NISSHIN STEEL

Annual Report 2001

CONTENTS

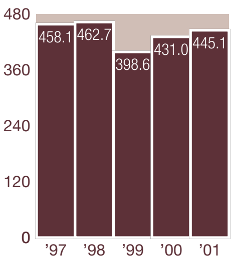
Consolidated Financial Highlights

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2001, 2000 and 1999

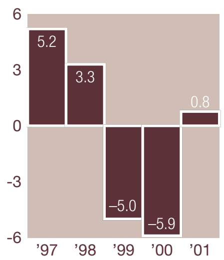
	Millions of yen (except per share amounts)			Percent change	Thousands of U.S. dollars[1] (except per share amounts)
	2001	2000	1999	(**2001**/2000)	**2001**
Net sales	**¥445,096**	¥430,956	¥398,584	3.3%	**$3,592,381**
Net income (loss)	**767**	(5,919)	(4,968)	—	**6,190**
Total assets	**648,846**	669,266	648,439	(3.1)	**5,236,852**
Total shareholders' equity	**252,377**	244,999	251,533	3.0	**2,036,941**
Net income (loss) per share[2]	**¥0.77**	¥(5.95)	¥(4.94)	—%	**$0.01**
Cash dividends per share[2]	**2.00**	2.00	2.50	0	**0.02**

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 ¥123.90=US$1, the effective rate of exchange at March 31, 2001.
Notes: 2. Per share figures are in exact yen and U.S. dollars.

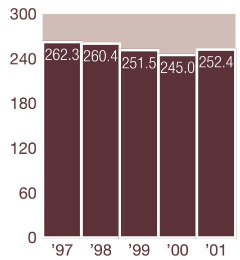
Net Sales
(Billions of yen)
(Years ended March 31)



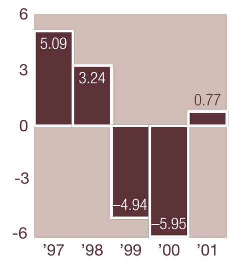
Net Income (Loss)
(Billions of yen)
(Years ended March 31)



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



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



Message from the President

The year ended March 31, 2001, was the second year of Nisshin Steel's two-year medium-term management plan to establish a corporate foundation capable of generating adequate profits even amid persistently severe market conditions. We are pleased to announce that we have exceeded our target of saving ¥30 billion through rationalization, including ¥20 billion in cost-cutting, by over 20%.

In production, we completed the planned transfer of cold-rolling and coating operations from the Sakai and Ichikawa works to the newly completed Toyo Works in 2000. With state-of-the-art cold-rolling and surface-treatment processes, the Toyo Works is now our key manufacturing base.

The Company regards quality management as a pillar of corporate operations, and has already acquired ISO 9002 certification for all its plants. Additionally, the Kure, Sakai, Toyo, Osaka, and Ichikawa works have acquired QS9000 certification, a common quality system standard in the U.S. automotive industry, to better respond to the recent wave of globalization developing in the industry and to achieve even tighter quality control. In April 2001, the Company began full-fledged cross-deliveries of hot-rolled stainless steel coils after necessary quality tests and adjustments in production systems under a mutual supply contract signed with Nippon Steel Corp. in May 2000.

Turning to product development, we are already producing and marketing over 10,000 tons a month of *ZAM,* the next-generation, hot-dipped super-corrosion-resistant zinc-aluminum-magnesium alloy-coated steel launched in May 2000. Orders for this product, placed mostly by manufacturers of prefabricated housing, have grown healthily. We have aggressively developed a wide range of other new products and technologies, typified by the extremely flexible stainless steel NSS304ES, which meets customers' needs to process stainless steel on lines that were designed primarily for carbon steel. This was followed by *Alstar*, the environment-friendly and highly recyclable aluminized steel sheet for lead-free fuel tanks in cars, *Anesis*, the "eco-dish" without endocrine disrupters, which is being adopted in school canteens across Japan, and the new Super Emboss NF Process for steel kitchenware, which makes pots and pans more burn-resistant.

In overseas operations, the Company is focusing resources on the Chinese market, where rapid growth is expected. The stainless steel cold-rolling facilities at our joint venture Ningbo Baoxin Stainless Steel Co., Ltd. (Ningbo city, Zhejiang Province), which was commissioned in 1998, continue to run at full capacity. To bolster its production, the Company has agreed to provide funding for the venture's expansion.

1. Operating Results

Overview of Operating Results for the Year Ended March 31, 2001

As previously stated, Nisshin Steel made a Groupwide effort to strengthen its corporate foundations in the year under review. The result was consolidated net sales of ¥445.1 billion, up from ¥431.0 billion in the previous year, and consolidated income before special items of ¥16.2 billion, up from ¥5.6 billion. The Company recorded consolidated net income of ¥767 million, compared with a net loss of ¥5,919 million in the previous year.

Non-consolidated sales of mainstream products, such as surface-treated and stainless steels, increased in volume on the back of relatively strong demand from domestic automakers, builders, and home-appliance manufacturers. However, domestic steel prices continued to slide due to intensified competition from imports, and market conditions were tough throughout the period under review.

