

# NISSHIN STEEL

Annual Report 1999

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# Non-Consolidated Financial Highlights

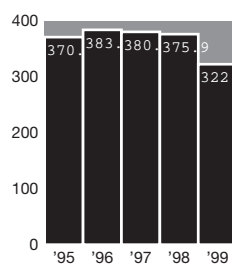
Nisshin Steel Co., Ltd.  
Years ended March 31, 1999, 1998 and 1997

	Millions of yen (except per share amounts)			Percent change (1999/1998)	Millions of U.S. dollars <sup>1</sup> (except per share amounts)
	1999	1998	1997		
Net sales	<b>¥322,224</b>	¥375,899	¥379,965	(14.3)%	<b>\$2,673</b>
Net (loss) income	<b>(2,994)</b>	3,668	3,022	—	<b>(25)</b>
Net (loss) income per share <sup>2</sup>	<b>(2.98)</b>	3.61	2.97	—	<b>(0.02)</b>
Cash dividends per share <sup>2</sup>	<b>2.50</b>	5.00	5.00	(50.0)	<b>0.02</b>
Total assets	<b>562,106</b>	579,336	562,641	(3.0)	<b>4,663</b>
Total shareholders' equity	<b>222,724</b>	230,544	232,019	(3.4)	<b>1,848</b>

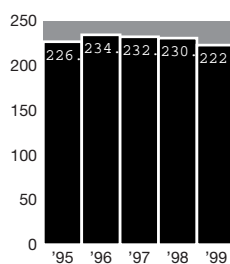
Notes: 1. Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at ¥120.55=\$1, the effective rate of exchange on March 31, 1999.

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

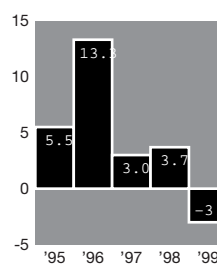
**Net Sales**  
(Billions of yen)



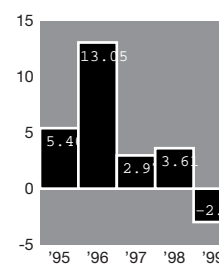
**Total Shareholders' Equity**  
(Billions of yen)



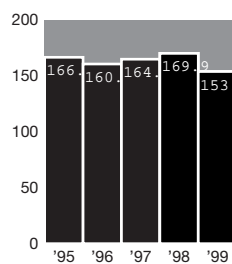
**Net (Loss) Income**  
(Billions of yen)



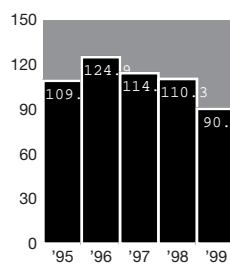
**Net (Loss) Income per Share**  
(Yen)



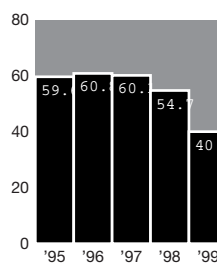
**Net Sales: Coated Steel**  
(Billions of yen)



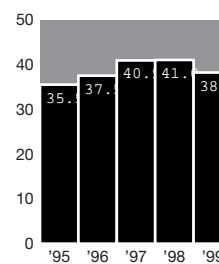
**Net Sales: Stainless Steel**  
(Billions of yen)



**Net Sales: Hot- and Cold-Rolled Ordinary Steel**  
(Billions of yen)



**Net Sales: Special Steel and Others**  
(Billions of yen)



## Non-Consolidated Sales and Production Data

### Sales by Product Category

(Year ended March 31, 1999)	Millions of yen			Percent change (1999/1998)		
	Domestic	Export	Total	Domestic	Export	Total
Hot- and cold-rolled ordinary steel	¥ 34,399	¥ 5,579	¥ 39,978	(29.3)%	(7.2)%	(26.9)%
Coated steel	130,578	23,131	153,709	(9.4)	(10.1)	(9.5)
Stainless steel	65,345	24,984	90,329	(20.6)	(10.9)	(18.1)
Special steel and others	37,353	855	38,208	(7.1)	8.0	(6.8)
<b>Total</b>	<b>¥267,675</b>	<b>¥54,549</b>	<b>¥322,224</b>	<b>(15.1)%</b>	<b>(10.0)%</b>	<b>(14.3)%</b>

### Export Sales by Geographical Area

(Years ended March 31)	1999	1998	1997	1996
Southeast Asia	<b>54.9%</b>	65.3%	72.2%	73.8%
People's Republic of China	<b>8.1</b>	8.8	9.1	11.7
Middle East	<b>7.0</b>	3.4	3.2	2.0
Europe	<b>4.0</b>	2.0	2.7	2.5
North America	<b>11.9</b>	7.1	4.7	3.4
Latin America	<b>5.4</b>	4.9	1.8	1.3
Australia	<b>4.4</b>	4.0	2.6	2.8
Others	<b>4.3</b>	4.5	3.7	2.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Raw Material Sources

