

SEMIANNUAL REPORT
For the Six-Month Period Ended September 30, 2004

NISSHIN

NISSHIN STEEL CO., LTD.

STEEL

Vol.125

FINANCIAL HIGHLIGHTS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Six-month periods ended September 30, 2004 and 2003

	Millions of yen (except per share amounts)		Thousands of U.S. dollars ¹ (except per share amounts)
	2004	2003	2004
Net sales	¥251,578	¥221,435	\$2,265,448
Net income	10,743	5,411	96,740
Net income per share ²	¥11.17	¥5.56	\$0.10
Cash dividends per share ²	2.50	2.00	0.02
Total assets	¥654,227	¥630,849	\$5,891,283
Total shareholders' equity	261,740	240,874	2,356,956

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 ¥111.05=US\$1, the effective rate of exchange at September 30, 2004.

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

Operating Environment for the Nisshin Steel Group

During the first half of the year ending March 31, 2005, the Japanese economy was characterized by a gradual expansion of the foundation for recovery, with increases in consumer spending alongside continued growth in private capital investment and expanded job opportunities.



Toshihiko Ono

In the steel industry, robust demand for steel products both in Japan and overseas caused shortages in some sectors. Although profitability improved with the correction in sales prices, fuel prices continue to rise, and the business climate for the industry remains unpredictable.

Group Business Results and Successes

In this operating environment, the Nisshin Steel Group undertook a range of proactive measures to “strive to achieve sustainable profit growth while strengthening the financial base,” the fundamental goal of our 15th Medium-Term Management Plan, which was launched at the start of the year ending March 31, 2005. On the sales front in particular, while continuing to focus on the improvement of sales prices, we conducted a major review of our sales mix, and pursued greater profitability through such measures as a shift toward highly profitable products. Of particular note is our representative product ZAM (hot-dipped zinc-aluminum-magnesium coated steel), for which new applications are being continually developed that utilize its high functionality and environmentally friendly properties. Recognition in the market is rising rapidly, and we expect to reach our sales target for the year ending March 31, 2006 of 30,000 metric tons per month ahead of schedule.

Consequently, although rising costs for stainless steel materials and other products affected performance, higher profitability realized through efforts in both production and sales, together with a strong contribution from overseas joint ventures, enabled us to achieve consolidated net sales for the first half of ¥251,578 million, income before special items of ¥26,845 million, and net income of ¥10,743 million, all

significantly above the results from the first half of the previous year. Non-consolidated results for the first half were net sales of ¥184,821 million, income before special items of ¥23,186 million, and net income of ¥11,504 million, representing considerable rises in sales and earnings from the first half of the previous year.

In view of the importance of providing all the shareholders with stable distributions, and taking into account performance during the first half, future operating conditions, business development and other general factors, we set interim cash dividends at ¥2.50 per share.

Outlook and Issues for the Nisshin Steel Group

The outlook may be affected by several potentially destabilizing factors, including the direction of fuel prices that is aggravating uncertainty; the effect on the global economy of oil prices, which have risen sharply; and the state of the Chinese economy, in which a potential backlash from superheated investment is a concern. Demand for steel products both in Japan and overseas, however, is expected to maintain its growth for the immediate future, and the steel industry will continue to be called upon to operate at full capacity to ensure a stable supply.

In response to these business conditions, the Nisshin Steel Group will aim to strengthen its earnings base through a number of measures based on the 15th Medium-Term Management Plan: for example, by raising the sales share of such highly competitive, strategic products as stainless steel, specialty steels and unique coated products, reducing manufacturing costs, and maximizing our technical capabilities to develop original products. We will devote all our efforts to achieve our target for income before special items—¥35,000 million on a consolidated basis and ¥30,000 million on a non-consolidated basis—for the year ending March 31, 2006, one year ahead of the schedule established under the 15th Medium-Term Management Plan.

In overseas markets, which are expected to see future growth, we have already begun expanding production capabilities for our stainless steel cold-rolling joint venture business in China (with completion planned in December 2005), while in the United States we have launched a project to manufacture and sell automotive stainless steel pipe (with

commercial operations to commence in July 2005). We are also actively investing Group management resources in the creation of such business opportunities as the ongoing overseas development of ZAM, and building future potential for earnings growth through alliances exemplified by a hot-rolling agreement for stainless steel coils concluded recently with Nippon Metal Industry Co., Ltd. In these ways, we seek to enhance the Nisshin Steel Group's corporate value.

In closing, I wish to thank you for your continued support of Nisshin Steel.

December 2004

A handwritten signature in black ink that reads "Toshihiko Ono". The signature is written in a cursive, flowing style.

