¥ –
(9,547)	(33,382)	(53,331)	–	–
13,022	(18,791)	19,535	–	–
¥ (25.36)	¥ 0.77	¥ (5.95)	¥ (4.94)	¥ 3.24
–	2.00	2.00	2.50	5.00
994,490	994,497	994,497	1,005,386	1,016,533

Consolidated Balance Sheets

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
ASSETS			
Current assets:			
Cash on hand and in banks (Note 15)	**¥ 28,646**	¥ 33,562	**$ 271,038**
Marketable securities (Notes 15 and 17)	**1,271**	2,236	**12,026**
Notes and accounts receivable	**89,621**	75,653	**847,961**
Inventories	**85,547**	85,656	**809,414**
Deferred income taxes (Note 8)	**3,641**	8,767	**34,450**
Other current assets	**10,153**	12,590	**96,064**
Allowance for doubtful accounts	**(860)**	(1,696)	**(8,137)**
Total current assets	**218,019**	216,768	**2,062,816**
Investments and long-term receivables:			
Investments in securities (Notes 6, 13 and 17)	**106,984**	81,970	**1,012,243**
Deferred income taxes (Note 8)	**2,296**	9,043	**21,724**
Others (Note 6)	**14,533**	11,244	**137,506**
Allowance for doubtful accounts	**(573)**	(458)	**(5,422)**
Total investments and long-term receivables	**123,240**	101,799	**1,166,051**
Property, plant and equipment, at cost (Note 3):			
Buildings and structures (Note 13)	**227,786**	228,687	**2,155,228**
Machinery, equipment and vessels (Note 13)	**775,224**	785,270	**7,334,885**
	1,003,010	1,013,957	**9,490,113**
Accumulated depreciation	**(779,076)**	(786,820)	**(7,371,332)**
	223,934	227,137	**2,118,781**
Land (Note 13)	**59,852**	63,308	**566,298**
Construction in progress	**3,888**	8,634	**36,787**
Total property, plant and equipment	**287,674**	299,079	**2,721,866**
Other assets	**8,314**	7,884	**78,664**
	¥ 637,247	¥ 625,530	**$ 6,029,397**

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

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Notes 7 and 13)	**¥ 57,479**	¥ 75,317	**$ 543,845**
Current portion of long-term debt (Notes 7 and 13)	**31,569**	34,016	**298,694**
Commercial paper	**4,000**	–	**37,847**
Notes and accounts payable	**72,972**	65,769	**690,434**
Income taxes payable	**2,104**	1,135	**19,907**
Other current liabilities	**39,648**	37,571	**375,135**
Total current liabilities	**207,772**	213,808	**1,965,862**
Long-term debt (Notes 7 and 13)	**118,977**	128,382	**1,125,717**
Deferred income taxes (Note 8)	**7,045**	2,386	**66,657**
Employees' retirement benefits (Note 9)	**37,794**	31,927	**357,593**
Reserve for rebuilding furnaces	**6,587**	9,766	**62,324**
Negative goodwill	**38**	76	**360**
Other liabilities	**1,515**	1,457	**14,334**
Total liabilities	**379,728**	387,802	**3,592,847**
Minority interests in consolidated subsidiaries	**8,103**	8,580	**76,667**
Shareholders' equity:			
Common stock, no par value at March 31, 2004 and 2003			
Authorized: 3,977,964 thousand shares at March 31, 2004 and 2003			
Issued: 994,500 thousand shares at March 31, 2004 and 2003	**79,913**	79,913	**756,107**
Additional paid-in capital	**49,893**	49,893	**472,069**
Retained earnings	**90,321**	84,417	**854,584**
Adjustment on revaluation of land (Note 14)	**383**	333	**3,624**
Unrealized gain on available-for-sale securities	**34,553**	16,257	**326,928**
Foreign currency translation adjustment	**(2,552)**	(587)	**(24,146)**
	252,511	230,226	**2,389,166**
Treasury stock, at cost	**(3,095)**	(1,078)	**(29,283)**
Total shareholders' equity	**249,416**	229,148	**2,359,883**
	¥637,247	¥ 625,530	**$6,029,397**