Non-consolidated sales rose 3.3% from the previous year's level of ¥312.6 billion, to ¥323.1 billion. Domestic sales accounted for ¥278.6 billion of this total, and exports, which accounted for 13.8% of all sales, amounted to ¥44.5 billion. Non-consolidated income before special items rose ¥12.2 billion from the previous year's level, to ¥16.6 billion. The negative impact of falling steel prices and rising costs of nickel, chrome, and other raw materials was more than offset by increased sales, a shift into product lines with high profitability, and sweeping cost-cutting measures. Thus, we recorded a net income of ¥2.2 billion, compared with a net loss of ¥5.4 billion in the previous year, after accounting for extraordinary losses, which resulted mainly from covering the revised retirement benefit obligations measured by new accounting standards and the devaluation of investment securities affected by falling stock prices.

2. Dividends

Although we forwent the payment of an interim dividend, after comprehensive consideration of results for the year and future prospects, we have resolved to pay a year-end dividend in the amount of ¥2 per share, out of regard for stable dividend payments to our shareholders.

3. Prospects

While the operating environment is expected to remain harsh, the Company is drawing up a new medium-term management plan designed to raise profitability through increasing international competitiveness and concentrating efforts on sectors where it excels. At the same time, in recognition of the importance of tailoring performance targets to specific businesses, we reorganized our profit and production centers into business divisions along product-based lines in June 2001 so that we may expand and strengthen our position in areas where we can develop original products and be an industry leader. The realignment will enable us to speed up decision making and enhance profitability, thereby increasing customer trust and satisfaction. Further, by building up businesses, setting Group management targets, and better clarifying the role of each Group member company, we will be able to reinforce our consolidated advantage and make more efficient use of management resources.

We look forward to your continued support of our operations in the coming fiscal period.

June 2001

Minoru Tanaka

Minoru Tanaka

Chairman, President and Chief Executive Officer

Consolidated Seven-Year Summary

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

	2001	2000
Results for the year:		
Net sales	**¥445,096**	¥430,956
Gross profit	**73,236**	69,404
Operating income	**25,813**	15,583
Income (loss) before special items	**16,180**	5,610
Income (loss) before provision for income taxes	**3,139**	(8,878)
Net income (loss)	**767**	(5,919)
Year-end financial position:		
Total current assets	**¥212,580**	¥216,843
Total property, plant and equipment	**320,599**	327,421
Total assets	**648,846**	669,266
Total current liabilities	**224,896**	234,163
Long-term debt	**122,171**	133,352
Total shareholders' equity	**252,377**	244,999
Cash flows[1]:		
Net cash provided by operating activities	**¥ 49,186**	¥ 23,919
Net cash used in investing activities	**(33,382)**	(53,331)
Net cash (used in) provided by financing activities	**(18,791)**	19,535
Per share amounts[2]:		
Net income (loss) per share	**¥0.77**	¥(5.95)
Cash dividends per share	**2.00**	2.00
Weighted average number of shares issued (thousands)	**994,500**	994,500

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

Millions of yen (except per share amounts and weighted average number of shares issued)				
1999	1998	1997	1996	1995
¥398,584	¥462,661	¥458,114	¥455,343	¥429,058
60,014	80,418	77,324	86,135	77,112
1,428	17,942	16,220	26,586	19,604
(561)	14,406	11,798	19,713	11,453
(4,343)	11,363	8,790	18,114	10,140
(4,968)	3,294	5,172	14,984	8,027
¥259,270	¥299,059	¥277,838	¥275,778	¥288,191
323,680	307,089	313,618	323,750	316,106
648,439	670,257	653,201	660,554	666,155
213,234	238,801	257,306	236,404	238,271
127,787	113,199	77,822	109,970	125,685
251,533	260,389	262,263	262,252	252,493
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
¥(4.94)	¥3.24	¥5.09	¥14.74	¥7.90
2.50	5.00	5.00	5.00	3.00
1,005,389	1,016,536	1,016,536	1,016,536	1,016,532

Consolidated Balance Sheets

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2001	2000	**2001**
ASSETS			
Current assets:			
Cash on hand and in banks (Note 15)	**¥ 16,207**	¥ 18,721	**$ 130,807**
Marketable securities (Notes 15 and 17)	**5,236**	3,920	**42,260**
Notes and accounts receivable (Note 6):			
Trade	**70,788**	74,451	**571,332**
Unconsolidated subsidiaries and affiliates	**15,307**	13,167	**123,543**
Less: Allowance for doubtful accounts	**883**	881	**7,127**
	85,212	86,737	**687,748**
Inventories	**93,774**	93,114	**756,852**
Deferred income taxes (Note 9)	**2,217**	4,949	**17,893**
Other current assets	**9,934**	9,402	**80,178**
Total current assets	**212,580**	216,843	**1,715,738**
Investments and long-term receivables:			
Investments in securities (Notes 14 and 17)	**66,898**	65,540	**539,936**
Investments in and advances to unconsolidated subsidiaries and affiliates (Notes 7, 14 and 17)	**27,996**	30,397	**225,956**
Deferred income taxes (Note 9)	**3,714**	7,326	**29,976**
Others	**12,709**	14,913	**102,575**
Less: Allowance for doubtful accounts	**986**	498	**7,958**
Total investments and long-term receivables	**110,331**	117,678	**890,485**
Property, plant and equipment, at cost:			
Buildings and structures (Note 14)	**228,238**	227,417	**1,842,115**
Machinery, equipment and vessels (Note 14)	**772,286**	758,691	**6,233,140**
	1,000,524	986,108	**8,075,255**
Less: Accumulated depreciation	**747,674**	738,809	**6,034,496**
	252,850	247,299	**2,040,759**
Land (Note 14)	**63,533**	63,471	**512,776**
Construction in progress	**4,216**	16,651	**34,027**
Total property, plant and equipment	**320,599**	327,421	**2,587,562**
Other assets	**5,336**	5,301	**43,067**
Foreign currency translation adjustment	**—**	2,023	**—**
	¥ 648,846	¥669,266	**$5,236,852**

