

NISSHIN STEEL

ANNUAL REPORT 2006

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Consolidated Financial Highlights

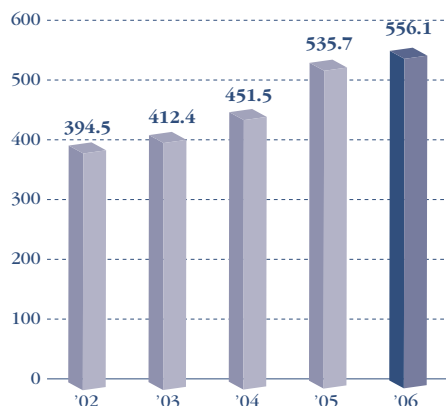
Nisshin Steel Co., Ltd. and its consolidated subsidiaries
 Years ended March 31, 2006, 2005 and 2004

| | Millions of yen (except per share amounts) | | | Percent change (2006/2005) | Thousands of U.S. dollars ¹ (except per share amounts) |
|---|---|-----------|-----------|----------------------------------|--|
| | 2006 | 2005 | 2004 | | |
| Net sales..... | ¥ 556,057 | ¥ 535,721 | ¥ 451,452 | 3.8 % | \$ 4,733,609 |
| Net income..... | 24,464 | 24,123 | 9,786 | 1.4 | 208,257 |
| Total assets..... | 718,237 | 682,542 | 637,247 | 5.2 | 6,114,216 |
| Total shareholders' equity..... | 315,595 | 276,635 | 249,416 | 14.1 | 2,686,601 |
| | | | | | |
| Net income per share ² | ¥ 25.98 | ¥25.19 | ¥10.10 | 3.1% | \$ 0.22 |
| Cash dividends per share ² | 6.00 | 5.00 | 4.00 | 20.0 | 0.05 |

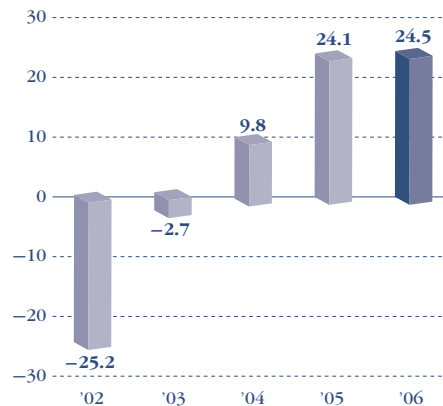
Notes: 1. Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at ¥117.47 = US\$1, the effective rate of exchange at March 31, 2006.

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

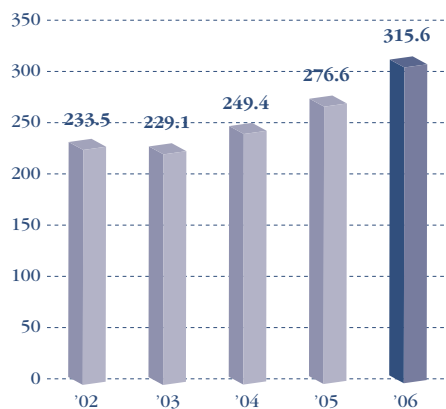
Net Sales
 (Billions of yen)
 (Years ended March 31)



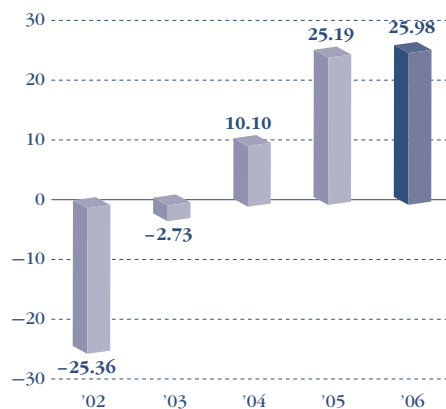
Net Income (Loss)
 (Billions of yen)
 (Years ended March 31)



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, 2006

The Japanese economy returned to the path of moderate recovery as exports increased on the back of the robust Chinese and U.S. economies. At home, improved corporate earnings led to an expansion in private-sector capital spending and improved employment conditions helped personal consumption retain its underlying strength.

Despite some worrying trends such as rising purchasing prices of raw materials and fuels and movements of domestic steel inventory levels, the steel industry overall faced a favorable environment, with crude steel production exceeding 110 million metric tons for the third consecutive year on the back of firm demand, particularly from the manufacturing sector.

In such a business environment, the Nisshin Steel Group carried out a number of measures to further strengthen its operating foundation.

On the sales front, as steady demand from automakers and other manufacturers continued, we focused on sales of highly competitive products including specialty steel and ZAM (hot-dipped zinc-aluminum-magnesium coated steel), and vigorously pursued demand-based, profitability-oriented sales activities amid domestic as well as global inventory adjustments. From the standpoint of securing a level of profits necessary for reproduction, we also reflected rises in prices of raw materials and fuels in our selling prices with the understanding of customers. In stainless steel, we undertook a thorough review of contract terms and conditions, including changes in settlement terms and the pricing system.

To support this sales policy, we took steps to reinvigorate and bolster production facilities for stable supply of products meeting customer needs, and

implemented cost-reduction measures such as productivity enhancement through technological improvements. In December 2005, the operation of the blast furnace No. 1 at our Kure Works became unstable, which may have caused some concern to shareholders. However, the furnace is now back in good working condition. We will continue to make devoted efforts to maintain the plant's stable operation.

In overseas markets where we see a large potential for business expansion, Wheeling-Nisshin, Inc., a surface-treated steel sheet joint venture in the United States, turned in stable performance, while Nisshin Automotive Tubing LLC, another joint venture for stainless pipes for automobiles, started full-fledged supply of products mainly to Japanese automakers operating in the U.S. market, setting up an operation to provide products comparable to the Japanese market. In China, we established the Guangzhou office as a new base of our activity in the Chinese market in addition to the existing Shanghai office. With Ningbo Baoxin Stainless Steel Co., Ltd. (Ningbo, Zhejiang Province), a joint venture for cold rolled stainless steel, as our production base, we have thus set up a well-organized operation to cater to the Chinese market that is likely to increasingly expand in coming years.

