

## SEMIANNUAL REPORT

For the Six-Month Period Ended September 30, 2006

# NISSHIN

NISSHIN STEEL CO., LTD.

# STEEL

vol. **127**

### FINANCIAL HIGHLIGHTS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
Six-month periods ended September 30, 2006 and 2005

	Millions of yen (except per share amounts)		Thousands of U.S. dollars <sup>1</sup> (except per share amounts)
	2006	2005	2006
Net sales	¥301,296	¥281,925	\$2,555,522
Net income	13,738	21,565	116,522
Net income per share <sup>2</sup>	¥14.70	¥22.83	\$0.12
Cash dividends per share <sup>2</sup>	3.00	3.00	0.03
Total assets	¥746,010	¥695,288	\$6,327,481
Total net assets <sup>3</sup>	340,391	298,022	2,887,116

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 ¥117.90=US\$1, the effective rate of exchange at September 30, 2006.

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

3. The amount of total net assets at September 30, 2005 represents the value of total shareholders' equity.

### **Operating Environment for the Nisshin Steel Group**

The Japanese economy during the subject interim period (the first half of the fiscal year ending March 31, 2007) continued to show signs of recovery, with increases in private capital investment buoyed by strong corporate earnings, a slight upturn in consumer spending stemming from rising income, and other positive factors.

In the steel industry, amid moves toward major corporate restructuring on a global scale, demand for steel products improved in response to strong performance in a wide range of sectors, including automotive, household electronics, and construction. Rising raw material costs, however, had an impact on earnings.

### **Group Business Results and Achievements**

In this business environment, the Nisshin Steel Group undertook a range of measures to enhance its corporate value in line with its Medium-Term Consolidated Management Guideline (through fiscal 2008), formulated in December 2005.

Our main initiative during the subject interim period was to improve earnings from our core products of stainless and coated steel. In response to soaring prices of nickel, zinc and other raw materials used in these products, we trimmed manufacturing costs by further reducing inventory and raising yields, and with the cooperation of our customers were able to steadily reflect these increases in the selling prices.

We also continued to boost sales of strategic products (stainless steel, specialty steel, proprietary coated products) with an eye toward securing stable earnings, and made a proactive Group-wide effort to develop new demand and new applications. In our Medium-Term Consolidated Management Guideline, we have set a target for the sales of strategic products to be 47% of the total by fiscal 2008 (ending March 31, 2009), and have steadily increased this share, achieving 43% in the subject interim period.

In August 2006, the collapse of a tunnel in Hiroshima interrupted the supply of water to our Kure Works, and



**Hideo Suzuki**

caused some concern among our shareholders. With the cooperation of various parties, we were able to minimize the impact from this incident. At the same time, the event has prompted us to review the Group's operating mode from a risk management perspective with the purpose of establishing more stable business foundations.

The Nisshin Steel Group recorded consolidated net sales of ¥301,296 million for the subject interim period, exceeding that of the same period of the previous fiscal year, due to strong performance at such Group companies as our overseas joint venture, which achieved a recovery in earnings thanks to improvement in market conditions in the United States and elsewhere. Profitability, however, was significantly affected by the rapid rise in prices of raw materials, changes in methods of recording depreciation, and other factors, resulting in income before special items of ¥21,931 million and net income of ¥13,738 million, both of which were down compared to the first half of the previous fiscal year. On a non-consolidated basis, Nisshin Steel recorded net sales of ¥224,871 million, income before special items of ¥17,981 million, and net income of ¥11,609 million.

Dividends for the interim period have been set at ¥3.00 per share, considering our performance during the subject first half and projected earnings in the second half as well as future economic conditions, business development and other factors.

### **Outlook and Issues for the Nisshin Steel Group**

Despite concerns about the trends in crude oil prices and the direction of the U.S. economy, and such uncertainties as sudden exposure to geopolitical risk, the Japanese economy is likely to continue to recover and expand on the back of solid demand from the private sector. In the steel industry, we expect such structural changes as the expansion of production capacity—mainly in China—along with high prices for raw materials and fuels partly triggered by these developments to remain for the foreseeable future. However, we also expect rising demand for high-end steel products both in Japan and overseas.

Under these business conditions, the Nisshin Steel Group will continue concerted efforts of production and sales to improve earnings and counter the persistently high prices of raw materials. In addition, we will work to more

precisely address customer needs and stimulate demand that will lead to the creation of unique markets for us, maximizing the advantages of highly competitive products, such as ZAM (hot-dipped zinc-aluminum-magnesium coated steel), which has excellent corrosion-resistant properties, and DNA-SUS, a series of our distinctive stainless steel products.