Toshihiko Ono

President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 28,898	¥ 32,264	\$ 260,225
Marketable securities	2,365	2,314	21,297
Notes and accounts receivable	94,199	84,583	848,258
Inventories	93,875	86,692	845,340
Deferred income taxes	4,363	5,577	39,289
Other current assets	14,597	7,459	131,444
Allowance for doubtful accounts	(1,029)	(1,893)	(9,266)
Total current assets	237,268	216,996	2,136,587
Investments and long-term receivables:			
Investments in securities	113,359	98,575	1,020,792
Deferred income taxes	2,353	2,424	21,189
Others	14,701	10,661	132,382
Allowance for doubtful accounts	(512)	(386)	(4,611)
Total investments and long-term receivables	129,901	111,274	1,169,752
Property, plant and equipment, at cost:			
Buildings and structures	227,010	229,010	2,044,214
Machinery, equipment and vessels	769,566	782,348	6,929,906
	996,576	1,011,358	8,974,120
Accumulated depreciation	(780,686)	(791,981)	(7,030,041)
	215,890	219,377	1,944,079
Land	59,237	63,422	533,427
Construction in progress	3,417	12,188	30,770
Total property, plant and equipment	278,544	294,987	2,508,276
Other assets	8,514	7,592	76,668
	¥654,227	¥ 630,849	\$5,891,283

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



	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans	¥ 52,153	¥ 64,850	\$ 469,635
Current portion of long-term debt	30,964	23,069	278,829
Commercial paper	8,000	-	72,040
Notes and accounts payable	75,975	66,264	684,151
Income taxes payable	11,006	614	99,109
Other current liabilities	33,155	38,276	298,559
Total current liabilities	211,253	193,073	1,902,323
Long-term debt	115,438	138,180	1,039,514
Deferred income taxes	7,540	3,394	67,897
Employees' retirement benefits	40,575	35,346	365,376
Reserve for rebuilding furnaces	7,260	10,118	65,376
Negative goodwill	19	57	171
Other liabilities	1,530	1,506	13,778
Total liabilities	383,615	381,674	3,454,435
Minority interests in consolidated subsidiaries	8,872	8,301	79,892
Shareholders' equity:			
Common stock, no par value at September 30, 2004 and 2003			
Authorized: 3,977,964 thousand shares			
at September 30, 2004 and 2003			
Issued: 994,500 thousand shares			
at September 30, 2004 and 2003			
	79,913	79,913	719,613
Additional paid-in capital	49,893	49,893	449,284
Retained earnings	99,185	87,879	893,156
Adjustment on revaluation of land	383	385	3,449
Unrealized gain on available-for-sale securities	37,613	27,134	338,703
Foreign currency translation adjustment	(1,248)	(1,736)	(11,238)
	265,739	243,468	2,392,967
Treasury stock, at cost	(3,999)	(2,594)	(36,011)
Total shareholders' equity	261,740	240,874	2,356,956
	¥654,227	¥630,849	\$5,891,283

CONSOLIDATED STATEMENTS OF INCOME

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Six-month periods ended September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Net sales	¥251,578	¥221,435	\$2,265,448
Cost of sales	200,496	181,205	1,805,457
Gross profit	51,082	40,230	459,991
Selling, general and administrative expenses	22,521	21,496	202,801
Operating income	28,561	18,734	257,190
Other (income) expenses:			
Interest and dividend income	(1,016)	(973)	(9,149)
Interest expense	1,453	1,687	13,084
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,639)	(370)	(14,760)
Foreign exchange (gain) loss	(431)	864	(3,881)
Service cost of temporarily transferred employees	2,340	1,754	21,072
Retirement benefit expense	1,025	1,406	9,230
Others, net	(16)	770	(144)
Income before special items	26,845	13,596	241,738
Special items:			
Gain on sale of properties	-	408	-
Gain on sale of marketable securities	-	211	-
Special items, income and gain	-	619	-
Loss on sale and disposition of properties	766	708	6,898
Loss on impairment of fixed assets	3,139	-	28,267
Retirement benefit expense	2,973	2,972	26,771
Special early retirement benefit payments	-	441	-
Special items, expense and loss	6,878	4,121	61,936
Income before provision for income taxes	19,967	10,094	179,802
Provision for income taxes:			
Current	11,239	837	101,207
Deferred	(2,620)	3,712	(23,593)
Total provision for income taxes	8,619	4,549	77,614
Minority interests in earnings of consolidated subsidiaries	605	134	5,448
Net income	¥ 10,743	¥ 5,411	\$ 96,740

	Yen		U.S. dollars (Note 3)
Net income per share	¥11.17	¥5.56	\$0.10
Cash dividends per share	2.50	2.00	0.02

Weighted average number of shares issued and outstanding (thousands) **962,189** 972,934

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Six-month periods ended September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Additional paid-in capital:			
Balance at beginning of period	¥49,893	¥49,893	\$449,284
Balance at end of period	49,893	49,893	449,284
Retained earnings:			
Balance at beginning of period	90,321	84,417	813,336
Net income	10,743	5,411	96,740
Increase due to change in the number of affiliates accounted for using the equity method	50	-	450
Cash dividends	(1,929)	(1,949)	(17,370)
Balance at end of period	¥99,185	¥87,879	\$893,156