Consolidated Statements of Income

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
Net sales	**¥451,452**	¥ 412,412	**$4,271,473**
Cost of sales	**372,975**	352,805	**3,528,952**
Gross profit	**78,477**	59,607	**742,521**
Selling, general and administrative expenses (Notes 11 and 12)	**42,744**	43,510	**404,428**
Operating income	**35,733**	16,097	**338,093**
Other (income) expenses:			
Interest and dividend income	**(1,478)**	(1,543)	**(13,984)**
Interest expense	**3,247**	3,611	**30,722**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(1,718)**	74	**(16,255)**
Foreign exchange loss (Note 4)	**1,552**	–	**14,684**
Service cost of temporarily transferred employees	**3,558**	3,226	**33,664**
Retirement benefit expense	**2,679**	3,303	**25,348**
Others, net	**1,396**	1,113	**13,209**
Income before special items	**26,497**	6,313	**250,705**
Special items:			
Gain on sale of properties	**3,657**	451	**34,601**
Gain on sale of marketable securities	**2,405**	357	**22,755**
Reversal of reserve for rebuilding furnaces	**–**	5,720	**–**
Gain on return of the substitution portion of pension plan	**–**	5,053	**–**
Special items, income and gain	**6,062**	11,581	**57,356**
Loss on sale and disposition of properties	**7,718**	921	**73,025**
Retirement benefit expense	**5,945**	7,215	**56,249**
Special early retirement benefit payments	**630**	641	**5,961**
Loss on devaluation of marketable securities	**–**	8,682	**–**
Loss on liquidation of affiliate	**–**	760	**–**
Others	**–**	927	**–**
Special items, expense and loss	**14,293**	19,146	**135,235**
Income (loss) before provision for income taxes	**18,266**	(1,252)	**172,826**
Provision for income taxes (Note 8):			
Current	**3,389**	1,951	**32,065**
Deferred	**4,642**	(909)	**43,921**
Total provision for income taxes	**8,031**	1,042	**75,986**
Minority interests in earnings of consolidated subsidiaries	**449**	402	**4,248**
Net income (loss)	**¥ 9,786**	¥ (2,696)	**$ 92,592**

	Yen		U.S. dollars (Note 5)
Net income (loss) per share	**¥10.10**	¥(2.73)	**$0.10**
Cash dividends per share	**4.00**	2.00	**0.04**

Weighted average number of shares issued and outstanding (thousands)	**968,593**	985,679	

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

Consolidated Statements of Shareholders' Equity

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
Additional paid-in capital:			
Balance at beginning of year	**¥49,893**	¥ 49,893	**$ 472,069**
Balance at end of year	**49,893**	49,893	**472,069**
Retained earnings:			
Balance at beginning of year	**84,417**	87,150	**798,723**
Net income (loss)	**9,786**	(2,696)	**92,592**
Cash dividends	**(3,882)**	–	**(36,731)**
Decrease due to change in the number of affiliates accounted for using the equity method	**–**	(37)	**–**
Balance at end of year	**¥90,321**	¥ 84,417	**$ 854,584**

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

Consolidated Statements of Cash Flows

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
Cash flows from operating activities:			
Income (loss) before provision for income taxes	**¥ 18,266**	¥ (1,252)	**$172,826**
Depreciation and amortization	**24,413**	23,797	**230,987**
Interest and dividend income	**(1,478)**	(1,543)	**(13,984)**
Interest expense	**3,247**	3,611	**30,722**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(1,718)**	74	**(16,255)**
Loss on sale and disposition of property, plant and equipment	**4,049**	723	**38,310**
Loss on devaluation of marketable securities	**–**	8,682	**–**
Increase in notes and accounts receivable	**(14,219)**	(5,496)	**(134,535)**
(Increase) decrease in inventories	**(253)**	3,650	**(2,394)**
Increase in notes and accounts payable	**6,423**	2,448	**60,772**
Decrease in reserve for rebuilding furnaces	**(3,179)**	(5,072)	**(30,079)**
Increase in employees' retirement benefits account	**5,867**	6,022	**55,511**
Others, net	**2,906**	(2,640)	**27,496**
	44,324	33,004	**419,377**
Receipt of interest and dividends	**2,053**	1,784	**19,425**
Payment of interest	**(3,366)**	(3,695)	**(31,847)**
Payment of income taxes	**(2,406)**	(975)	**(22,765)**
Net cash provided by operating activities	**40,605**	30,118	**384,190**
Cash flows from investing activities:			
Acquisition of marketable securities	**(2,141)**	(6,650)	**(20,257)**
Proceeds from sale and redemption of marketable securities	**12,412**	7,690	**117,438**
Acquisition of property, plant and equipment	**(19,884)**	(14,603)	**(188,136)**
Proceeds from sale of property, plant and equipment	**4,463**	1,006	**42,227**
Others, net	**(5,553)**	(4,657)	**(52,540)**
Net cash used in investing activities	**(10,703)**	(17,214)	**(101,268)**
Cash flows from financing activities:			
Decrease in short-term loans	**(17,838)**	(662)	**(168,777)**
Increase (decrease) in commercial paper	**4,000**	(10,000)	**37,847**
Proceeds from long-term debt	**19,660**	31,630	**186,016**
Repayment and redemption of long-term debt	**(31,512)**	(34,063)	**(298,155)**
Cash dividends	**(3,864)**	(6)	**(36,560)**
Others, net	**(2,321)**	(1,413)	**(21,961)**
Net cash used in financing activities	**(31,875)**	(14,514)	**(301,590)**
Foreign currency translation adjustment of cash and cash equivalents	**(1,514)**	(955)	**(14,325)**
Net decrease in cash and cash equivalents	**(3,487)**	(2,565)	**(32,993)**
Cash and cash equivalents at beginning of year	**31,303**	33,790	**296,178**
Increase in cash due to a merger of subsidiaries	**–**	78	**–**
Cash and cash equivalents at end of year (Note 15)	**¥ 27,816**	¥ 31,303	**$263,185**