As a consequence, for year ended March 31, 2006, we reported consolidated net sales of ¥556,057 million (up 3.8% year on year), consolidated income before special items of ¥63,153 million (up 4.9%), and consolidated net income of ¥24,464 million (up 1.4%). On a non-consolidated basis, we reported net sales of ¥415,548 million (up 6.3%), income before special items of ¥63,117 million (up 21.9%), and net income of ¥27,156 million (up 17.3%).

Outlook for the Year Ending March 31, 2007

While the Japanese economy is expected to stay on the path of recovery for the time being, supported by firm private-sector demand, there also are some disquieting factors such as the impact of possible changes in interest rates and crude oil prices.

In the steel industry, we expect to see sustained firm domestic demand from automakers and other manufacturers. However, due to the impact of the sharp rise in production capacity in China, the global overcapacity of commercial-grade products and the polarization of markets between commercial grades and high-value-added products are likely to continue for some time to come. In tandem with sharply rising demand for raw materials including iron ore and coking coal, prices of materials are expected to stay at high levels for the time being. Since prices of zinc, aluminum and some other commodities have been rising substantially since last summer, on top of higher nickel prices, we find ourselves in a situation where no optimism is warranted.

Given the business climate described above and a range of measures for management improvements the Nisshin Steel Group plans to implement going forward, our current earnings outlook is as follows:

Billions of yen

| | Consolidated earnings outlook | | Non-consolidated earnings outlook | |
|-----------------------------|-------------------------------|-----------|-----------------------------------|-----------|
| | Interim | Full year | Interim | Full year |
| Net sales | ¥290 | ¥590 | ¥220 | ¥450 |
| Operating income | 20 | 46 | 18 | 42 |
| Income before special items | 17 | 40 | 15 | 36 |
| Net income | 9 | 22 | 8 | 20 |

The earnings outlook is based on a set of assumptions that we deem reasonable at present, and may vary significantly due to rapid changes in economic conditions of the major markets (Japan, Asia and other markets) as well as product supply and demand, large fluctuations in foreign exchange rates, and major fluctuations in the capital market.

Basic Policy on Returns to Shareholders

On distribution of profits, we will return the results of business operations to shareholders under the basic policy of paying appropriate dividends in accordance with consolidated results while securing retained earnings necessary for business operations going forward to reinforce our financial strength and enhance corporate value as well as considering the future business outlook.

With the total return ratio combining dividends and share buybacks as the benchmark of returns to shareholders, we will seek to set the ratio at around 20% to 30% of consolidated net income, in principle, for each year, while placing importance on dividends as the basic form of return to shareholders while also supplementing them with share buybacks carried out in a timely manner from the standpoint of a flexible capital policy.

We plan to invest retained earnings to secure sustainable growth of profits for enhanced corporate value and to enhance competitiveness, and also to maintain and bolster our financial strength.

In light of the operating results of the fiscal year under review, economic conditions and business prospects going forward, we plan to propose term-end dividends of ¥3.00 per share, increasing annual payments to ¥6.00 per share from the previous year's ¥5.00 per share.

I would like to offer my appreciation to all shareholders and investors for their continued support.

June 2006



Hideo Suzuki
President and Chief Executive Officer

Management's Discussion and Analysis

Financial Position

Consolidated total assets at the close of the year ended March 31, 2006 stood at ¥718,237 million, up ¥35,695 million from the end of the previous year. While notes and accounts receivable declined by ¥23,221 million, inventories rose by ¥27,112 million due to rises in prices of raw materials and fuels, and investments in securities also increased, by ¥36,813 million, mainly due to larger unrealized gains on stockholdings.

Total liabilities declined by ¥3,774 million from the end of the previous year, to ¥393,007 million. Notes and accounts payable increased by ¥6,863 million due to rises in prices of raw materials and fuels, and deferred income taxes also rose, by ¥12,054 million, due to expanded unrealized gains on investments in securities. However, borrowings and other interest-bearing debt were reduced by ¥16,860 million, and income taxes payable also declined, by ¥14,835 million.

Total shareholders' equity increased by ¥38,960 million over the end of the previous year, to ¥315,595 million. Net income amounted to ¥24,464 million, and unrealized gains on available-for-sale securities rose by ¥21,117 million, while dividend payments amounted to ¥5,180 million and treasury stock worth ¥3,602 million was bought back.

Cash Flows

Net cash provided by operating activities totaled ¥42,411 million, mainly due to income before provision for income taxes of ¥47,498 million, depreciation and amortization of ¥23,258 million, an increase in reserves for employee retirement benefits of ¥5,118 million, a drop in notes and accounts receivable of ¥23,466 million, a rise in inventories of ¥26,799 million, an increase in notes and accounts payable of ¥6,302 million, and income tax payments of ¥37,682 million.

Net cash used in investing activities totaled ¥22,877 million, due mainly to acquisition of tangible fixed assets of ¥17,949 million and acquisition of investments in securities of ¥3,618 million.

In terms of net cash flows from financing activities, the free cash flow generated by the above, ¥19,534 million, was appropriated for reduction of borrowings and other interest-bearing debt of ¥17,564 million, acquisition of treasury stock of ¥3,602 million, and payments of cash dividends of ¥5,180 million.

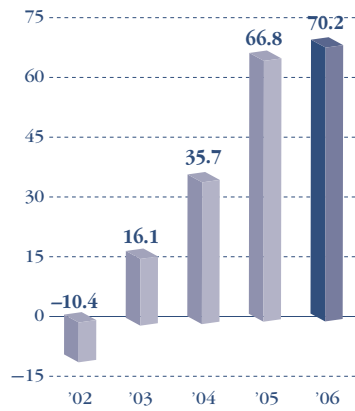
Due to the above and with the addition of foreign currency adjustment to cash and cash equivalents, the consolidated balance of cash and cash equivalents at the end of the fiscal year under review came to ¥18,984 million, down ¥6,916 million from the end of the previous year.

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.