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

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2001	2000	**2001**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Notes 8 and 14)	**¥ 86,859**	¥ 89,962	**$ 701,041**
Current portion of long-term debt (Notes 8 and 14)	**26,388**	28,010	**212,978**
Notes and accounts payable (Note 6):			
Trade and construction	**62,435**	63,366	**503,914**
Unconsolidated subsidiaries and affiliates	**8,638**	7,787	**69,718**
	71,073	71,153	**573,632**
Accrued income taxes	**2,329**	363	**18,797**
Other current liabilities	**38,247**	44,675	**308,692**
Total current liabilities	**224,896**	234,163	**1,815,140**
Long-term debt (Notes 8 and 14)	**122,171**	133,352	**986,045**
Employees' retirement benefits (Note 10)	**21,465**	17,496	**173,245**
Reserve for rebuilding furnaces	**14,157**	25,658	**114,262**
Deferred income taxes (Note 9)	**3,180**	2,889	**25,666**
Negative goodwill	**152**	—	**1,227**
Other liabilities	**1,723**	1,455	**13,906**
Total liabilities	**387,744**	415,013	**3,129,491**
Minority interests in consolidated subsidiaries	**8,725**	9,254	**70,420**
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized: 3,977,964 thousand shares at March 31, 2001 and 2000			
Issued: 994,500 thousand shares at March 31, 2001 and 2000	**79,913**	79,913	**644,980**
Additional paid-in capital	**49,893**	49,893	**402,688**
Retained earnings (Note 20)	**113,965**	115,193	**919,814**
Unrealized gain on available-for-sale securities	**9,669**	—	**78,038**
Foreign currency translation adjustment	**(1,063)**	—	**(8,579)**
	252,377	244,999	**2,036,941**
Less: Treasury stock, at cost	**0**	0	**0**
Total shareholders' equity	**252,377**	244,999	**2,036,941**
	¥648,846	¥669,266	**$5,236,852**

Consolidated Statements of Income and Retained Earnings

Nisshin Steel Co., Ltd. and its consolidated subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2001	2000	**2001**
Net sales	**¥445,096**	¥430,956	**$3,592,381**
Cost of sales	**371,860**	361,552	**3,001,291**
Gross profit	**73,236**	69,404	**591,090**
Selling, general and administrative expenses (Notes 12 and 13)	**47,423**	53,821	**382,753**
Operating income	**25,813**	15,583	**208,337**
Other (income) expenses:			
Interest and dividend income	**(2,340)**	(2,198)	**(18,886)**
Foreign exchange gain (Note 4)	**(1,017)**	—	**(8,208)**
Interest expense	**4,447**	4,292	**35,892**
Equity in losses of unconsolidated subsidiaries and affiliates	**547**	432	**4,415**
Service cost of temporarily transferred employees (Note 3)	**4,807**	5,804	**38,797**
Retirement benefit expense	**2,080**	—	**16,788**
Others, net	**1,109**	1,643	**8,950**
Income before special items	**16,180**	5,610	**130,589**
Special items:			
Gain on sale of properties	**1,594**	902	**12,865**
Gain on sale of marketable securities	**2,295**	—	**18,523**
Reversal of reserve for rebuilding furnaces	**12,513**	—	**100,993**
Gain on security contribution to employees' retirement benefit trust	**23,115**	—	**186,562**
Special items income and gain total	**39,517**	902	**318,943**
Loss on sale and disposition of properties	**2,875**	2,095	**23,204**
Loss on devaluation of marketable securities	**7,152**	—	**57,724**
Special early retirement benefit payments	**5,569**	13,093	**44,948**
Refirement benefit expense	**36,962**	—	**298,321**
Loss on liquidation of unconsolidated subsidiary	**—**	202	**—**
Special items expense and loss total	**52,558**	15,390	**424,197**
Income (loss) before provision for income taxes	**3,139**	(8,878)	**25,335**
Provision for income taxes (Note 9):			
Current	**2,780**	1,081	**22,437**
Deferred	**(749)**	(4,511)	**(6,045)**
Total provision for income taxes	**2,031**	(3,430)	**16,392**
Minority interests in earnings of consolidated subsidiaries	**341**	471	**2,753**
Net income (loss)	**767**	(5,919)	**6,190**
Retained earnings:			
Retained earnings, balance at beginning of year	**115,193**	121,727	**929,726**
Increase due to change in the number of affiliates	**—**	388	**—**
Decrease due to change in the number of affiliates	**6**	9	**49**
Appropriations: Cash dividends	**1,989**	994	**16,053**
Balance at end of year	**¥113,965**	¥115,193	**$ 919,814**

