

SEMIANNUAL REPORT

For the Six-Month Period Ended September 30, 2005

NISSHIN

NISSHIN STEEL CO., LTD.

STEEL

Vol.126

FINANCIAL HIGHLIGHTS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Six-month periods ended September 30, 2005 and 2004

	Millions of yen (except per share amounts)		Thousands of U.S. dollars ¹ (except per share amounts)
	2005	2004	2005
Net sales	¥281,925	¥251,578	\$2,490,724
Net income	21,565	10,743	190,520
Net income per share ²	¥22.83	¥11.17	\$0.20
Cash dividends per share ²	3.00	2.50	0.03
Total assets	¥695,288	¥654,227	\$6,142,663
Total shareholders' equity	298,022	261,740	2,632,936

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 ¥113.19=US\$1, the effective rate of exchange at September 30, 2005.

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

Operating Environment for the Nisshin Steel Group

During the first half of the fiscal year ending March 31, 2006, the Japanese economy achieved a gradual recovery supported by domestic private-sector demand. Contributing factors included robust private capital investment driven by favorable corporate earnings, as well as higher levels of consumer spending.



Toshihiko Ono

In the steel industry, demand was generally strong, centered on high-end products, and crude steel production exceeded the level of the corresponding period of the previous fiscal year. However, domestic inventories of general-purpose steel products rose, showing a polarization of demand between high and commercial grades.

Group Operating Results and Achievements

The Nisshin Steel Group attained in the fiscal year ended March 31, 2005 the sales and income targets set out in its 15th Medium-Term Management Plan—one year ahead of schedule. To maintain the momentum, the entire Group undertook a range of additional measures aimed at achieving further growth and bolstering its management base.

On the sales side, we focused our activities primarily on enhancing profitability through an overhaul of our trade terms to reflect rising costs of such raw materials as iron ore, coking coal, nickel and chromium in our product prices. Regarding stainless steel products, which registered high inventory levels, we responded to changes in the operating environment with flexibility, tailoring our sales activities to the inventory and demand positions. In ordinary steel and specialty steel, demand from a number of sectors led by the automotive industry remained firm and we realized a shift to higher-margin products.

On the production side, soaring prices of crude oil, other raw materials and fuels affected our performance. While a range of measures to improve productivity and cut costs were introduced in our works, Nisshin Automotive Tubing LLC, our U.S. automotive stainless steel pipe joint venture, commenced production and sales in July. This was part of

our efforts to strengthen the overall Group through the expansion of our supply system, among other things.

As a result, consolidated net sales and income both increased substantially during the first half, compared with the corresponding period of the previous fiscal year. Consolidated net sales amounted to ¥281,925 million, income before special items totaled ¥39,660 million, and net income came to ¥21,565 million. Non-consolidated net sales were ¥212,284 million, income before special items amounted to ¥37,550 million, and net income totaled ¥20,773 million, each significantly higher than the first half of the previous fiscal year.

Taking into account the desirability of providing shareholders with stable dividends, our first-half results, overall business scenario including our current performance and future economic situations, we set interim cash dividends at ¥3.00 per share.

Outlook and Issues for the Nisshin Steel Group

Regarding the outlook for the Japanese economy in general, while there is concern over the possible economic impact of rising crude oil prices, the recovery is expected to remain firm, supported by robust private-sector demand. In the steel industry, however, there are worries that raw material and fuel prices may remain high, and several other factors are also contributing to future uncertainty. These include the impact of rising steel production capacities—particularly in China—on steel supply and demand, and effects of high inventory levels on the domestic market.

Under this operating environment, the Nisshin Steel Group will pursue a fundamental stance of carrying out optimal production and sales in response to market changes, continue sales activities appropriate to demand levels, and shift the focus to products in which it has a significant competitive advantage. In other words, besides concentrating our sales efforts on such strategic products as stainless steel, specialty steel and special coated products, we will strive to further bolster production efficiency, thereby securing stable sales and income.