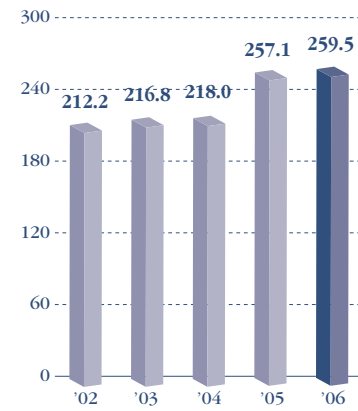
Operating Income (Loss)

(Billions of yen)



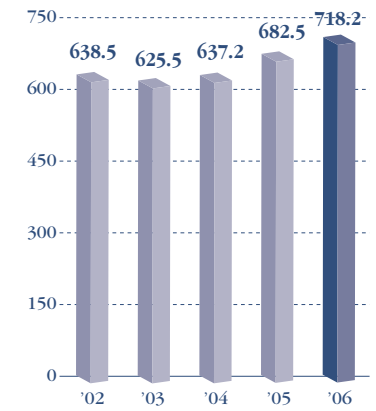
Total Current Assets

(Billions of yen)



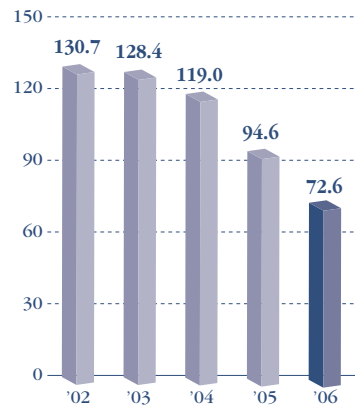
Total Assets

(Billions of yen)



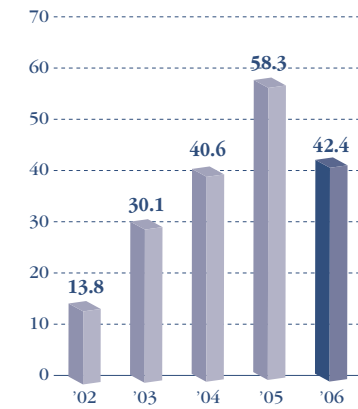
Long-Term Debt

(Billions of yen)



Net Cash Provided by Operating Activities

(Billions of yen)



Medium-Term Consolidated Management Guideline

Targets, Strategies and Progress

After thoroughly considering a range of issues involved and efforts required to achieve sustainable growth from a medium- and long-term perspective, the Nisshin Steel Group worked out the management goals for the year ending March 31, 2009 as “Medium-Term Consolidated Management Guideline.” The Medium-Term Guideline also addresses various future medium-term management challenges relating to growth and various potential risks and the responses

that will be required in the rapidly changing business environment.

We will seek to further enhance consolidated corporate value by realizing a growth strategy under the Medium-Term Guideline and also intend to properly share the results of operations obtained with shareholders in line with the policy of returning profits to shareholders as newly set out under the Medium-Term Guideline.

Management Goals

(Millions of yen, except where noted)

| | Results (Year ended March 31, 2006) | | FY2008 Goals (Year ending March 31, 2009) | |
|--|-------------------------------------|------------------|---|------------------|
| | Consolidated | Non-consolidated | Consolidated | Non-consolidated |
| Net sales | ¥556,057 | ¥415,548 | ¥610,000 | ¥460,000 |
| Income before special items | 63,153 | 63,117 | 80,000 | 70,000 |
| Net income | 24,464 | 27,156 | 45,000 | 40,000 |
| Cash flows from operating activities | 42,411 | 40,383 | 65,000 | 60,000 |
| Interest-bearing debt | 169,135 | 154,251 | 180,000 | 175,000 |
| Total assets | 718,237 | 622,789 | 780,000 | 680,000 |
| ROS | 11.4% | 15.2% | 13% | 15% |
| ROA | 9.3% | 10.8% | 10% | 11% |
| ROE | 8.3% | 10.0% | 12% | 12% |
| EPS | ¥25.98/share | — | ¥50/share | — |
| BEP | — | 64% | — | 64% |
| D/E ratio | 0.54 | 0.53 | 0.46 | 0.49 |
| Interest-bearing debt/cash flows from operating activities | 4.0 | 3.8 | 2.8 | 2.9 |

Notes: Assumptions for the year ending March 31, 2009 are an exchange rate of US\$1=¥110 and crude steel output of 4.2 million tons/year (including 700,000 tons/year of stainless steel). ROS (return on sales) = Income before special items/net sales. ROA (return on assets) = Business profit (income before special items + interest expense)/total assets. ROE (return on equity) = Net income/shareholders' equity. EPS (earnings per share) = Net income/(number of shares outstanding – treasury shares). BEP = Breakeven point. D/E ratio = Interest-bearing debt/shareholders' equity.

Direction of Management of the Nisshin Steel Group

In the years ended March 31, 2005 and 2006, the years covered by the preceding Medium-Term Management Plan, we bolstered our financial base by securing steady profits that were much larger than initially forecast. Under the Medium-Term

Guideline, to maximize the Group's corporate value, we will aggressively and intensively invest management resources in areas where we are strong, making strategic moves to ensure further growth and responding to the changing environment at home and abroad.

Specific Strategies

(1) Sustainable growth

(1)-1 Advance into areas not affected by competition

a. Expansion of strategic products by strengthening sales capabilities (stainless steel, specialty steel, unique coated products)

- Proportion of strategic products: From the present 42% to 47% in the year ending March 31, 2009 (over 50% in the future)

b. Building materials/processing

- Creation of new markets by drawing upon the collective capability of the group and strengthening product development

c. Steel pipe business

- In stainless steel pipes, shift to automotive exhaust pipes and piping
- In ordinary steel pipes, development of strategic products (ZAM, specialty steel, high value-added products)

(1)-2 Business operations specializing in our strong areas in growth markets (overseas)

- Promote operations in our strong areas (stainless steel, surface treatment and other processing), using existing overseas bases and working jointly with partners

(1)-3 Promotion of strategic partnership with domestic firms

(2) Securing product superiority

(2)-1 Maintaining product superiority and boosting market creation by strengthening product development and research and development capabilities

- Raising the proportion of new products/demand developments (from the present 27% to 45% in the year ending March 31, 2009)
- Aggressive resource investment into R&D and market development