	Yen		U.S. dollars (Note 5)
Net income (loss) per share	**¥0.77**	¥(5.95)	**$0.01**
Cash dividends per share	**2.00**	2.00	**0.02**
Weighted average number of shares issued (thousands)	**994,500**	994,500	

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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2001	2000	**2001**
Cash flows from operating activities:			
Income (loss) before provision for income taxes	**¥ 3,139**	¥ (8,878)	**$ 25,335**
Depreciation and amortization	**36,876**	33,955	**297,627**
Interest and dividend income	**(2,340)**	(2,198)	**(18,886)**
Interest expense	**4,447**	4,292	**35,892**
Equity in losses of unconsolidated subsidiaries and affiliates	**547**	432	**4,415**
Loss on devaluation of marketable securities	**7,152**	—	**57,724**
Gain on sale of marketable securities	**(2,295)**	—	**(18,523)**
Gain and loss on sale and disposition of property, plant and equipment	**1,277**	1,145	**10,307**
Decrease in notes and accounts receivable	**2,705**	3,629	**21,832**
(Increase) decrease in inventories	**(200)**	874	**(1,614)**
Decrease in notes and accounts payable	**(712)**	(8,856)	**(5,747)**
(Decrease) increase in reserve for rebuilding furnaces	**(11,501)**	989	**(92,825)**
Increase (decrease) in employees' retirement benefits account	**10,348**	(3,286)	**83,519**
Others, net	**2,154**	5,201	**17,385**
	51,597	27,299	**416,441**
Receipt of interest and dividends	**2,911**	2,376	**23,494**
Payment of interest	**(4,496)**	(4,200)	**(36,287)**
Payment of income taxes	**(826)**	(1,556)	**(6,667)**
Net cash provided by operating activities	**49,186**	23,919	**396,981**
Cash flows from investing activities:			
Acquisition of marketable securities	**(11,528)**	(9,287)	**(93,043)**
Proceeds from sale and redemption of marketable securities	**14,436**	6,501	**116,513**
Acquisition of property, plant and equipment	**(37,874)**	(51,078)	**(305,682)**
Proceeds from sale of property, plant and equipment	**2,093**	1,970	**16,893**
Others, net	**(509)**	(1,437)	**(4,108)**
Net cash used in investing activities	**(33,382)**	(53,331)	**(269,427)**
Cash flows from financing activities:			
(Decrease) increase in short-term loans	**(3,103)**	4,356	**(25,044)**
Proceeds from long-term debt	**11,800**	31,800	**95,238**
Repayment and redemption of long-term debt	**(24,676)**	(15,570)	**(199,161)**
Cash dividends paid by the parent company	**(1,997)**	(1,010)	**(16,118)**
Others, net	**(815)**	(41)	**(6,578)**
Net cash (used in) provided by financing activities	**(18,791)**	19,535	**(151,663)**
Foreign currency translation adjustment of cash	**748**	(1,836)	**6,038**
Net decrease in cash	**(2,239)**	(11,713)	**(18,071)**
Cash and cash equivalents at beginning of year	**18,375**	27,700	**148,305**
Increase in cash due to change in the number of consolidated subsidiaries	**—**	2,388	**—**
Cash and cash equivalents at end of year (Note 15)	**¥16,136**	¥18,375	**$130,234**

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, 2001 and 2000

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nisshin Steel Co., Ltd. (the “Company”) and its subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting 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.

The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

Principles of consolidation

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

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

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

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

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

Cumulative post-acquisition income of subsidiaries for prior years attributable to each block of stocks previously acquired has been included in the consolidated retained earnings in the consolidated financial statements.

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

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

—Unrealized intercompany profits arising from downstream transactions (sales by the parent company to the subsidiaries) have been entirely eliminated and charged to the parent company.

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

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

The number of unconsolidated subsidiaries accounted for using the equity method was 10 at March 31, 2001, and they included:

Nisshin Information Service, Corp.

Tsukiboshi Art Co., Ltd.

Osaka Stainless Center Co., Ltd.

The number of affiliates accounted for using the equity method was 13 at March 31, 2001, and they included:

Nihon Teppan Co., Ltd.

Sun Wave Corporation

Sanko Metal Industrial Co., Ltd.

Ningbo Boaoxin Stainless Steel Co., Ltd.

Changes in the number of corporations accounted for using the equity method during the year ended March 31, 2001 are as follows:

Increase in the number of unconsolidated subsidiaries: One

Decrease in the number of unconsolidated subsidiaries: One

Increase in the number of affiliates: None

Decrease in the number of affiliates: None

The increase in the number of unconsolidated subsidiaries is due to the establishment of Nisshin Information Service, Corp.

Sales recognition

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

Foreign currency translation

Receivables and payables are translated into Japanese yen at the rate prevailing at the balance sheet date.

Prior to the year ended March 31, 2001, long-term receivables and payables had been translated into yen at the historical exchange rates. Effective from the year ended March 31, 2001, they have been translated into yen at the effective rate of exchange on the balance sheet date in conformity with the newly revised Japanese accounting standard for foreign currency translation. Resulting exchange gains and losses are included in net profit or loss for the year of each translation. This change increased income before special items by ¥21 million (US$169 thousand) and income before provision for income taxes by the same amount.