With the aim of reinforcing our business foundations to achieve sustainable growth, listed as one of the goals of our Medium-Term Consolidated Management Guideline, we will selectively allocate Group management resources to such priorities as enhancement of our presence in overseas markets, where we expect demand to increase, development of new products targeting growth fields, and upgrading of facilities to incorporate new technologies.

Nisshin Steel has also decided to introduce rules pertinent to large purchases of shares (anti-takeover measures), with the aim of raising its corporate value and securing earnings for all shareholders. These policies will establish highly fair and transparent procedures to allow the will of all shareholders to be reflected in the event of an attempted purchase of the Company.

Going forward, we intend to proactively undertake measures aimed at achieving our Medium-Term Consolidated Management Guideline, to raise the consolidated corporate value of the Nisshin Steel Group. We thank you for your continued support of Nisshin Steel.

November 2006

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

Hideo Suzuki  
President and Chief Executive Officer

## CONSOLIDATED BALANCE SHEETS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks	¥ 14,721	¥ 24,545	\$ 124,860
Notes and accounts receivable	103,867	100,267	880,975
Marketable securities	1,474	1,641	12,502
Inventories	121,877	115,634	1,033,732
Deferred income taxes	5,937	6,338	50,356
Other current assets	24,962	16,995	211,722
Allowance for doubtful accounts	(981)	(1,010)	(8,320)
Total current assets	271,857	264,410	2,305,827
Investments and long-term receivables:			
Investments in securities	181,044	137,217	1,535,573
Deferred income taxes	3,143	2,329	26,658
Others	13,666	14,798	115,912
Allowance for doubtful accounts	(286)	(481)	(2,426)
Total investments and long-term receivables	197,567	153,863	1,675,717
Property, plant and equipment, at cost:			
Buildings and structures	228,665	228,993	1,939,483
Machinery, equipment and vessels	786,627	775,410	6,671,985
	1,015,292	1,004,403	8,611,468
Accumulated depreciation	(806,071)	(795,383)	(6,836,905)
	209,221	209,020	1,774,563
Land	54,622	56,875	463,291
Construction in progress	4,122	2,308	34,962
Total property, plant and equipment	267,965	268,203	2,272,816
Other assets	8,621	8,812	73,121
	¥ 746,010	¥ 695,288	\$6,327,481

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Notes and accounts payable	¥ 97,471	¥ 85,522	\$ 826,726
Short-term loans	57,829	37,570	490,492
Current portion of long-term debt	-	57,853	-
Commercial paper	20,000	12,000	169,635
Income taxes payable	-	14,776	-
Provision for environmental spending	904	-	7,668
Other current liabilities	49,757	39,116	422,027
Total current liabilities	225,961	246,837	1,916,548
Long-term debt			
Deferred income taxes	97,514	72,711	827,091
Employees' retirement benefits	27,972	12,086	237,252
Employees' retirement benefits	42,409	45,432	359,703
Reserve for rebuilding furnaces	9,176	8,607	77,829
Provision for environmental spending	924	-	7,837
Other liabilities	1,663	1,652	14,105
Total liabilities	405,619	387,325	3,440,365
Minority interests in consolidated subsidiaries	-	9,941	-
Shareholders' equity:			
Common stock, no par value at September 30, 2005			
Authorized: 3,977,964 thousand shares at September 30, 2005			
Issued: 994,500 thousand shares at September 30, 2005			
	-	79,913	-
Additional paid-in capital	-	49,893	-
Retained earnings	-	129,351	-
Adjustment on revaluation of land	-	377	-
Unrealized gain on available-for-sale securities	-	48,834	-
Foreign currency translation adjustment	-	(631)	-
	-	307,737	-
Treasury stock, at cost	-	(9,715)	-
Total shareholders' equity	-	298,022	-
Net assets:			
Shareholders' equity:			
Common stock, no par value at September 30, 2006			
Authorized: 3,977,964 thousand shares at September 30, 2006			
Issued: 994,500 thousand shares at September 30, 2006			
	79,913	-	677,803
Additional paid-in capital	49,893	-	423,181
Retained earnings	140,255	-	1,189,609
Treasury stock, at cost	(11,631)	-	(98,651)
Total shareholders' equity	258,430	-	2,191,942
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities	70,789	-	600,415
Deferred gain on hedges	24	-	204
Adjustment on revaluation of land	278	-	2,358
Foreign currency translation adjustment	915	-	7,761
Total valuation and translation adjustments	72,006	-	610,738
Minority interests in consolidated subsidiaries	9,955	-	84,436
Total net assets	340,391	-	2,887,116
	¥746,010	¥695,288	\$6,327,481