(2)-2 Strengthening cost-competitiveness

- Goal for reduction of variable costs in the year ending March 31, 2009: ¥9.0 billion/year (compared with the non-consolidated estimate in the year ended March 31, 2006)

(2)-3 Establishment of optimum production system

- Proactively promote investment conducive to

stronger competitiveness and growth Consolidated capital spending: ¥137.0 billion (on a construction basis, total for the years ending March 31, 2007 to 2009)

(2)-4 Securing a stable supply of raw materials

- Stronger ties with suppliers

Strengthening Consolidated Management

(1) Sharing the Group strategy based on consolidated management policy

(2) Optimum allocation of the Group's management resources

(3) Reinforcement of joint R&D systems with group companies

Investment in Human Resources

(1) Securing, proactive fostering and prioritized assignment of human resources for promotion of strategies

- Number of new employees hired (total for the years ending March 2007 to 2009): 690 (430 for Nisshin Steel)

(2) Maintaining and reinforcing shop floor strength through continuous handover of skills

(3) Total efficiency and streamlining of business operations

Medium- and Long-Term Challenges for Growth

In parallel with the implementation of the Medium-Term Guideline, we will deal with medium- and long-term challenges for growth, and achievements made in the course of the period will be reflected in the Guideline.

Potential Risks

Taking into account the rapidly changing business environment at home and abroad, we will identify potential risks during the implementation period of the Medium-Term Guideline as well as measures to avert these risks, thereby establishing a system under which we will be able to rapidly respond to any deterioration in the business environment.

Consolidated Seven-Year Summary

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

| Years ended March 31 | 2006 | 2005 |
|---|----------------|----------------|
| Results for the year: | | |
| Net sales | ¥556,057 | ¥535,721 |
| Gross profit | 117,506 | 113,728 |
| Operating income (loss) | 70,199 | 66,848 |
| Income (loss) before special items | 63,153 | 60,194 |
| Income (loss) before provision for income taxes | 47,498 | 46,493 |
| Net income (loss) | 24,464 | 24,123 |
| Year-end financial position: | | |
| Total current assets | ¥259,466 | ¥257,085 |
| Total property, plant and equipment | 268,438 | 270,940 |
| Total assets | 718,237 | 682,542 |
| Total current liabilities | 239,008 | 238,964 |
| Long-term debt | 72,615 | 94,636 |
| Total shareholders' equity | 315,595 | 276,635 |
| Cash flows: | | |
| Net cash provided by operating activities | ¥ 42,411 | ¥ 58,327 |
| Net cash used in investing activities | (22,877) | (26,487) |
| Net cash (used in) provided by financing activities | (27,651) | (33,958) |
| Per share amounts:* | | |
| Net income (loss) per share | ¥25.98 | ¥25.19 |
| Cash dividends per share | 6.00 | 5.00 |
| Weighted average number of shares issued and outstanding (thousands) | 941,658 | 957,540 |

* Per share figures are in yen.

Millions of yen

(except per share amounts and weighted average number of shares issued and outstanding)

| 2004 | 2003 | 2002 | 2001 | 2000 |
|----------|----------|----------|----------|----------|
| ¥451,452 | ¥412,412 | ¥394,494 | ¥445,096 | ¥430,956 |
| 78,477 | 59,607 | 35,951 | 73,236 | 69,404 |
| 35,733 | 16,097 | (10,385) | 25,813 | 15,583 |
| 26,497 | 6,313 | (17,096) | 16,180 | 5,610 |
| 18,266 | (1,252) | (39,316) | 3,139 | (8,878) |
| 9,786 | (2,696) | (25,221) | 767 | (5,919) |
| ¥218,019 | ¥216,768 | ¥212,226 | ¥212,580 | ¥216,843 |
| 287,674 | 299,079 | 302,129 | 320,599 | 327,421 |
| 637,247 | 625,530 | 638,458 | 648,846 | 669,266 |
| 207,772 | 213,808 | 219,726 | 224,896 | 234,163 |
| 118,977 | 128,382 | 130,680 | 122,171 | 133,352 |
| 249,416 | 229,148 | 233,500 | 252,377 | 244,999 |
| ¥ 40,605 | ¥ 30,118 | ¥ 13,796 | ¥ 49,186 | ¥ 23,919 |
| (10,703) | (17,214) | (9,547) | (33,382) | (53,331) |
| (31,875) | (14,514) | 13,022 | (18,791) | 19,535 |
| ¥10.10 | ¥(2.73) | ¥(25.36) | ¥0.77 | ¥(5.95) |
| 4.00 | 2.00 | - | 2.00 | 2.00 |
| 968,593 | 985,679 | 994,490 | 994,497 | 994,497 |

Consolidated Balance Sheets

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
March 31, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note 5) |
|--|-----------------|----------------|---------------------------------------|
| | 2006 | 2005 | 2006 |
| ASSETS | | | |
| Current assets: | | | |
| Cash on hand and in banks (Note 17) | ¥ 18,989 | ¥ 25,935 | \$ 161,650 |
| Notes and accounts receivable | 89,263 | 112,484 | 759,879 |
| Marketable securities (Notes 17 and 19) | 3,546 | 2,231 | 30,186 |
| Inventories | 123,975 | 96,863 | 1,055,376 |
| Deferred income taxes (Note 8) | 7,594 | 7,138 | 64,646 |
| Other current assets | 17,089 | 13,411 | 145,476 |
| Allowance for doubtful accounts | (990) | (977) | (8,428) |
| Total current assets | 259,466 | 257,085 | 2,208,785 |
| Investments and long-term receivables: | | | |
| Investments in securities (Notes 6, 15 and 19) | 165,909 | 129,096 | 1,412,352 |
| Deferred income taxes (Note 8) | 2,793 | 2,297 | 23,776 |
| Others (Note 6) | 13,195 | 14,890 | 112,327 |
| Allowance for doubtful accounts | (353) | (496) | (3,005) |
| Total investments and long-term receivables | 181,544 | 145,787 | 1,545,450 |
| Property, plant and equipment, at cost (Note 3): | | | |
| Buildings and structures (Note 15) | 226,933 | 227,611 | 1,931,838 |
| Machinery, equipment and vessels | 777,314 | 772,540 | 6,617,128 |
| | 1,004,247 | 1,000,151 | 8,548,966 |
| Accumulated depreciation | (795,730) | (788,987) | (6,773,900) |
| | 208,517 | 211,164 | 1,775,066 |
| Land (Note 15) | 54,609 | 57,300 | 464,876 |
| Construction in progress | 5,312 | 2,476 | 45,220 |
| Total property, plant and equipment | 268,438 | 270,940 | 2,285,162 |
| Other assets | 8,789 | 8,730 | 74,819 |
| | ¥ 718,237 | ¥ 682,542 | \$6,114,216 |