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

Notes to Consolidated Financial Statements

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2004 and 2003

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 in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting 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.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its nine consolidated subsidiaries, listed below (together, the "Companies"):

Nisshin A&C Co., Ltd.
Nisshin Kokan Co., Ltd.
Nisshin Koki Co., Ltd.
Shinwa Kigyo Co., Ltd.
Tsukiboshi Logistics Co., Ltd.
Tsukiboshi Shoji Co., Ltd.
Nisshin Holding, Inc.
Nisshin Steel USA, LLC
Wheeling-Nisshin, Inc.

The fiscal year periods and the closing dates thereof for financial statements of consolidated subsidiaries are in agreement with those of the Company, except for the three foreign consolidated subsidiaries: Nisshin Holding, Nisshin Steel USA, and Wheeling-Nisshin (the fiscal years end on December 31). In consolidating the three foreign subsidiaries, the Company makes adjustments for the material transactions subsequent to December 31.

Regarding the elimination of investments in the stock of consolidated subsidiaries, together with the underlying equity in the net assets of such subsidiaries, the Company follows the step-by-step acquisition approach to include equity in net income (loss) of subsidiaries, subsequent to the date of acquisition, in the Consolidated Statements of Income and Shareholders' Equity.

Evaluations of the assets and liabilities of consolidated subsidiaries are made at fair values in proportion to the parent company's equity in the subsidiaries upon each acquisition.

The difference between the cost of an investment in a subsidiary and the amount of underlying equity in the net assets of the subsidiary is deferred as an asset or a liability as the case may be and amortized over a period of five years on a straight-line basis.

With respect to the elimination of unrealized intercompany profit included in inventories or other assets remaining within the Companies at the balance sheet date, the following two methods have been applied in accordance with the respective circumstances:

> Unrealized intercompany profits arising from downstream transactions (sales by the parent company to the subsidiaries) have been entirely eliminated and charged to the parent company.
>
> Unrealized intercompany profits arising from upstream transactions (sales by subsidiaries to the parent company) have been entirely eliminated, and the minority interests were adjusted in proportion to minority ownership percentages.

Investments in unconsolidated subsidiaries and affiliates are accounted for using the equity method, except for those valued at cost due to the lack of materiality.

The number of unconsolidated subsidiaries accounted for using the equity method was eight at March 31, 2004 and included:

Tsukiboshi Art Co., Ltd.
Osaka Stainless Center Co., Ltd.

The number of affiliates accounted for using the equity method was 15 at March 31, 2004 and included:

Nihon Teppan Co., Ltd.
Sun Wave Corporation
Sanko Metal Industrial Co., Ltd.
Canox Corporation
Ningbo Baoxin Stainless Steel Co., Ltd.

Changes in the number of subsidiaries and affiliates accounted for using the equity method during the year ended March 31, 2004 are as follows:

Increase in the number of unconsolidated subsidiaries: None
Decrease in the number of unconsolidated subsidiaries: One
Increase in the number of affiliates: One
Decrease in the number of affiliates: One

Nisshin Information Service Corp., one of the unconsolidated subsidiaries accounted for using the equity method in the year ended March 31, 2003 has become an affiliate accounted for using the equity method due to a sale of stocks in the year ended March 31, 2004.

Sales Recognition

Sales of finished goods are generally recognized when goods are shipped to the customers.

Foreign Currency Translation

Foreign currency transactions are generally translated using foreign exchange rates prevailing at the respective transaction dates. Receivables and payables in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates.