Also, effective from the year ended March 31, 2001, unrealized net-of-tax foreign exchange gains and losses on available-for-sale securities denominated in foreign currencies are included in "Unrealized gain on available-for-sale securities," and applicable deferred tax liabilities and assets have been recorded according to the new accounting standard. The amount of unrealized loss and applicable deferred tax assets are ¥1,280 million (US$10,331 thousand) and ¥915 million (US$7,385 thousand), respectively, for the year ended March 31, 2001.

Assets and liabilities of overseas subsidiaries are translated into yen at the foreign exchange rates prevailing at the respective balance sheet dates.

Effective from the year ended March 31, 2001, a negative foreign currency translation adjustment account of ¥1,063 million (US$8,579 thousand) has been recorded as a separate component of shareholders' equity. That was previously recorded in assets or liabilities as the case may be.

Inventory valuation

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

Investments in securities

Prior to the year ended March 31, 2001, investments in securities, except for those in unconsolidated subsidiaries and major affiliates, had been valued at cost, which was determined by the moving average method. Effective from the year ended March 31, 2001, the Companies have adopted the new Japanese standard for financial instruments, and investments in securities have been classified into four categories.

(1) Trading securities are to be valued at fair value on the balance sheet date, and unrealized gain or loss is to be charged to income. The Companies had no trading securities at March 31, 2001.

(2) Held-to-maturity securities have been stated at cost after amortization of premiums or discounts on acquisition, which have been amortized over the period to maturity.

(3) Investments in unconsolidated subsidiaries and major affiliates have been accounted for by the equity method, except for those valued at cost due to the lack of significance. There has been no change for this category.

(4) Available-for-sale securities have been valued at fair values except for those valued at cost due to the lack of fair value information. Applicable unrealized net-of-tax gains and losses have been included in shareholders' equity.

The adoption of the new standard, which also requires a change in the accounting for the allowance for doubtful accounts as explained later, aggregately decreased income before special items by ¥438 million (US$3,535 thousand) and income before provision for income taxes by the same amount for the year ended March 31, 2001 relative to what they would have been had the previous method been used. For the year ended March 31, 2001, an unrealized gain of ¥10,949 million (US$88,370 thousand) is included in shareholders' equity, and applicable deferred tax liabilities of ¥7,831 million (US$63,204 thousand) are recorded and netted against deferred tax assets.

Allowance for doubtful accounts

Prior to the year ended March 31, 2001, allowance for doubtful accounts was accounted for based on the statutory rates for receivables, etc., specified by the Japanese Corporation Tax Law with the adjustment based on the valuation of each receivable, etc. Effective from the year ended March 31, 2001, it has been evaluated based on the actual bad debt rate in the past. For doubtful receivables, etc., the possibility of collection has been evaluated in accounting for the allowance. Refer to the explanation of investments in securities for the influence of this change.

Depreciation and amortization

Depreciation of structures, all machinery and equipment at the Kure Works, Shunan Works and Osaka Works, cold-rolling mills at the Sakai Works and Toyo Works, vehicles and tools is computed using the declining-balance method. Depreciation of machinery and equipment other than those mentioned above is computed using the straight-line method. Buildings are depreciated 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 operations 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

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

Reserve for rebuilding furnaces

Blast furnaces and hot blast stoves, including related machines, periodically require substantial component replacements and repairs. Such work occurs normally every 10 years for blast furnaces and every 20 years for hot blast stoves after being put into operation. The estimated future costs of such work are provided for and charged to income on a straight-line basis over the periods to the date of the anticipated replacements and repairs. The difference between such estimated costs and actual costs is charged or credited to income at the time the work takes place.

In estimating such future costs for a specific furnace, the general price level increase and other economic factors are taken into consideration. For the year ended March 31, 2001, a change in the estimate for the future disbursement has been made, and the reversal of the reserve of ¥12,513 million (US$100,993 thousand) has been credited to income.

Employees' retirement benefits

Prior to the year ended March 31, 2001, the Japanese accounting standard had required different accounting methods between employees' lump-sum severance benefit payments and defined benefit pension plans. Lump-sum severance benefit payments had been accounted for in the reserve account for "Employees' retirement benefits." The Companies had charged to income for each period such amount as computed on the basis of the present value of the amount of employees' lump-sum severance benefits based upon those conditions of termination requiring the smallest payment as of the end of each year. For the defined benefit pension plans, expenses had been recognized on contributions made by the Companies.

Effective from the year ended March 31, 2001, the Companies have adopted the Japanese accounting standard for retirement benefits which requires the same accounting methods for the lump-sum severance benefit payments and defined benefit pension plans based on the actuarial calculation of projected benefit obligation for each employee. The reserve account for “Employees’ retirement benefits” as of March 31, 2001, represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, the unrecognized transition amount arising from adopting the new standard and unrecognized actuarial differences. This change increased retirement benefit expenses by ¥35,313 million (US$285,012 thousand), decreased income before special items by ¥2,048 million (US$16,529 thousand) and decreased income before provision for income taxes by ¥34,895 million (US$281,638 thousand) relative to what they would have been had the previous method been used. The Companies made security contributions to the employees’ retirement benefit trust and recorded a ¥23,115 million (US$186,562 thousand) gain. Thus, the net effect of this accounting change was to decrease income before provision for income taxes by ¥11,780 million (US$95,076 thousand) relative to what it would have been had the previous method been used.