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

| | Millions of yen | | Thousands of U.S. dollars (Note 5) |
|--|-----------------|----------|---------------------------------------|
| | 2006 | 2005 | 2006 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Notes and accounts payable | ¥ 87,989 | ¥ 81,126 | \$ 749,034 |
| Short-term loans (Notes 7 and 15) | 40,795 | 40,610 | 347,280 |
| Current portion of long-term debt (Notes 7 and 15) | 39,725 | 37,749 | 338,171 |
| Commercial paper | 16,000 | 13,000 | 136,205 |
| Income taxes payable | 9,976 | 24,811 | 84,924 |
| Other current liabilities | 44,523 | 41,668 | 379,016 |
| Total current liabilities | 239,008 | 238,964 | 2,034,630 |
| Long-term debt (Notes 7 and 15) | 72,615 | 94,636 | 618,158 |
| Deferred income taxes (Note 8) | 22,511 | 10,457 | 191,632 |
| Employees' retirement benefits (Note 9) | 48,338 | 43,220 | 411,492 |
| Reserve for rebuilding furnaces | 8,857 | 7,923 | 75,398 |
| Other liabilities | 1,678 | 1,581 | 14,284 |
| Total liabilities | 393,007 | 396,781 | 3,345,594 |
| Minority interests in consolidated subsidiaries | 9,635 | 9,126 | 82,021 |
| Shareholders' equity: | | | |
| Common stock, no par value at March 31, 2006 and 2005 | | | |
| Authorized: 3,977,964 thousand shares at March 31, 2006 and 2005 | | | |
| Issued: 994,500 thousand shares at March 31, 2006 and 2005 | 79,913 | 79,913 | 680,284 |
| Additional paid-in capital | 49,893 | 49,893 | 424,730 |
| Retained earnings | 129,333 | 110,165 | 1,100,987 |
| Adjustment on revaluation of land (Note 16) | 278 | 419 | 2,367 |
| Unrealized gain on available-for-sale securities | 65,298 | 44,181 | 555,870 |
| Foreign currency translation adjustment | 615 | (1,803) | 5,235 |
| | 325,330 | 282,768 | 2,769,473 |
| Treasury stock, at cost | (9,735) | (6,133) | (82,872) |
| Total shareholders' equity | 315,595 | 276,635 | 2,686,601 |
| | ¥718,237 | ¥682,542 | \$6,114,216 |

Consolidated Statements of Shareholders' Equity

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
 Years ended March 31, 2006 and 2005

| | Millions of yen | | Thousands of |
|--|-----------------|----------|-----------------------|
| | 2006 | 2005 | U.S. dollars (Note 5) |
| | | | 2006 |
| Additional paid-in capital: | | | |
| Balance at beginning of year | ¥ 49,893 | ¥ 49,893 | \$ 424,730 |
| Balance at end of year | 49,893 | 49,893 | 424,730 |
| Retained earnings: | | | |
| Balance at beginning of year | 110,165 | 90,321 | 937,814 |
| Net income | 24,464 | 24,123 | 208,257 |
| Increase due to change in the number of affiliates accounted for using the equity method | - | 50 | - |
| Cash dividends | (5,195) | (4,329) | (44,224) |
| Decrease due to change in the number of consolidated subsidiaries | (101) | - | (860) |
| Balance at end of year | ¥129,333 | ¥110,165 | \$1,100,987 |

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, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note 5) |
|---|-----------------|----------|---------------------------------------|
| | 2006 | 2005 | 2006 |
| Cash flows from operating activities: | | | |
| Income before provision for income taxes | ¥47,498 | ¥46,493 | \$404,342 |
| Depreciation and amortization | 23,258 | 24,965 | 197,991 |
| Loss on impairment of fixed assets | - | 7,201 | - |
| Increase in employees' retirement benefits account | 5,118 | 5,426 | 43,569 |
| Increase in reserve for rebuilding furnaces | 934 | 1,336 | 7,951 |
| Equity in losses (earnings) of unconsolidated subsidiaries and affiliates | 127 | (2,991) | 1,081 |
| Interest and dividend income | (2,512) | (1,595) | (21,384) |
| Interest expense | 2,324 | 2,803 | 19,784 |
| Loss on sale and disposition of property, plant and equipment | 3,267 | 553 | 27,811 |
| Decrease (increase) in notes and accounts receivable | 23,466 | (22,833) | 199,761 |
| Increase in inventories | (26,799) | (11,280) | (228,135) |
| Increase in notes and accounts payable | 6,302 | 8,962 | 53,647 |
| Others, net | (5,248) | 4,437 | (44,675) |
| | 77,735 | 63,477 | 661,743 |
| Receipt of interest and dividends | 4,767 | 2,647 | 40,581 |
| Payment of interest | (2,409) | (2,875) | (20,507) |
| Payment of income taxes | (37,682) | (4,922) | (320,780) |
| Net cash provided by operating activities | 42,411 | 58,327 | 361,037 |
| Cash flows from investing activities: | | | |
| Acquisition of investments in securities | (3,618) | (4,948) | (30,799) |
| Proceeds from sale of investments in securities | 576 | 439 | 4,903 |
| Acquisition of property, plant and equipment | (17,949) | (21,349) | (152,796) |
| Proceeds from sale of property, plant and equipment | 2,947 | 3,147 | 25,087 |
| Others, net | (4,833) | (3,776) | (41,143) |
| Net cash used in investing activities | (22,877) | (26,487) | (194,748) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term loans, net | 185 | (16,870) | 1,575 |
| Increase in commercial paper, net | 3,000 | 9,000 | 25,538 |
| Proceeds from long-term debt | 19,000 | 13,407 | 161,743 |
| Repayment and redemption of long-term debt | (39,749) | (31,569) | (338,376) |
| Acquisition of treasury stocks | (3,602) | (3,038) | (30,663) |
| Cash dividends | (5,180) | (4,311) | (44,096) |
| Others, net | (1,305) | (577) | (11,109) |
| Net cash used in financing activities | (27,651) | (33,958) | (235,388) |
| Foreign currency translation adjustment of cash and cash equivalents | 1,108 | 202 | 9,432 |
| Net decrease in cash and cash equivalents | (7,009) | (1,916) | (59,667) |
| Cash and cash equivalents at beginning of year | 25,900 | 27,816 | 220,482 |
| Increase in cash due to change in the number of consolidated subsidiaries | 93 | - | 792 |
| Cash and cash equivalents at end of year (Note 17) | ¥18,984 | ¥25,900 | \$161,607 |