Assets and liabilities of overseas subsidiaries are translated into yen at the foreign exchange rates prevailing at the respective balance sheet dates, whereas shareholders' equity is translated at historical rates. Income and expenses are translated at the foreign exchange rates prevailing at the respective balance sheet dates.

Inventory Valuation

Inventories are valued at the weighted-average cost, except for supplies, which are valued at the moving-average cost.

Investments in Securities

Investments in securities have been classified into four categories.

(1) Trading securities are to be valued at fair values on the balance sheet date, and unrealized gain or loss is to be charged to income. The Companies had no trading securities at March 31, 2004 and 2003.
(2) Held-to-maturity securities have been stated at cost after the amortization of premiums or discounts on acquisition, which have been amortized over the period to maturity.
(3) Investments in unconsolidated subsidiaries and major affiliates have been accounted for by the equity method, except for those valued at cost due to the lack of materiality.
(4) Available-for-sale securities have been valued at fair values except for those valued at cost due to the lack of fair value information. Applicable unrealized net-of-tax gains and losses have been included in shareholders' equity.

Allowance for Doubtful Accounts

Allowance for doubtful accounts has been evaluated based on the actual bad debt rate in the past. For doubtful receivables etc., the possibility of collection has been evaluated in accounting for the allowance.

Property, Plant and Equipment

Depreciation is computed using the straight-line method.

The range of useful lives utilized is mainly from 15 to 50 years for buildings and structures, from seven to 14 years for machinery and equipment and from 10 to 15 years for vessels. Additional depreciation is charged to income for machinery and equipment when the Companies operate with additional shifts.

The cost of maintenance, repairs and minor renewals is charged to operating income as incurred. Major renewals and improvements are capitalized. The cost of property, plant and equipment retired or otherwise disposed of and the corresponding accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

Other Assets

Amortization of intangible assets including software is computed using the straight-line method. Software is amortized over the internally estimated useful life, i.e., five years.

Reserves for Rebuilding Furnaces

Blast furnaces, including related machines, periodically require substantial component replacements and repairs. Such work occurs normally every 10 years for blast furnaces after being put into operation. The estimated future costs of such work are provided for and charged to income on a straight-line basis over the periods to the date of the anticipated replacements and repairs. The difference between such estimated costs and actual costs is charged or credited to income at the time the work takes place. In estimating such future costs for a specific furnace, the general price level increase and other economic factors are taken into consideration.

The Company had kept reserve accounts for substantial component replacements for hot blast stoves in addition to blast furnaces. The replacements for hot blast stoves occurred normally every 20 years. A hot blast stove, for which a substantial component replacement was expected in the year ending March 31, 2004, has long been operating in a sturdy and well-kept condition. In the year ended March 31, 2003, the Company decided such substantial component replacement would not be necessary or take place, and a reversal of the Reserve for Rebuilding Furnaces was made by the applicable amount. The Company also decided that the remaining hot blast furnaces would not require the substantial component replacement, and applicable reversals were made in the year ended March 31, 2003. The total reversal of the reserve of ¥5,720 million has been credited to income for the year ended March 31, 2003.

Employees' Retirement Benefits

The lump-sum severance benefit payments and the defined benefit pension plans are accounted for using the actuarial calculation of projected benefit obligation for each employee.

The Company's defined benefit pension plans contained a future benefit obligation on behalf of the Japanese Government (the so-called "substitution portion"). Following the revised enactment of the Japanese Welfare Pension Insurance Law, the Company received permission from the Minister of Health, Labour and Welfare with respect to the application for return of the substitution portion and was released from the obligation for future benefits on January 30, 2003.

In accordance with the transition provision prescribed by Article 47-2 of "Practical Guidelines for Accounting for Retirement Benefits (Accounting Committee Report No. 13)" issued by the Accounting Committee of the Japanese Institute of Certified Public Accountants, the Company recognized a gain from the return of the substitution portion of pension plans by reducing the retirement benefit obligation and the plan assets related to such substitution portion as of the date when the Company received the permission from the Minister of Health, Labour and Welfare under which the Company was released from the obligation for future benefits relating to the substitution portion. The gain on the return of the substitution portion of ¥5,053 million has been credited to "Special items, income and gain" for the year ended March 31, 2003.

The pension plan assets to be returned to the Japanese Government amounted to ¥51,248 million as of March 31, 2003.

Leases

The Company, as a lessee, charges periodic capital lease payments to expenses when paid.