Furthermore, to promote sustainable future growth and develop strategic businesses in response to changes in the operating environment, we are formulating Medium-Term

Consolidated Management Guidelines covering the period to the fiscal year ending March 31, 2009. In these Management Guidelines, we aim to build a business structure that can generate high profitability as well as further strengthen our product development and technical capabilities to pursue niche fields on a global basis. Our objective is to create—together with our customers—original markets in the domestic and overseas growth arenas.

It is our intention to proceed with approaches to raise the Group's consolidated corporate value in the future, and we appreciate the continued support and understanding of our shareholders.

November 2005

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 24,545	¥ 28,898	\$ 216,848
Marketable securities	1,641	2,365	14,498
Notes and accounts receivable	100,267	94,199	885,829
Inventories	115,634	93,875	1,021,592
Deferred income taxes	6,338	4,363	55,994
Other current assets	16,995	14,597	150,146
Allowance for doubtful accounts	(1,010)	(1,029)	(8,923)
Total current assets	264,410	237,268	2,335,984
Investments and long-term receivables:			
Investments in securities	137,217	113,359	1,212,271
Deferred income taxes	2,329	2,353	20,576
Others	14,798	14,701	130,736
Allowance for doubtful accounts	(481)	(512)	(4,249)
Total investments and long-term receivables	153,863	129,901	1,359,334
Property, plant and equipment, at cost:			
Buildings and structures	228,993	227,010	2,023,085
Machinery, equipment and vessels	775,410	769,566	6,850,517
	1,004,403	996,576	8,873,602
Accumulated depreciation	(795,383)	(780,686)	(7,026,972)
	209,020	215,890	1,846,630
Land	56,875	59,237	502,474
Construction in progress	2,308	3,417	20,390
Total property, plant and equipment	268,203	278,544	2,369,494
Other assets	8,812	8,514	77,851
	¥ 695,288	¥654,227	\$6,142,663

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans	¥ 37,570	¥ 52,153	\$ 331,920
Current portion of long-term debt	57,853	30,964	511,114
Commercial paper	12,000	8,000	106,016
Notes and accounts payable	85,522	75,975	755,561
Income taxes payable	14,776	11,006	130,542
Other current liabilities	39,116	33,155	345,579
Total current liabilities	246,837	211,253	2,180,732
Long-term debt	72,711	115,438	642,380
Deferred income taxes	12,086	7,540	106,776
Employees' retirement benefits	45,432	40,575	401,378
Reserve for rebuilding furnaces	8,607	7,260	76,040
Negative goodwill	-	19	-
Other liabilities	1,652	1,530	14,595
Total liabilities	387,325	383,615	3,421,901
Minority interests in consolidated subsidiaries	9,941	8,872	87,826
Shareholders' equity:			
Common stock, no par value at September 30, 2005 and 2004			
Authorized: 3,977,964 thousand shares			
at September 30, 2005 and 2004			
Issued: 994,500 thousand shares			
at September 30, 2005 and 2004			
	79,913	79,913	706,008
Additional paid-in capital	49,893	49,893	440,790
Retained earnings	129,351	99,185	1,142,778
Adjustment on revaluation of land	377	383	3,331
Unrealized gain on available-for-sale securities	48,834	37,613	431,434
Foreign currency translation adjustment	(631)	(1,248)	(5,576)
	307,737	265,739	2,718,765
Treasury stock, at cost	(9,715)	(3,999)	(85,829)
Total shareholders' equity	298,022	261,740	2,632,936
	¥695,288	¥654,227	\$6,142,663