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, 2006 and 2005

1. Basis of Presenting the 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. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 10 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
- Nisshin Automotive Tubing LLC
- Wheeling-Nisshin, Inc.

Nisshin Automotive Tubing LLC became a consolidated subsidiary due to start of commercial production in the year ended March 31, 2006.

The fiscal year periods and the closing dates thereof for the financial statements of consolidated subsidiaries are in agreement with those of the Company, except for the four foreign consolidated subsidiaries: Nisshin Holding, Nisshin Steel USA, Nisshin Automotive Tubing, and Wheeling-Nisshin (with fiscal years ending on December 31). In consolidating the four foreign subsidiaries, the Company makes adjustments for any 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 the net income (loss) of subsidiaries, subsequent to the date of acquisition, in the Consolidated Statements of Income and Shareholders’ Equity.

Valuation of the assets and liabilities of consolidated subsidiaries is made at their 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.

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, 2006 and included:

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

The number of affiliates accounted for using the equity method was 16 at March 31, 2006 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, 2006 are as follows:

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

NITIRIN METALS CO., LTD. became an affiliate accounted for using the equity method due to an acquisition of equity in the year ended March 31, 2006.

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 are classified into four categories:

- (1) Trading securities are valued at their fair values on the balance sheet date, and any unrealized gain or loss is charged to income. The Companies had no trading securities at March 31, 2006 and 2005.
- (2) Held-to-maturity securities are stated at cost after the amortization of premiums or discounts on acquisition, which are amortized over the period to maturity.
- (3) Investments in unconsolidated subsidiaries and major affiliates are accounted for using the equity method, except for those valued at cost due to the lack of materiality.
- (4) Available-for-sale securities are valued at their fair values except for those valued at cost due to the lack of fair value information. Applicable unrealized net-of-tax gains and losses are included in shareholders' equity.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is evaluated based on the actual bad debt rate in the past. For doubtful receivables etc., the likelihood of collection is 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 after blast furnaces are 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 the 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.

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.

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, 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 vendors, are offset, and the net balance is included in "Other current liabilities" in the Consolidated Balance Sheets.

Net Income and Cash Dividends per Share

The computation of net income 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.

3. Change in Accounting Method

Accounting Standards for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standards for Impairment of Fixed Assets." The standards require 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 is 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 standards have been adopted effective from the year ended March 31, 2005.

This adoption decreased income before provision for income taxes by ¥7,201 million for the year ended March 31, 2005.

4. Accounting Title and Classification

Foreign exchange gain or loss

Prior to the year ended March 31, 2006, foreign exchange gain was included in "Others, net" in other (income) expenses in the Consolidated Statements of Income. Effective from the year ended March 31, 2006, foreign exchange gain has been shown separately in other (income) expenses in the statements as its materiality in other income has been increased. It amounted to ¥90 million gain in the previous year.

Technical assistance income

Prior to the year ended March 31, 2006, technical assistance income was shown separately in other (income) expenses in the Consolidated Statements of Income. Effective from the year ended March 31, 2006, technical assistance income has been included in "Others, net" in other (income) expenses in the statements as its materiality in other income has been decreased. It amounted to ¥104 million (US\$885 thousand) in the year ended March 31, 2006.

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 the basis of ¥117.47 = US\$1, the effective rate of exchange at March 31, 2006. 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 ¥117.47 = 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, 2006 and 2005 contain investments in unconsolidated subsidiaries and affiliates as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2006 | 2005 | 2006 |
| Stocks of unconsolidated subsidiaries and affiliates | ¥27,446 | ¥26,848 | \$233,643 |

"Others" in "Investments and long-term receivables" in the Consolidated Balance Sheets at March 31, 2006 and 2005 contain investments in unconsolidated subsidiaries and affiliates as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2006 | 2005 | 2006 |
| Equity in unconsolidated subsidiaries and affiliates | ¥8,008 | ¥10,013 | \$68,171 |

7. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2006 and 2005 consisted of the following:

| | Millions of yen | | Thousands of |
|------------|-----------------|---------|--------------|
| | 2006 | 2005 | U.S. dollars |
| Bank loans | ¥40,795 | ¥40,610 | \$347,280 |

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

Long-term debt at March 31, 2006 and 2005 consisted of the following:

| | Millions of yen | | Thousands of |
|--|-----------------|----------|--------------|
| | 2006 | 2005 | U.S. dollars |
| Loans from banks and other financial institutions | ¥ 59,340 | ¥ 67,385 | \$505,151 |
| 9th 2.325% unsecured bond of the Company due July 2006 | 20,000 | 20,000 | 170,256 |
| 10th 1.72% unsecured bond of the Company due Nov. 2005 | - | 10,000 | - |
| 11th 1.35% unsecured bond of the Company due Nov. 2005 | - | 10,000 | - |
| 12th 1.45% unsecured bond of the Company due Oct. 2008 | 10,000 | 10,000 | 85,128 |
| 13th 0.4% unsecured bond of the Company due Feb. 2008 | 3,000 | 5,000 | 25,538 |
| 14th 0.79% unsecured bond of the Company due Nov. 2009 | 10,000 | 10,000 | 85,128 |
| 15th 1.02% unsecured bond of the Company due Nov. 2010 | 10,000 | - | 85,128 |
| Total long-term debt | 112,340 | 132,385 | 956,329 |
| “Current portion of long-term debt” in the Consolidated Balance Sheets | (39,725) | (37,749) | (338,171) |
| “Long-term debt” in the Consolidated Balance Sheets | ¥ 72,615 | ¥ 94,636 | \$618,158 |

8. Income Taxes

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate indicate a statutory tax rate of approximately 40.4%. Income taxes consist of corporate income tax, inhabitants' taxes and enterprise taxes.