Income Taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

Consumption Tax

In Japan, a consumption tax is imposed on domestic consumption of goods and services at the rate of 5%. The consumption tax imposed on the Companies' sales to customers is withheld by the Companies at the time of sale and paid to the national government. The consumption tax withheld upon sale is not included in the amount of "Net sales" in the accompanying Consolidated Statements of Income but is recorded as a liability. The balances of consumption tax withheld and consumption tax paid (an asset item), which is paid by the Companies on the purchases of products, merchandise and services from venders, are offset, and the net balance is included in "Other current liabilities" in the Consolidated Balance Sheets.

Net Income (Loss) and Cash Dividends per Share

The computation of net income (loss) per share is based on the weighted average number of common shares issued and outstanding during each year. Cash dividends per share shown for each year in the accompanying Consolidated Statements of Income are based on cash dividends applicable to the net income of each year.

Cash and Cash Equivalents

Cash and cash equivalents included in the Consolidated Statements of Cash Flows comprise cash on hand and in banks, deposits that can be withdrawn upon demand and easily cashable short-term investments with a three-month or shorter redemption term that carry negligible risk of fluctuation in value.

Accounting Standard for the Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company has not yet applied this new standard nor has determined the effect of applying it on the Company's consolidated financial statements.

3. Change in Accounting Method

Depreciation of Property, Plant and Equipment

Prior to the year ended March 31, 2003, 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 year ended March 31, 2003, depreciation has been computed using the straight-line method.

In recent years, the Company had been making enormous and continuous capital investments, such as the construction of Toyo Works. The operation of Toyo Works and quality of their products have swiftly become stable. The Company views its capital expenditure as having passed its peak and investments will now focus on the maintenance of existing facilities rather than the construction of new facilities. Since the demand for steel products has been sluggish, the operation of the Company's facilities is expected to be constant at a relatively lower level than before. The Company sees that the effect of capital expenditure will result in a constant run, and that the straight-line method is suitable for the depreciation in current circumstances.

This change decreased depreciation expenses by ¥7,509 million, increased income before special items by ¥6,081 million and decreased loss before provision for income taxes by the same amount for the year ended March 31, 2003, relative to what they would have been had the previous method been used.

Accounting Standard for Treasury Stock and Reduction of Legal Reserves

"Accounting Standard for Treasury Stock and Reduction of Legal Reserves (Accounting Standards No. 1)" has been applied effective from the year ended March 31, 2003. This change had no material effect on profit and loss for the year ended March 31, 2003.

Earnings per Share

"Accounting Standard for Earnings per Share (Accounting Standards No. 2)" and "Implementation Guidance on Accounting Standard for Earnings per Share (Accounting Standards Implementation Guidance No. 4)" have been applied effective from the year ended March 31, 2003. This change had no effect on profit and loss for the year ended March 31, 2003.

4. Accounting Title and Classification

Foreign Exchange Gain or Loss

Prior to the year ended March 31, 2004, foreign exchange gain or loss was included in "Others, net" in other (income) expenses in the Consolidated Statements of Income. Effective from the year ended March 31, 2004, foreign exchange loss has been shown separately in other (income) expenses in the statements as its materiality in other expenses has been increased. It amounted to a loss of ¥1,077 million in the previous year.

5. U.S. Dollar Amounts

U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars on a basis of ¥105.69 = US$1, the effective rate of exchange at March 31, 2004. 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 ¥105.69 = US$1 or at any other rate.

6. Investments in Unconsolidated Subsidiaries and Affiliates

"Investments in securities" in the Consolidated Balance Sheets at March 31, 2004 and 2003 contain investments in unconsolidated subsidiaries and affiliates as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Stocks of unconsolidated subsidiaries and affiliates	**¥24,944**	¥23,933	**$236,011**
Bonds of unconsolidated subsidiaries and affiliates	**–**	900	**–**

"Others" in "Investments and long-term receivables" in the Consolidated Balance Sheets at March 31, 2004 and 2003 contain investments in unconsolidated subsidiaries and affiliates as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Equity in unconsolidated subsidiaries and affiliates	**¥ 9,018**	¥5,384	**$ 85,325**

7. Short-Term Loans and Long-Term Debt

Short-term loans at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Bank loans	**¥ 57,479**	¥ 75,317	**$ 543,845**