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, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Cash flows from operating activities:			
Income before provision for income taxes	¥19,967	¥10,094	\$179,802
Depreciation and amortization	12,353	12,161	111,238
Loss on impairment of fixed assets	3,139	-	28,267
Increase in employees' retirement benefits account	2,782	3,419	25,052
Increase in reserve for rebuilding furnaces	673	353	6,060
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,640)	(370)	(14,768)
Interest and dividend income	(1,016)	(973)	(9,149)
Interest expense	1,453	1,687	13,084
Loss on sale and disposition of property, plant and equipment	684	299	6,159
Increase in notes and accounts receivable	(4,484)	(9,086)	(40,378)
Increase in inventories	(8,215)	(1,259)	(73,976)
Increase in notes and accounts payable	3,662	506	32,976
Others, net	(5,877)	5,796	(52,922)
	23,481	22,627	211,445
Receipt of interest and dividends	1,573	1,342	14,165
Payment of interest	(1,447)	(1,737)	(13,030)
Payment of income taxes	(2,334)	(1,360)	(21,018)
Net cash provided by operating activities	21,273	20,872	191,562
Cash flows from investing activities:			
Acquisition of investments in securities	(550)	-	(4,953)
Acquisition of marketable securities	-	(2,168)	-
Proceeds from sale of investments in securities	5	-	45
Proceeds from sale and redemption of marketable securities	-	4,130	-
Acquisition of property, plant and equipment	(11,481)	(8,351)	(103,386)
Proceeds from sale of property, plant and equipment	432	894	3,890
Others, net	(844)	(561)	(7,600)
Net cash used in investing activities	(12,438)	(6,056)	(112,004)
Cash flows from financing activities:			
Decrease in short-term loans	(5,326)	(10,468)	(47,960)
Increase in commercial paper	4,000	-	36,020
Proceeds from long-term debt	2,200	16,161	19,811
Repayment and redemption of long-term debt	(6,344)	(17,308)	(57,127)
Acquisition of treasury stock	(904)	-	(8,140)
Cash dividends	(1,920)	(1,941)	(17,290)
Others, net	(41)	(1,557)	(370)
Net cash used in financing activities	(8,335)	(15,113)	(75,056)
Foreign currency translation adjustment of cash and cash equivalents	549	(857)	4,944
Net increase (decrease) in cash and cash equivalents	1,049	(1,154)	9,446
Cash and cash equivalents at beginning of period	27,816	31,303	250,482
Cash and cash equivalents at end of period	¥28,865	¥30,149	\$259,928

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 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. CHANGE IN ACCOUNTING METHOD

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.

Effective from the period under review, the Companies have adopted this new standard. This change decreased income before provision for income taxes by ¥3,139 million (US\$28,267 thousand) relative to what it would have been had the previous method been used.

3. UNITED STATES 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 ¥111.05=US\$1, the effective rate of exchange at September 30, 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 ¥111.05=US\$1 or at any other rate.

4. SUBSEQUENT EVENT

The Company decided to issue a domestic unsecured bond at the Board of Directors Meeting held on September 27, 2004. The bond was issued on November 2, 2004. Details of the bond are as follows:

Total amount: ¥10,000 million
(US\$90,050 thousand)

Interest rate: 0.79%

Due date: November 2, 2009

DIRECTORY

(As of December 31, 2004)

DOMESTIC

Registered Head Office

Shinkokusai Building,
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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

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Telephone: (65) 6221-1277/8
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(Subsidiary)

Nisshin Steel USA, LLC

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BOARD OF DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS

(As of December 31, 2004)

Chairman of the Board of Directors

Kazuo Hoshino*

President and Chief Executive Officer

Toshihiko Ono*

Directors

Takenao Yasuda

Takaoki Uesugi

Hiromi Toyota

Hiroshi Hotta

Hideo Suzuki

Takashi Nagai

* Representative Director

Standing Auditors

Takashi Sugiyama

Toshiaki Ouchi

Hiroaki Shinagawa

Auditor

Hidehiko Iwasaki

Senior Managing Executive Officers

Takenao Yasuda

Takaoki Uesugi

Hiromi Toyota

Hiroshi Hotta

Hideo Suzuki

Managing Executive Officers

Takashi Nagai

Hisao Kawase

Michio Ryo

Shigeaki Matsunaga

Makoto Yada

Hitoshi Asanuma

Yuji Kashihara

Executive Officers

Kenichi Masuhara

Yuji Itou

Toshio Miura

Fumio Oda

Toshinori Miki

Kazuhisa Obama

Yoshikazu Tsuda

Yukio Nariyoshi

Takafumi Fukami

INVESTOR INFORMATION

(As of September 30, 2004)

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

Year of Incorporation

1959

Common Stock

Authorized: 3,977,964 thousand shares
Issued: 994,500 thousand shares
Capital: ¥79,913,126 thousand

Number of Shareholders

60,910

Independent Certified Public Accountants

ChuoAoyama PricewaterhouseCoopers (changed from
ChuoAoyama Audit Corporation on April 15, 2004)

Further Information

For further information, please contact:

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