CONSOLIDATED STATEMENTS OF INCOME

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Six-month periods ended September 30, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Net sales	¥281,925	¥251,578	\$2,490,724
Cost of sales	216,548	200,496	1,913,137
Gross profit	65,377	51,082	577,587
Selling, general and administrative expenses	24,184	22,521	213,658
Operating income	41,193	28,561	363,929
Other (income) expenses:			
Interest and dividend income	(1,676)	(1,016)	(14,807)
Interest expense	1,218	1,453	10,761
Equity in earnings of unconsolidated subsidiaries and affiliates	(946)	(1,639)	(8,358)
Foreign exchange gain	(687)	(431)	(6,069)
Service cost of temporarily transferred employees	2,709	2,340	23,933
Retirement benefit expense	889	1,025	7,854
Others, net	26	(16)	230
Income before special items	39,660	26,845	350,385
Special items:			
Gain on sale of properties	1,101	-	9,727
Special items, income and gain	1,101	-	9,727
Loss on sale and disposition of properties	1,289	766	11,388
Retirement benefit expense	2,973	2,973	26,266
Loss on impairment of fixed assets	-	3,139	-
Special items, expense and loss	4,262	6,878	37,654
Income before provision for income taxes	36,499	19,967	322,458
Provision for income taxes:			
Current	15,077	11,239	133,201
Deferred	(695)	(2,620)	(6,140)
Total provision for income taxes	14,382	8,619	127,061
Minority interests in earnings of consolidated subsidiaries	552	605	4,877
Net income	¥ 21,565	¥ 10,743	\$ 190,520

	Yen		U.S. dollars (Note 2)
Net income per share	¥22.83	¥11.17	\$0.20
Cash dividends per share	3.00	2.50	0.03
Weighted average number of shares issued and outstanding (thousands)	944,533	962,189	

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Additional paid-in capital:			
Balance at beginning of period	¥ 49,893	¥49,893	\$ 440,790
Balance at end of period	49,893	49,893	440,790
Retained earnings:			
Balance at beginning of period	110,165	90,321	973,275
Net income	21,565	10,743	190,520
Increase due to change in the number of affiliates accounted for using the equity method	-	50	-
Cash dividends	(2,379)	(1,929)	(21,017)
Balance at end of period	¥129,351	¥99,185	\$1,142,778

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Cash flows from operating activities:			
Income before provision for income taxes	¥36,499	¥19,967	\$322,458
Depreciation and amortization	11,698	12,353	103,348
Loss on impairment of fixed assets	-	3,139	-
Increase in employees' retirement benefits account	2,212	2,782	19,542
Increase in reserve for rebuilding furnaces	684	673	6,043
Equity in earnings of unconsolidated subsidiaries and affiliates	(946)	(1,640)	(8,358)
Interest and dividend income	(1,676)	(1,016)	(14,807)
Interest expense	1,218	1,453	10,761
Loss on sale and disposition of property, plant and equipment	188	684	1,661
Decrease (increase) in notes and accounts receivable	12,358	(4,484)	109,179
Increase in inventories	(18,591)	(8,215)	(164,246)
Increase in notes and accounts payable	4,151	3,662	36,673
Others, net	(5,737)	(5,877)	(50,685)
	42,058	23,481	371,569
Receipt of interest and dividends	2,682	1,573	23,695
Payment of interest	(1,224)	(1,447)	(10,814)
Payment of income taxes	(24,827)	(2,334)	(219,339)
Net cash provided by operating activities	18,689	21,273	165,111
Cash flows from investing activities:			
Acquisition of investments in securities	(552)	(550)	(4,877)
Proceeds from sale of investments in securities	0	5	0
Acquisition of property, plant and equipment	(7,880)	(11,481)	(69,617)
Proceeds from sale of property, plant and equipment	864	432	7,633
Others, net	(1,151)	(844)	(10,169)
Net cash used in investing activities	(8,719)	(12,438)	(77,030)
Cash flows from financing activities:			
Decrease in short-term loans, net	(3,040)	(5,326)	(26,857)
(Decrease) increase in commercial paper, net	(1,000)	4,000	(8,835)
Proceeds from long-term debt	3,500	2,200	30,921
Repayment and redemption of long-term debt	(5,321)	(6,344)	(47,009)
Acquisition of treasury stocks	(3,582)	(904)	(31,646)
Cash dividends	(2,372)	(1,920)	(20,956)
Others, net	(46)	(41)	(406)
Net cash used in financing activities	(11,861)	(8,335)	(104,788)
Foreign currency translation adjustment of cash and cash equivalents	521	549	4,603
Net (decrease) increase in cash and cash equivalents	(1,370)	1,049	(12,104)
Cash and cash equivalents at beginning of period	25,900	27,816	228,819
Cash and cash equivalents at end of period	¥24,530	¥28,865	\$216,715