It is a normal business custom in Japan for short-term borrowings to be rolled over.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans from banks and other financial institutions	**¥ 95,546**	¥106,798	**$ 904,022**
9th 2.325% unsecured bond of the Company due July 2006	**20,000**	20,000	**189,233**
10th 1.72% unsecured bond of the Company due Nov. 2005	**10,000**	10,000	**94,616**
11th 1.35% unsecured bond of the Company due Nov. 2005	**10,000**	10,000	**94,616**
12th 1.45% unsecured bond of the Company due Oct. 2008	**10,000**	10,000	**94,616**
13th 0.4% unsecured bond of the Company due Feb. 2008	**5,000**	5,000	**47,308**
1.8% secured bond of Tsukiboshi Logistics due Mar. 2004	**–**	600	**–**
Total long-term debt	**150,546**	162,398	**1,424,411**
Portion due within one year	**(31,569)**	(34,016)	**(298,694)**
"Long-term debt" in the Consolidated Balance Sheets	**¥118,977**	¥128,382	**$ 1,125,717**

8. Income Taxes

The Company and its domestic subsidiaries are subject to a number of different normal taxes based on income. Income taxes consist of corporate income tax, inhabitants' taxes and enterprise taxes. Due to the change in local tax law during the year ended March 31, 2003, the statutory tax rate used in the calculation of deferred tax assets and liabilities was reduced to 40.4% for the year ended March 31, 2003 from 41.7% for the year ended March 31, 2002. As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥168 million as of March 31, 2003 and income taxes-deferred and unrealized gain on available-for-sale securities increased by ¥522 million and ¥354 million, respectively, for the year ended March 31, 2003.

Components of the Companies' deferred income tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred income tax assets:			
Non-deductible portion of employees' retirement benefits	**¥ 17,233**	¥ 15,217	**$ 163,052**
Non-deductible portion of accrued bonus expense	**2,699**	1,903	**25,537**
Non-deductible portion of reserve for rebuilding furnaces	**1,611**	1,342	**15,243**
Tax loss carryforward	**–**	11,088	**–**
Elimination of unrealized intercompany profit	**–**	1,200	**–**
Others	**6,885**	2,160	**65,143**
Preliminary deferred income tax assets	**28,428**	32,910	**268,975**
Valuation allowance	**(891)**	(1,042)	**(8,430)**
Total deferred income tax assets	**27,537**	31,868	**260,545**
Deferred income tax liabilities:			
Unrealized gain on available-for-sale securities	**23,070**	10,997	**218,280**
Reserve for postponement of taxation on capital gains from property	**2,951**	1,879	**27,921**
Depreciation expenses of U.S. subsidiaries	**1,590**	2,386	**15,044**
Others	**1,034**	1,182	**9,783**
Total deferred income tax liabilities	**28,645**	16,444	**271,028**
Net deferred income tax (liabilities) assets	**¥ (1,108)**	¥ 15,424	**$ (10,483)**

The reconciliation of the statutory tax rate to the income tax rate reflected in the Consolidated Statements of Income for the year ended March 31, 2003 is not shown since the operating result for the year was a loss before provision for income taxes. The reconciliation for the year ended March 31, 2004 is as follows:

	2004
Statutory tax rate	**41.7%**
Reconciliation:	
Change in enterprise tax rate	**1.9**
Others	**0.4**
Effective rate of income tax expense	**44.0%**

9. Employees' Retirement Benefits

Analysis of the reserve account for "Employees' retirement benefits" at March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligations	¥ 123,989	¥ 128,493	$ 1,173,138
Plan assets	(66,952)	(53,922)	(633,475)
Funded status	57,037	74,571	539,663
Unrecognized transition amount	(11,890)	(17,835)	(112,498)
Unrecognized actuarial differences	(23,769)	(29,519)	(224,894)
Unrecognized prior-service costs	16,309	4,710	154,310
Total employees' retirement benefits	37,687	31,927	356,581
Prepaid pension cost	107	–	1,012
"Employees' retirement benefits" in the Consolidated Balance Sheets	¥ 37,794	¥ 31,927	$ 357,593

Components of retirement benefit expense for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 2,425	¥ 4,246	$ 22,945
Interest cost	3,295	5,481	31,177
Expected return on plan assets	(1,434)	(3,155)	(13,568)
Amortization of transition amount	5,945	7,215	56,249
Amortization of unrecognized actuarial differences	2,258	2,921	21,364
Amortization of unrecognized prior-service costs	(610)	(672)	(5,772)
Total retirement benefit expense	11,879	16,036	112,395
Gain on return of the substitution portion of pension plan	–	(5,053)	–
Total	¥ 11,879	¥10,983	$ 112,395

Assumptions made in the calculation of the above information are as follows:

	2004	2003
Discount rate:	2.0%	2.8%
Expected rate of return on plan assets:	2.8%	2.8%
Method of attributing the projected benefits to periods of services:	Straight-line basis	Straight-line basis
Amortization of transition amount:	6 years	6 years
Amortization of unrecognized actuarial differences:	14 years	14 years
Amortization of unrecognized prior-service costs:	14 years	14 years

10. Contingent Liabilities

Contingent liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Contingent liabilities arising from:			
Guarantee of bank loans for employees	**¥2,169**	¥2,289	**$20,522**
Guarantee of loans for others in the ordinary course of business	**1,640**	2,126	**15,517**

In addition, the Companies issued letters of guarantee for the future for others in the ordinary course of business. The aggregate amount was ¥239 million (US$2,261 thousand) and ¥272 million at March 31, 2004 and 2003, respectively.