Components of the Companies' deferred income tax assets and liabilities at March 31, 2006 and 2005 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2006 | 2005 | 2006 |
| Deferred income tax assets: | | | |
| Non-deductible portion of employees' retirement benefits | ¥22,006 | ¥19,683 | \$187,333 |
| Non-deductible portion of accrued bonus expense | 3,526 | 3,547 | 30,016 |
| Non-deductible portion of reserve for rebuilding furnaces | 3,253 | 2,513 | 27,692 |
| Loss on impairment of fixed assets | 1,777 | 2,770 | 15,127 |
| Accrued enterprise taxes | - | 2,012 | - |
| Others | 9,465 | 6,048 | 80,574 |
| Preliminary deferred income tax assets | 40,027 | 36,573 | 340,742 |
| Valuation allowance | (4,618) | (2,794) | (39,312) |
| Total deferred income tax assets | 35,409 | 33,779 | 301,430 |
| Deferred income tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | 42,143 | 29,713 | 358,755 |
| Reserve for postponement of taxation on capital gains from property | 3,169 | 2,756 | 26,977 |
| Depreciation expenses of U.S. subsidiaries | 1,146 | 1,380 | 9,756 |
| Others | 1,076 | 953 | 9,160 |
| Total deferred income tax liabilities | 47,534 | 34,802 | 404,648 |
| Net deferred income tax liabilities | ¥(12,125) | ¥(1,023) | \$(103,218) |

The reconciliation of the statutory tax rate to the income tax rate reflected in the Consolidated Statements of Income for the years ended March 31, 2006 and 2005 is as follows:

| | 2006 | 2005 |
|--------------------------------------|-------|-------|
| Statutory tax rate | 40.4% | 40.4% |
| Reconciliation: | | |
| Valuation allowance | 3.9 | 4.1 |
| Others | 1.8 | 0.3 |
| Effective rate of income tax expense | 46.1% | 44.8% |

9. Employees' Retirement Benefits

Analysis of the reserve account for "Employees' retirement benefits" at March 31, 2006 and 2005 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2006 | 2005 | 2006 |
| Projected benefit obligations | ¥125,163 | ¥125,640 | \$1,065,489 |
| Plan assets | (90,274) | (67,971) | (768,486) |
| Funded status | 34,889 | 57,669 | 297,003 |
| Unrecognized transition amount | - | (5,945) | - |
| Unrecognized actuarial differences | (615) | (23,617) | (5,235) |
| Unrecognized prior-service costs | 13,779 | 15,044 | 117,298 |
| Total employees' retirement benefits | 48,053 | 43,151 | 409,066 |
| Prepaid pension cost | 285 | 69 | 2,426 |
| "Employees' retirement benefits" in the Consolidated Balance Sheets | ¥ 48,338 | ¥ 43,220 | \$ 411,492 |

Components of retirement benefit expense for the years ended March 31, 2006 and 2005 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2006 | 2005 | 2006 |
| Service costs | ¥ 2,298 | ¥ 2,425 | \$19,562 |
| Interest cost | 2,419 | 2,327 | 20,592 |
| Expected return on plan assets | (1,324) | (1,277) | (11,271) |
| Amortization of transition amount | 5,945 | 5,945 | 50,609 |
| Amortization of unrecognized actuarial differences | 2,975 | 2,142 | 25,327 |
| Amortization of unrecognized prior-service costs | (1,265) | (1,265) | (10,769) |
| Retirement benefit expense | ¥11,048 | ¥10,297 | \$94,050 |

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

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Discount rate: | 2.0% | 2.0% |
| Expected rate of return on plan assets: | 2.0% | 2.0% |
| 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, 2006 and 2005 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|------------------------------|
| | 2006 | 2005 | 2006 |
| Contingent liabilities arising from: | | | |
| Guarantee of bank loans for employees | ¥1,896 | ¥2,038 | \$16,140 |
| Guarantee of loans for others in the ordinary course of business | 2,228 | 1,882 | 18,967 |

In addition, the Companies issued letters of guarantee for the future for others in the ordinary course of business. The aggregate amount was ¥23 million (US\$196 thousand) and ¥243 million at March 31, 2006 and 2005, respectively.

11. Research and Development Expenses

Research and development expenses for the years ended March 31, 2006 and 2005 totaled ¥4,109 million (US\$34,979 thousand) and ¥3,830 million, respectively. They 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, 2006 and 2005 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|---------|------------------------------|
| | 2006 | 2005 | 2006 |
| Freight out | ¥15,404 | ¥15,652 | \$131,131 |
| Salaries, bonuses and allowances | 10,904 | 10,663 | 92,824 |
| Research and development expenses | 4,109 | 3,830 | 34,979 |

13. Loss from Instability in the Operation of Blast Furnace

“Loss from instability in the operation of blast furnace” is extra costs and recovery expenses related to instability in the operation of Blast Furnace No. 1 at the Company's Kure Works.

14. Loss on Impairment of Fixed Assets

The Companies recognized “Loss on impairment of fixed assets” for the year ended March 31, 2005.

The Companies mainly group their assets on the basis of administrative accounting categories (by steel products), for which earnings are calculated every fiscal period. Each block of the idle assets for which the Companies have no plans for future use is treated independently.

With regard to idle assets such as production facilities that have become idle following withdrawals from businesses by the Company and some of the consolidated subsidiaries, construction in progress that has become idle as a result of changes in business plans, and idle real estate properties for which the market price has fallen appreciably, the Companies have reduced the book value to the recoverable value, and recorded the reduction as an impairment loss of ¥7,201 million under special items, expense and loss for the year ended March 31, 2005.

The recoverable value of idle assets was determined from the net sale value. The value of real estate was determined mainly by real estate appraisers, while the value of the other assets was estimated based on reasonable estimates.