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

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 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. 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 ¥113.19=US\$1, the effective rate of exchange at September 30, 2005. 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 ¥113.19=US\$1 or at any other rate.

3. SUBSEQUENT EVENT

The Company decided to issue a domestic unsecured bond at the Board of Directors Meeting held on November 7, 2005. The bond was issued on November 30, 2005. Details of the bond are as follows:

Total amount:	¥10,000 million (US\$88,347 thousand)
Interest rate:	1.02%
Due date:	November 30, 2010

DIRECTORY

(As of December 31, 2005)

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
Facsimile: (65) 6224-2357

Bangkok Representative Office

Unit 6, 35th Floor, CRC Tower,
All Seasons Place,
87/2 Wireless Road,
Phatumwan, Bangkok 10330,
Thailand
Telephone: (66) 2-654-0783
Facsimile: (66) 2-654-0981

Shanghai Representative Office

Shanghai Maxdo Centre
3209-3210, 8 Xing Yi Road,
Hongqiao Development Zone,
Shanghai, P.R. China (200336)
Telephone: (86-21) 5208-0736
Facsimile: (86-21) 5208-0639

Guangzhou Representative Office

Room 1505, Office Tower,
CITIC Plaza, 233 Tian He
North Road, Guangzhou,
P.R. China (510613)
Telephone: (86-20) 3877-1054,
Facsimile: (86-20) 3877-1094

(Subsidiary)

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, AUDITORS AND EXECUTIVE OFFICERS

(As of December 31, 2005)

Chairman of the Board of Directors

Kazuo Hoshino*

President and Chief Executive Officer

Toshihiko Ono*

Directors

Hiroshi Hotta

Hideo Suzuki

Takashi Nagai

Shigeaki Matsunaga

Makoto Yada

Yuji Kashihara

* Representative Director

Standing Auditor

Takashi Sugiyama

Auditors

Toshiaki Ouchi

Hiroaki Shinagawa

Masanori Imanaga

Vice-Presidents and Executive Officers

Hiroshi Hotta

Hideo Suzuki

Managing Executive Officers

Takashi Nagai

Shigeaki Matsunaga

Makoto Yada

Yuji Kashihara

Yoshifumi Hiraoka

Fumio Oda

Kenji Minami

Executive Officers

Harumi Tomoyasu

Toshio Miura

Yoshikazu Tsuda

Toshinori Miki

Akira Ichii

Yukio Uchida

Yukio Nariyoshi

Takafumi Fukami

Hideyuki Moriya

Koji Tomita

Hiroshi Takahashi

Koji Mizumoto

Katsuhisa Miyakusu

INVESTOR INFORMATION

(As of September 30, 2005)

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

55,390

Independent Certified Public Accountants

ChuoAoyama PricewaterhouseCoopers

Further Information

For further information, please contact:

Public and Investor Relations Team,
General Administration Department,
Nisshin Steel Co., Ltd.
Shinkokusai Building,
4-1, Marunouchi 3-chome,
Chiyoda-ku, Tokyo 100-8366, Japan
Telephone: (81-3) 3216-5566
Facsimile: (81-3) 3216-5546

Nisshin Steel Website

<http://www.nisshin-steel.co.jp>