Leases

Regarding finance leases, transactions that acknowledge the transfer of ownership of the leased object to the lessee are treated as sales transactions, and those that make no such acknowledgment are accounted for based on ordinary rental transaction accounting methods.

Income taxes

Deferrals are made for timing differences in the recognition of expenses between tax and financial reporting.

Consumption tax

In Japan, a consumption tax is imposed on domestic consumption of goods and services at the rate of 5%. The consumption tax imposed on the Companies’ sales to customers is withheld by the Companies at the time of sale and paid to the national government. The consumption tax withheld upon sale is not included in the amount of “Net sales” in the accompanying Consolidated Statements of Income and Retained Earnings but is recorded as a liability, i.e., consumption tax withheld. 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 during each year. Cash dividends per share shown for each year in the accompanying Consolidated Statements of Income and Retained Earnings 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. Changes in Accounting Methods

Prior to the year ended March 31, 2000, salary, bonus and social benefit expenses for employees who were temporarily transferred to and working for other corporations were classified in selling, general and administrative expenses in the Consolidated Statements of Income and Retained Earnings. Effective from the year ended March 31, 2000, these expenses have been classified in “Service cost of temporarily transferred employees” in “Other (income) expenses.” This change increased operating income by ¥5,804 million relative to what it would have been had the previous method been used. This change had no influence on income before special items and on loss before provision for income taxes. This change was made based on the Companies’ modified recognition that those expenses had no more direct relation to the Companies’ operations. As these expenses were becoming significant in amount, the Companies have adopted a perpetual and obligatory transfer system for temporarily transferred employees and enhanced incentives for early retirement. The Companies concluded that the revised accounting method for these expenses was more suitable for the measurement and reporting of the Companies’ results of operations.

4. Change in Accounting Title and Classification

Prior to the year ended March 31, 2001, foreign exchange gain or loss was included in "Others, net" in other (income) expenses in the Consolidated Statements of Income and Retained Earnings. Effective from the year ended March 31, 2001, foreign exchange gain has been shown separately in other (income) expenses in the statements as its significance in other income has been increased. It amounted to a loss of ¥1,079 million (US$8,709 thousand) in the previous year.

5. U.S. Dollar Amounts

The Companies maintain their accounting records in yen except for Nisshin Holding, Inc., Nisshin Steel USA, LLC and Wheeling-Nisshin, Inc., which maintain their accounting records in U.S. dollars. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars on a basis of ¥123.90=US$1, the effective rate of exchange at March 31, 2001. 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 ¥123.90=US$1 or at any other rate.

6. Notes Receivable and Payable with Due Date at the Balance Sheet Date

Financial institutions were closed at March 31, 2001 in Japan. Notes receivable and payable with a due date at March 31, 2001 are accounted for as if they had been settled at March 31, 2001. These balances at March 31, 2001 were ¥2,034 million (US$16,416 thousand) and ¥3,774 million (US$30,460 thousand), respectively.

7. Investments in and Advances to Unconsolidated Subsidiaries and Affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Stocks of and equity in unconsolidated subsidiaries and affiliates	**¥25,560**	¥27,876	**$206,295**
Bonds of and loans to unconsolidated subsidiaries and affiliates	**2,436**	2,521	**19,661**
	¥27,996	¥30,397	**$225,956**

8. Short-Term Loans and Long-Term Debt

Short-term loans at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Bank loans	**¥75,859**	¥76,962	**$612,260**
Commercial paper	**11,000**	13,000	**88,781**
	¥86,859	¥89,962	**$701,041**

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Loans from banks and other financial institutions	**¥ 77,959**	¥ 80,762	**$ 629,209**
2.5% unsecured bond of Nisshin Steel Co., Ltd., due Feb. 2002	**20,000**	20,000	**161,421**
2.2% unsecured bond of Nisshin Steel Co., Ltd., due Feb. 2001	**—**	20,000	**—**
2.15% unsecured bond of Nisshin Steel Co., Ltd., due Dec. 2002	**10,000**	10,000	**80,710**
2.325% unsecured bond of Nisshin Steel Co., Ltd., due July 2006	**20,000**	20,000	**161,421**
1.72% unsecured bond of Nisshin Steel Co., Ltd., due Nov. 2005	**10,000**	10,000	**80,710**
1.35% unsecured bond of Nisshin Steel Co., Ltd., due Nov. 2005	**10,000**	—	**80,710**
1.8% secured bond of Tsukiboshi Kaiun Co., Ltd., due Mar. 2004	**600**	600	**4,842**
	148,559	161,362	**1,199,023**
Less: Portion due within one year	**26,388**	28,010	**212,978**
	¥122,171	¥133,352	**$ 986,045**

9. Income Taxes

The Company is subject to a number of different normal taxes based on income, which in the aggregate indicate an effective tax rate of approximately 41.7%. However, there is essentially no tax on domestic dividend income. Conversely, there are limits on certain types of deductions.

Income taxes consist of corporate income tax, inhabitants' taxes and enterprise taxes. Unlike other income taxes, enterprise taxes are deductible for other tax purposes when paid.