## CONSOLIDATED STATEMENTS OF INCOME

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
Six-month periods ended September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales	¥301,296	¥281,925	\$2,555,522
Cost of sales	252,647	216,548	2,142,892
Gross profit	48,649	65,377	412,630
Selling, general and administrative expenses	25,313	24,184	214,699
Operating income	23,336	41,193	197,931
Other (income) expenses:			
Interest and dividend income	(1,982)	(1,676)	(16,811)
Interest expense	1,176	1,218	9,975
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,691)	(946)	(14,343)
Foreign exchange gain	-	(687)	-
Service cost of temporarily transferred employees	2,593	2,709	21,993
Retirement benefit expense	677	889	5,742
Others, net	632	26	5,361
Income before special items	21,931	39,660	186,014
Special items:			
Gain on sale of properties	13	1,101	110
Special items, income and gain	13	1,101	110
Loss on sale and disposition of properties	460	1,289	3,902
Retirement benefit expense	-	2,973	-
Special items, expense and loss	460	4,262	3,902
Income before provision for income taxes	21,484	36,499	182,222
Provision for income taxes:			
Current	4,328	15,077	36,709
Deferred	3,009	(695)	25,522
Total provision for income taxes	7,337	14,382	62,231
Minority interests in earnings of consolidated subsidiaries	409	552	3,469
Net income	¥ 13,738	¥ 21,565	\$ 116,522

	Yen	U.S. dollars (Note 3)
Net income per share	¥14.70	\$0.12
Cash dividends per share	3.00	0.03

Weighted average number of shares issued and outstanding (thousands) **934,567** 944,533

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

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Six-month period ended September 30, 2006

	Millions of yen											
	Shareholders' equity					Valuation and translation adjustments						
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain on revaluation of land	Adjustment on currency translation	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
<b>Balance at March 31, 2006</b>	¥79,913	¥49,893	¥129,333	¥ (9,735)	¥249,404	¥65,297	-	¥278	¥615	¥66,190	¥9,635	¥325,229
Changes of items during the period												
Cash dividends	-	-	(2,816)	-	(2,816)	-	-	-	-	-	-	(2,816)
Net income	-	-	13,738	-	13,738	-	-	-	-	-	-	13,738
Acquisition of treasury stocks	-	-	-	(1,896)	(1,896)	-	-	-	-	-	-	(1,896)
Net changes of items other than shareholders' equity	-	-	-	-	-	5,492	24	0	300	5,816	320	6,136
<b>Total changes of items during the period</b>	-	-	10,922	(1,896)	9,026	5,492	24	0	300	5,816	320	15,162
<b>Balance at September 30, 2006</b>	¥79,913	¥49,893	¥140,255	¥(11,631)	¥258,430	¥70,789	¥24	¥278	¥915	¥72,006	¥9,955	¥340,391

	Thousands of U.S. dollars (Note 3)											
	Shareholders' equity					Valuation and translation adjustments						
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain on revaluation of land	Adjustment on currency translation	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
<b>Balance at March 31, 2006</b>	\$677,803	\$423,181	\$1,096,972	\$(82,570)	\$2,115,386	\$553,834	-	\$2,358	\$5,216	\$561,408	\$81,722	\$2,758,516
Changes of items during the period												
Cash dividends	-	-	(23,885)	-	(23,885)	-	-	-	-	-	-	(23,885)
Net income	-	-	116,522	-	116,522	-	-	-	-	-	-	116,522
Acquisition of treasury stocks	-	-	-	(16,081)	(16,081)	-	-	-	-	-	-	(16,081)
Net changes of items other than shareholders' equity	-	-	-	-	-	46,581	204	0	2,545	49,330	2,714	52,044
<b>Total changes of items during the period</b>	-	-	92,637	(16,081)	76,556	46,581	204	0	2,545	49,330	2,714	128,600
<b>Balance at September 30, 2006</b>	\$677,803	\$423,181	\$1,189,609	\$(98,651)	\$2,191,942	\$600,415	\$204	\$2,358	\$7,761	\$610,738	\$84,436	\$2,887,116

The accompanying notes are an integral part of this financial statement.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Nisshin Steel Co., Ltd. and its consolidated subsidiaries