Details of the impairment loss are as follows:

| | Millions of yen |
|----------------------------------|-----------------|
| | 2005 |
| Idle assets: | |
| Buildings and structures | ¥1,302 |
| Machinery, equipment and vessels | 1,486 |
| Land | 3,672 |
| Construction in progress | 741 |
| Total | ¥7,201 |

15. Mortgaged Properties

Breakdowns of properties pledged as collateral and liabilities guaranteed by right of collateral at March 31, 2006 and 2005 are as follows:

| | Millions of yen | | Thousands of |
|--|-----------------|--------|--------------|
| | 2006 | 2005 | U.S. dollars |
| Properties pledged as collateral: | | | 2006 |
| Buildings and structures | ¥103 | ¥109 | \$ 876 |
| Land | 50 | 50 | 426 |
| Investments in securities | 29 | 30 | 247 |
| Total | ¥182 | ¥189 | \$1,549 |
| Liabilities guaranteed by right of collateral: | | | |
| Short-term bank loans | ¥1,570 | ¥1,250 | \$13,365 |
| Long-term bank loans (including the portion due within one year) | 800 | 835 | 6,810 |
| Total | ¥2,370 | ¥2,085 | \$20,175 |

16. Adjustment on Revaluation of Land

At March 31, 2002, some of the affiliates accounted for using the equity method revalued land in accordance with the Law concerning Revaluation of Land. The Company's share of a net-of-tax unrealized gain at March 31, 2006 and 2005 has been recorded as a separate component of shareholders' equity.

17. 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, 2006 and 2005 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 |
|---|-----------------|---------|--------------|
| | 2006 | 2005 | U.S. dollars |
| Cash on hand and in banks | ¥18,989 | ¥25,935 | \$161,650 |
| Marketable securities | 3,546 | 2,231 | 30,186 |
| Total | 22,535 | 28,166 | 191,836 |
| Time deposits and short-term investments with deposit terms or maturity periods exceeding three months in "Marketable securities" | (3,551) | (2,266) | (30,229) |
| Cash and cash equivalents at end of year | ¥18,984 | ¥25,900 | \$161,607 |

18. 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, 2006 and 2005 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2006 | 2005 | 2006 |
| Amount equivalent to leased article acquisition costs | ¥2,040 | ¥2,367 | \$17,366 |
| Amount equivalent to the accumulated depreciation | (1,098) | (1,222) | (9,347) |
| Amount equivalent to the year-end balance | ¥ 942 | ¥1,145 | \$ 8,019 |

(2) The amount of outstanding future lease payments at March 31, 2006 and 2005, which includes the portion of interest therein, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------|-----------------|--------|------------------------------|
| | 2006 | 2005 | 2006 |
| Future lease payments: | | | |
| Due within one year | ¥381 | ¥ 616 | \$3,243 |
| Due over one year | 561 | 529 | 4,776 |
| Total | ¥942 | ¥1,145 | \$8,019 |

(3) Lease payments and amounts equivalent to depreciation expenses for the year ended March 31, 2006 and 2005 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------|------------------------------|
| | 2006 | 2005 | 2006 |
| Lease payments | ¥652 | ¥820 | \$5,550 |
| Amount equivalent to depreciation expenses | 652 | 820 | 5,550 |

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.

19. Securities

The aggregated market value of held-to-maturity securities was higher than the book value by ¥4 million (US\$34 thousand) at March 31, 2006. The market value was higher than the book value by ¥52 million at March 31, 2005.

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 ¥4,495 million (US\$38,265 thousand) at March 31, 2006, up from ¥1,775 million at March 31, 2005.

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, 2006 and 2005 as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|------------------------------|
| | 2006 | 2005 | 2006 |
| Number of years from the balance sheet date: | | | |
| Within one year | ¥1,217 | ¥2,278 | \$10,360 |
| Over one year and within five years | 29 | 79 | 247 |

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, 2005 and 2006, 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, 2005 and 2006, 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
Tokyo, Japan
June 28, 2006

Investor Information

(As of March 31, 2006)

Nisshin Steel Co., Ltd.

Registered Head Office

Shinkokusai 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)

| | 2006 | | 2005 | | 2004 | |
|----------------|------|------|------|------|------|-----|
| | High | Low | High | Low | High | Low |
| First Quarter | ¥292 | ¥250 | ¥245 | ¥184 | ¥138 | ¥69 |
| Second Quarter | 420 | 266 | 247 | 205 | 207 | 113 |
| Third Quarter | 439 | 333 | 258 | 227 | 237 | 155 |
| Fourth Quarter | 416 | 337 | 300 | 236 | 237 | 182 |

Note: Years ended March 31.

Number of Shareholders 58,355

Independent Certified Public Accountants ChuoAoyama PricewaterhouseCoopers

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

Public & Investor Relations Team
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Telephone: (81)-3 3216-5566 Facsimile: (81)-3 3216-5546

Board of Directors, Corporate Auditors, and Executive Officers

(As of June 28, 2006)

Directors

Toshihiko Ono*¹
Hideo Suzuki*²
Takashi Nagai*²
Shigeaki Matsunaga
Makoto Yada
Fumio Oda
Yuji Kashihara
Yoshikazu Tsuda

*¹ Chairman of the Board of Directors

*² Representative Director

Auditors

Takashi Sugiyama*³
Toshiaki Ouchi
Hiroaki Shinagawa
Masanori Imanaga
Yoichiro Yamakawa

*³ Standing Auditor

President and Chief Executive Officer

Hideo Suzuki

Vice-Presidents and Executive Officers

Takashi Nagai
Shigeaki Matsunaga
Makoto Yada

Managing Executive Officers

Fumio Oda
Yuji Kashihara
Yoshikazu Tsuda
Yoshifumi Hiraoka
Kenji Minami
Yukio Nariyoshi
Takafumi Fukami

Executive Officers

Harumi Tomoyasu
Toshio Miura
Toshinori Miki
Akira Ichii
Yukio Uchida
Hideyuki Moriya
Koji Tomita
Tadashi Nakagawa
Hiroshi Takahashi
Koji Mizumoto
Katsuhisa Miyakusu