Components of the Companies' deferred income tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred income tax assets:			
Non-deductible portion of employees' retirement benefits	**¥10,176**	¥ 4,031	**$ 82,131**
Elimination of unrealized intercompany profit	**1,229**	1,112	**9,919**
Non-deductible portion of accrued bonus expense	**1,203**	—	**9,709**
Tax loss carryforward	**1,185**	5,490	**9,564**
Non-deductible portion of reserve for rebuilding furnaces	**—**	1,809	**—**
Others	**2,506**	2,022	**20,226**
Total deferred income tax assets	**16,299**	14,464	**131,549**
Deferred income tax liabilities:			
Unrealized gain on available-for-sale securities	**6,971**	—	**56,263**
Depreciation expenses of U.S. subsidiaries	**2,929**	2,493	**23,640**
Reserve for postponement of taxation on capital gains from property	**1,788**	1,501	**14,431**
Others	**1,860**	1,084	**15,012**
Total deferred income tax liabilities	**13,548**	5,078	**109,346**
Net deferred income tax assets	**¥ 2,751**	¥ 9,386	**$ 22,203**

The reconciliation of the effective statutory tax rate to the effective rate of income tax expense for the years ended March 31, 2001 and 2000 is as follows:

	2001	2000
Effective statutory tax rate	**41.7%**	41.7%
Adjustments:		
Elimination of dividends received from foreign subsidiaries	**25.0**	—
Equity in losses of unconsolidated subsidiaries and affiliates	**7.3**	(2.0)
Others	**(9.3)**	(1.1)
Effective rate of income tax expense	**64.7%**	38.6%

10. Employees' Retirement Benefits

Analysis in the reserve account for "Employees' retirement benefits" at March 31, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations	¥208,809	$1,685,303
Less: Plan assets	139,071	1,122,446
	69,738	562,857
Less: Unrecognized transition amount	37,343	301,396
Less: Unrecognized actuarial differences	11,010	88,862
	21,385	172,599
Prepaid pension cost	80	646
"Employees' retirement benefits" account	¥ 21,465	$ 173,245

Note: The above table includes the amount related to the portion subject to the Japanese Welfare Pension Insurance Law.

Retirement benefit expense for the year ended March 31, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 4,463	$ 36,021
Interest cost	7,151	57,716
Expected return on plan assets	(4,088)	(32,994)
Amortization of transition amount	36,962	298,321
Retirement benefit expense	¥44,488	$359,064

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

Discount rate:	3.5%
Expected rate of return on plan assets:	3.5%
Method of attributing the projected benefits to periods of services:	Straight-line basis
Amortization of transition amount:	6 years
Amortization of unrecognized actuarial differences:	14 years

11. Contingent Liabilities

Contingent liabilities at March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Contingent liabilities arising from:			
Guarantee of loans for others in the ordinary course of business	**¥2,583**	¥2,412	**$20,847**
Guarantee of bank loans for employees	**1,884**	1,626	**15,206**

In addition, the Companies issued letters of guarantee in the future for others in the ordinary course of business. The aggregate amount was ¥234 million (US$1,889 thousand) and ¥184 million at March 31, 2001 and 2000, respectively.

12. Research and Development Expenses

Research and development expenses for the years ended March 31, 2001 and 2000 totaled ¥4,956 million (US$40,000 thousand) and ¥5,761 million, respectively, which were included in selling, general and administrative expenses.

13. Selling, General and Administrative Expenses

Principal selling, general and administrative expenses for the years ended March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Freight out	**¥16,532**	¥16,474	**$133,430**
Salaries, bonuses and allowances	**10,163**	13,195	**82,026**
Research and development expenses	**4,956**	5,761	**40,000**

14. Mortgaged Properties

A breakdown of properties pledged as security and liabilities guaranteed by right of security as of March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Properties pledged as security:			
Buildings and structures	**¥ 193**	¥ 421	**$ 1,558**
Machinery, equipment and vessels	**302**	356	**2,437**
Land	**1,251**	1,608	**10,097**
Investments in securities and unconsolidated affiliates	**3,608**	1,788	**29,120**
Total	**¥5,354**	¥4,173	**$43,212**
Liabilities guaranteed by right of security:			
Short-term bank loans	**¥1,380**	¥ —	**$11,138**
Long-term bank loans (including portion due within one year)	**3,110**	2,759	**25,101**
Bonds	**600**	600	**4,842**
Total	**¥5,090**	¥3,359	**$41,081**

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

The reconciliation of "Cash on hand and in banks" in the Consolidated Balance Sheets as of March 31, 2001 and 2000 to "Cash and cash equivalents" in the Consolidated Statements of Cash Flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Cash on hand and in banks	**¥16,207**	¥18,721	**$130,807**
Marketable securities	**5,236**	3,920	**42,260**
	21,443	22,641	**173,067**
Less: Time deposits and short-term investments with deposit terms or maturity periods exceeding three months in "Marketable securities"	**5,307**	4,266	**42,833**
Cash and cash equivalents	**¥16,136**	¥18,375	**$130,234**

16. Lease Transactions

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

1) As of March 31, 2001, amounts equivalent to leased article acquisition costs, amounts equivalent to the accumulated depreciation and amounts equivalent to the year-end balance, net of accumulated depreciation, were ¥1,858 million (US$14,996 thousand), ¥1,092 million (US$8,814 thousand) and ¥766 million (US$6,182 thousand), respectively. As of March 31, 2000, they were ¥12,458 million, ¥6,950 million and ¥5,508 million, respectively.