11. Research and Development Expenses

Research and development expenses for the years ended March 31, 2004 and 2003 totaled ¥3,441 million (US$32,557 thousand) and ¥3,312 million, respectively, which were included in selling, general and administrative expenses.

12. Selling, General and Administrative Expenses

Principal selling, general and administrative expenses for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Freight out	**¥ 15,241**	¥15,314	**$ 144,205**
Salaries, bonuses and allowances	**9,489**	9,208	**89,781**
Research and development expenses	**3,441**	3,312	**32,557**

13. Mortgaged Properties

Breakdowns of properties pledged as collateral and liabilities guaranteed by right of collateral at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Properties pledged as collateral:			
Buildings and structures	**¥ 115**	¥ 166	**$ 1,088**
Machinery, equipment and vessels	**–**	235	**–**
Land	**50**	1,252	**473**
Investments in securities and unconsolidated affiliates	**30**	578	**284**
Total	**¥ 195**	¥ 2,231	**$ 1,845**
Liabilities guaranteed by right of collateral:			
Short-term bank loans	**¥1,260**	¥ 1,330	**$ 11,922**
Long-term bank loans (including portion due within one year)	**895**	1,441	**8,468**
Bonds	**–**	600	**–**
Total	**¥2,155**	¥ 3,371	**$ 20,390**

14. Adjustment on Revaluation of Land

At March 31, 2002, some of the unconsolidated subsidiaries and affiliates accounted for using the equity method made a revaluation of land for business purposes in accordance with the Law concerning Revaluation of Land. The Company's share of a net-of-tax unrealized gain at March 31, 2004 and 2003 has been recorded as a separate component of shareholders' equity.

15. Reconciliation of Cash on Hand and in Banks to Cash and Cash Equivalents at End of Year

The reconciliations of "Cash on hand and in banks" in the Consolidated Balance Sheets at March 31, 2004 and 2003 to "Cash and cash equivalents at end of year" in the Consolidated Statements of Cash Flows for the years then ended are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash on hand and in banks	**¥ 28,646**	¥ 33,562	**$ 271,038**
Marketable securities	**1,271**	2,236	**12,026**
Total	**29,917**	35,798	**283,064**
Time deposits and short-term investments with deposit terms or maturity periods exceeding three months in "Marketable securities"	**(2,101)**	(4,495)	**(19,879)**
Cash and cash equivalents at end of year	**¥ 27,816**	¥ 31,303	**$ 263,185**

16. Leases

Details on finance leases other than those that acknowledge the transfer of ownership to the lessee are as follows:

(1) Pro forma information regarding leased property at March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Amount equivalent to leased article acquisition costs	**¥ 1,167**	¥ 1,256	**$ 11,042**
Amount equivalent to the accumulated depreciation	**(731)**	(696)	**(6,917)**
Amount equivalent to the year-end balance	**¥ 436**	¥ 560	**$ 4,125**

(2) The amount of outstanding future lease payments at March 31, 2004 and 2003, which includes the portion of interest therein, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Future lease payments:			
Due within one year	**¥ 190**	¥ 221	**$ 1,798**
Due over one year	**246**	339	**2,327**
Total	**¥ 436**	¥ 560	**$ 4,125**

(3) Lease payments and amounts equivalent to depreciation expenses for the year ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Lease payments	**¥ 242**	¥ 290	**$ 2,290**
Amount equivalent to depreciation expenses	**242**	290	**2,290**

Note: Amount equivalent to depreciation expenses is calculated using the straight-line method, which designates residual value as zero, over the years equivalent to contracted lease periods.

17. Marketable Securities

The aggregated market value of held-to-maturity securities was higher than the book value by ¥9 million (US$85 thousand) at March 31, 2004. The market value was higher than the book value by ¥74 million at March 31, 2003.

Regarding held-to-maturity securities and available-for-sale securities for which fair value information was not available, their aggregate book value on the balance sheets was ¥2,044 million (US$19,340 thousand) at March 31, 2004, down from ¥2,548 million at March 31, 2003.