Six-month periods ended September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
<b>Cash flows from operating activities:</b>			
Income before provision for income taxes	¥21,484	¥36,499	\$182,222
Depreciation and amortization	14,928	11,698	126,616
(Decrease) increase in employees' retirement benefits account	(5,929)	2,212	(50,288)
Increase in reserve for rebuilding furnaces	318	684	2,697
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,691)	(946)	(14,343)
Interest and dividend income	(1,982)	(1,676)	(16,811)
Interest expense	1,176	1,218	9,975
Loss on sale and disposition of property, plant and equipment	438	188	3,715
(Increase) decrease in notes and accounts receivable	(14,593)	12,358	(123,774)
Decrease (increase) in inventories	2,114	(18,591)	17,930
Increase in notes and accounts payable	9,282	4,151	78,728
Others, net	(5,515)	(5,737)	(46,777)
	<b>20,030</b>	<b>42,058</b>	<b>169,890</b>
Receipt of interest and dividends	3,198	2,682	27,125
Payment of interest	(1,140)	(1,224)	(9,669)
Payment of income taxes	(8,787)	(24,827)	(74,530)
Net cash provided by operating activities	<b>13,301</b>	<b>18,689</b>	<b>112,816</b>
<b>Cash flows from investing activities:</b>			
Acquisition of investments in securities	(5,329)	(552)	(45,199)
Proceeds from sale of investments in securities	30	0	254
Acquisition of property, plant and equipment	(13,882)	(7,880)	(117,744)
Proceeds from sale of property, plant and equipment	143	864	1,213
Others, net	(79)	(1,151)	(670)
Net cash used in investing activities	<b>(19,117)</b>	<b>(8,719)</b>	<b>(162,146)</b>
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term loans, net	1,485	(3,040)	12,595
Increase (decrease) in commercial paper, net	4,000	(1,000)	33,927
Proceeds from long-term debt	28,853	3,500	244,724
Repayment and redemption of long-term debt	(28,133)	(5,321)	(238,617)
Acquisition of treasury stocks	(1,896)	(3,582)	(16,081)
Cash dividends	(2,818)	(2,372)	(23,902)
Others, net	(46)	(46)	(390)
Net cash provided by (used in) financing activities	<b>1,445</b>	<b>(11,861)</b>	<b>12,256</b>
Foreign currency translation adjustment of cash and cash equivalents	103	521	874
Net decrease in cash and cash equivalents	<b>(4,268)</b>	<b>(1,370)</b>	<b>(36,200)</b>
Cash and cash equivalents at beginning of period	18,984	25,900	161,018
Cash and cash equivalents at end of period	<b>¥14,716</b>	<b>¥24,530</b>	<b>\$124,818</b>

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

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nisshin Steel Co., Ltd. (the “Company”) and its subsidiaries 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. ACCOUNTING CHANGES

### (1) Depreciation of Property, plant and equipment

Prior to the period under review, depreciation of property, plant and equipment had been computed using the straight-line method. Effective from the period under review, depreciation of property, plant and equipment except buildings has been computed using the declining-balance method.

This change increased depreciation expenses by ¥3,075 million (US\$26,081 thousand) and decreased income before special items and income before provision for income taxes by ¥2,285 million (US\$19,381 thousand) for the period under review, relative to what they would have been had the previous method been used.

### (2) Net assets

On December 9, 2005, Accounting Standards Board of Japan issued “Accounting Standard for Presentation of Net Assets in the Balance Sheet”.

Effective from the period under review, the Companies have adopted this new standard. Total shareholders’ equity under the previous presentation method amounted to ¥330,412 million (US\$2,802,477 thousand) at September 30, 2006.

### (3) Current portion of long-term debt

Prior to the period under review, current portion of long-term debt was shown separately in current liabilities in the Consolidated Balance Sheets. Effective from the period under review, current portion of long-term debt has been included in “Short-term loans” in current liabilities in the statements. It amounted to ¥15,550 million (US\$131,891 thousand) at September 30, 2006.

### (4) Income tax payable

Prior to the period under review, income tax payable was shown separately in current liabilities in the Consolidated Balance Sheets. Effective from the period under review, income tax payable has been included in “Other current liabilities” in current liabilities in the statements. It amounted to ¥5,182 million (US\$43,953 thousand) at September 30, 2006.

## 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 ¥117.90=US\$1, the effective rate of exchange at September 30, 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 ¥117.90=US\$1 or at any other rate.

## DIRECTORY

(As of December 31, 2006)

### **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

#### **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

#### **(Subsidiaries)**

#### **Nisshin Steel USA, LLC**

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

#### **Tsukiboshi (Shanghai) Steel Trading Co., Ltd.**

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

## BOARD OF DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS

(As of December 31, 2006)

### Directors

Toshihiko Ono\*<sup>1</sup>

Hideo Suzuki\*<sup>2</sup>

Takashi Nagai\*<sup>2</sup>

Shigeaki Matsunaga

Makoto Yada

Fumio Oda

Yuji Kashihara

Yoshikazu Tsuda

\*1 Chairman of the Board of Directors

\*2 Representative Director

### Auditors

Takashi Sugiyama\*<sup>3</sup>

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

**INVESTOR INFORMATION**

(As of September 30, 2006)

***NISSHIN STEEL CO., LTD.*****Registered Head Office**

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

55,447

**Independent Certified Public Accountants**

MISUZU Audit Corporation  
The Fuji Accounting Office

**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  
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Facsimile: (81-3) 3216-5546

**Nisshin Steel Website**

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