2) The amount of outstanding future lease payments due at March 31, 2001, which included the portion of interest therein, was ¥766 million (US$6,182 thousand), of which amounts to be paid within one year totaled ¥299 million (US$2,413 thousand). As of March 31, 2000, they were ¥5,508 million and ¥2,229 million, respectively.

3) Lease payments and amounts equivalent to depreciation expenses for the year ended March 31, 2001 both amounted to ¥499 million (US$4,027 thousand). They were both ¥2,595 million for the year ended March 31, 2000. Amounts equivalent to depreciation expenses are calculated using the straight-line method, which designates residual value as zero, over the years equivalent to contracted lease periods.

Note: During the year ended March 31, 2001, lease assets related to computers were transferred to Nisshin Information Service, Corp., a newly established unconsolidated subsidiary that was accounted for using the equity method.

17. Marketable Securities

The excess of market value over the book value of held-to-maturity securities aggregated ¥53 million (US$428 thousand) at March 31, 2001. 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 ¥4,489 million (US$36,231 thousand) at March 31, 2001.

At March 31, 2001, available-for-sale securities with pre-decided maturity dates and bonds categorized as held-to-maturity securities are expected to be redeemed as follows:

Number of years from the balance sheet date	Millions of yen	Thousands of U.S. dollars
Within one year	¥2,072	$16,723
Over one year and within five years	4,119	33,245
Over five years and within ten years	89	718

The excess of market value over the book value of marketable securities with available fair values in the “Marketable securities” account, the “Investments in securities” account and the “Investments in and advances to unconsolidated subsidiaries and affiliates” account aggregated ¥43,960 million at March 31, 2000.

18. Derivative Transactions

The Companies' policy on derivatives restricts the use of derivative transactions to those related to actual demands and forbids their use for purposes of profit acquisition. The Companies confine the use of derivative transactions to the risk hedge against interest rate fluctuations or the reduction of interest rates of bank loans, bonds and other financing means. The Companies' derivative transactions are those to which hedge accounting is applied, and fair values and other information as of March 31, 2001 are not shown on this note in accordance with the new accounting standard for financial instruments. As of March 31, 2000, the Companies' derivative transactions comprised fixed payments and variable receipt interest swaps, the notional principal amount of which was ¥10,250 million, and the unrealized profit (loss) from valuation of which amounted to a loss of ¥41 million.

19. Segment Information

Business Segment Information: The Companies are mainly engaged in the manufacturing and selling of steel products and related businesses. These accounted for more than 90% of the Companies' combined assets as of March 31, 2001 and 2000 and combined sales and operating income for the years then ended.

Information by Geographic Segment: The Company and its domestic consolidated subsidiaries accounted for more than 90% of the Companies' combined assets as of March 31, 2001 and 2000 and combined sales for the years then ended.

Sales to Overseas Customers: The Companies' overseas sales for the year ended March 31, 2001 amounted to ¥85,332 million (US$688,717 thousand), of which ¥41,393 million (US$334,084 thousand) was accounted for by North American sales, and represented 19.2% of consolidated net sales. The Companies' overseas sales for the year ended March 31, 2000 amounted to ¥85,340 million, of which ¥39,153 million was accounted for by North American sales, and represented 19.8% of consolidated net sales.

20. Subsequent Appropriation

At the Shareholders' General Meeting of the parent company held on June 28, 2001, a year-end dividend payment of ¥1,989 million (US$16,053 thousand) was approved.

Report of Independent Accountants

The Board of Directors
Nisshin Steel Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nisshin Steel Co., Ltd. and its consolidated subsidiaries (the "Companies") as of March 31, 2001 and 2000, the related consolidated statements of income, retained earnings and cash flows for the years ended March 31, 2001 and 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of the Companies as of March 31, 2001 and 2000 and the consolidated results of their operations and their cash flows for the years ended March 31, 2001 and 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis except for the change, with which we concur, as described in the next paragraph.

As described in Note 3 to the accompanying consolidated financial statements, effective from the year ended March 31, 2000, the Companies had changed the accounting method of salary, bonus and social benefit expenses for employees who were temporarily transferred to and working for other corporations from "selling, general and administrative expenses" to "other expenses." As a result of the change, operating income for the year ended March 31, 2000, was increased by ¥5,804 million as compared with the amount which would have been reported if the previous method had been applied consistently.

As described in Note 2, effective for the year ended March 31, 2001, the Companies have adopted new Japanese accounting standards for financial instruments, retirement benefits, and foreign currency translation.

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 Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
June 28, 2001

Investor Information

(As of March 31, 2001)

Nisshin Steel Co., Ltd.

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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

Common Stock Price Range (Tokyo Stock Exchange)

	2001		2000		1999	
	High	Low	High	Low	High	Low
First Quarter	**¥129**	**¥108**	¥201	¥134	¥202	¥140
Second Quarter	**125**	**83**	184	124	211	140
Third Quarter	**108**	**78**	150	103	145	99
Fourth Quarter	**114**	**85**	145	99	142	103

Years ended March 31

Number of Shareholders

67,290

Independent Certified Public Accountants

ChuoAoyama Audit Corporation

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

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NISSHIN STEEL

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