Available-for-sale securities with pre-decided maturity dates and bonds categorized as held-to-maturity securities were expected to be redeemed at March 31, 2004 and 2003 as follows:

	Millions of yen		Thousands of U.S. dollars
Number of years from the balance sheet date	**2004**	2003	**2004**
Within one year	**¥ 1,330**	¥ 3,190	**$ 12,584**
Over one year and within five years	**126**	172	**1,192**
Over five years and within ten years	**–**	16	**–**

18. Derivative Transactions

The Companies' policy on derivatives restricts the use of derivative transactions to those related to actual demands and forbids their use for purposes of profit acquisition. The Companies confine the use of derivative transactions to hedging risk against interest rate fluctuations or reducing interest rates of bank loans, bonds and other financing means. The Companies' derivative transactions are those to which hedge accounting is applied, and fair values and other information at March 31, 2004 and 2003 are not shown in accordance with Japanese accounting standards for financial instruments.

19. Segment Information

Business Segment Information

The Companies are mainly engaged in the manufacturing and selling of steel products and related businesses. These businesses accounted for more than 90% of the Companies' combined assets at March 31, 2004 and 2003 and combined sales and operating income for the two years then ended.

Information by Geographic Segment

The Company and its domestic consolidated subsidiaries accounted for more than 90% of the Companies' combined assets at March 31, 2004 and 2003 and combined sales for the two years then ended.

Sales to Overseas Customers

The Companies' overseas sales for the year ended March 31, 2004 amounted to ¥98,763 million (US$934,459 thousand), of which ¥37,923 million (US$358,814 thousand) was accounted for by North American sales, and represented 21.9% of consolidated net sales. The Companies' overseas sales for the year ended March 31, 2003 amounted to ¥93,190 million, of which ¥40,399 million was accounted for by North American sales, and represented 22.6% of consolidated net sales.

20. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the year ended March 31, 2004 and 2003 are as follows:

				Millions of yen/Thousands of U.S. dollars					
				Transactions			Resulting accounting balance		
Name of related company	Paid-in capital	Principal business	Equity ownership percentage by the Company	Description of the Company's transactions	**2004**	2003	Account	**2004**	2003
Nihon Teppan Co., Ltd.	¥1,300 million $12,300 thousand	Sale of coated steel	50.0%	Sale of the Company's coated steel products to the related party by the Company	**¥44,257** **$418,743**	¥38,210	Accounts receivable	**¥13,956** **$132,047**	¥12,435
Canox Corporation	¥2,310 million $21,856 thousand	Sale of coated steel	15.4%	Sale of the Company's coated steel products to the related party by the Company	**¥26,033** **$246,315**	–	Accounts receivable	**¥ 8,375** **$ 79,241**	–

21. Other Information

On December 2, 2003, the Company received a recommendation concerning sales of cold-rolled stainless steel sheets and strips from the Japan Fair Trade Commission since such sales infringe the provisions of Section 3 of the Antimonopoly Act. The Company accepted the recommendation on December 12, 2003.

Report of Independent Auditors

To the Board of Directors and Shareholders of Nisshin Steel Co.,Ltd.

We have audited the accompanying consolidated balance sheets of Nisshin Steel Co.,Ltd. and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nisshin Steel Co.,Ltd. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 5 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan

June 25, 2004

Investor Information
(As of March 31, 2004)

Nisshin Steel Co., Ltd.

Registered Head Office	Shinkoukusai Building, 4-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-8366, Japan Telephone: (81)-3 3216-5566 Facsimile: (81)-3 3216-5546
Year of Establishment	1928
Year of Incorporation	1959
Common Stock	Authorized: 3,977,964 thousand shares Issued: 994,500 thousand shares Capital: ¥79,913,126 thousand

Common Stock Price Range
(Tokyo Stock Exchange)

	2004		2003		2002	
	High	Low	High	Low	High	Low
First Quarter	**¥135**	**¥72**	¥78	¥61	¥137	¥106
Second Quarter	**205**	**119**	68	50	122	73
Third Quarter	**232**	**161**	56	35	89	49
Fourth Quarter	**232**	**184**	85	47	80	58

Note: Years ended March 31.

Number of Shareholders	65,262
Independent Certified Public Accountants	ChuoAoyama PricewaterhouseCoopers (changed from ChuoAoyama Audit Corporation on April 15, 2004)

For further information or additional copies of our corporate brochure or annual report, please contact the Public & Investor Relations Team.

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NISSHIN STEEL

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