Iron ore (Years ended March 31)	1999	1998	1997
Australia	<b>59.3%</b>	50.8%	58.7%
Brazil	<b>29.8</b>	33.4	28.1
India	<b>7.2</b>	9.7	9.0
Canada	<b>0.0</b>	0.9	0.0
Others	<b>3.7</b>	5.2	4.2
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Coal (Years ended March 31)	1999	1998	1997
Australia	<b>65.0%</b>	62.6%	56.3%
Canada	<b>17.3</b>	19.7	17.2
United States	<b>7.6</b>	7.7	6.7
Russia	<b>2.8</b>	2.4	4.0
Others	<b>7.3</b>	7.6	15.8
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Production Volume

(Years ended March 31)	Thousands of metric tons		Percent change (1999/1998)
	1999	1998	
Pig iron	<b>3,411</b>	3,497	(2.5)%
Crude steel	<b>3,343</b>	3,652	(8.5)
Finished steel products	<b>3,117</b>	3,405	(8.5)

# Message from Management

## **Economic Environment**

In fiscal 1998, ended March 31, 1999, Japan's economic situation continued to be severe, exacerbated by rising unemployment and financial instability as well as the resulting declines in personal consumption and private-sector investment. The prospects for recovery remain uncertain.

In the steel industry, companies were pressed to cut back production in response to the steep drop in domestic demand. Moreover, although healthy exports to the United States compensated for the slump in the home market in the first half of the fiscal year, exports shrank rapidly in the second half, due to U.S. antidumping lawsuits against Japanese steel producers. Total annual crude steel production fell to an extreme low of 91 million metric tons.

## **Fiscal 1998 Non-Consolidated Results**

While exports were relatively healthy, thanks to such factors as yen depreciation in the first half of the year, Nisshin Steel Co., Ltd.'s domestic sales of both coated steel and stainless steel fell sharply. The declines, which were attributable to poor demand in the Company's principal markets of housing, electric machinery, and automobiles, coupled with reduced production to reduce market inventories. Furthermore, with the weak domestic economy giving rise to increasing pressure for price reductions and the international market in decline caused by the prolonged Asian recession, price cuts were unavoidable.

Non-consolidated net sales for the term, adversely affected by the downturn, fell drastically to ¥322.2 billion. Domestic sales totalled ¥267.7 billion, and export sales came to ¥54.5 billion, representing 16.9% of net sales.

By product category, sales of hot- and cold-rolled ordinary steel were ¥40.0 billion; coated steel, ¥153.7 billion; stainless steel, ¥90.3 billion; and special steel and others, ¥38.2 billion.

Concerning profits and loss, the Company recorded a ¥2.1 billion operating loss in fiscal 1998. Through aggressive streamlining and raw material price reductions, the Company achieved within two years the cost-saving goals of its three-year plan initially set to run through fiscal 1999, but the deteriorating environment for sales and revenue was too much to overcome. Moreover, because of such extra charges as ¥1.5 billion in special early retirement benefit payments, special losses of ¥4.1 billion were recorded, which, after taxes, resulted in a net loss for the term of ¥3.0 billion.

On account of these unsatisfactory results, although the Company maintains a policy of emphasizing stable cash dividends for shareholders, in consideration of the economic environment surrounding the Company and its future business development, interim dividends were lowered to ¥1.5 per share, and end-of-year dividends were regrettably lowered to ¥1 per share.

## **Operating Highlights**

In addition to pursuing cost reduction and other programs to establish a firm foundation for operations, we have taken emergency measures to reduce spending and have exerted considerable effort to secure profits.

Regarding production, at our Shunan Works in Yamaguchi Prefecture, we promoted technology upgrades, factory automation, energy conservation, and other activities aimed at improving competitiveness, such as the introduction of a state-of-the-art cold-rolling mill and a bright annealing line for stainless steel production. Thanks to these efforts, we have succeeded in significantly improving productivity, cost performance, and product quality. Furthermore, in reaffirmation of our commitment to environmental preservation as a fundamental management principle, our Kure, Shunan, Osaka, and Ichikawa works have obtained ISO 14001 certification following our Sakai Works' accreditation in March 1998. This accomplishment and our previously achieved ISO 9002

certification have firmly positioned us as a company capable of offering products that meet exacting customer needs in terms of quality and environmental soundness.

Nisshin Steel is making strides in the area of new product development as well. One example of our newly developed products is ZAM, an epoch-making hot-dipped zinc-aluminum-magnesium coated steel featuring advanced corrosion resistance owing to the addition of magnesium to the coating layer. Another example is electro-galvanized steel with a reduced content of such environmentally harmful substances as hexavalent chromium. Both are results of our efforts to respond to demand for "earth- and people-friendly products."

### **Overseas Operations**

In overseas joint venture businesses, Nisshin Steel is placing special emphasis on developing demand in China, a market that is expected to grow. Besides two existing coil centers in Tianjin and Taicang, another joint venture with Chinese partners, Ningho Baoxiu Stainless Steel Co., Ltd., in Jiangsu, completed new stainless steel cold-rolling facilities in December 1998.

### **Prospects**

The current economic recession in Japan is of unprecedented length, the operational environment surrounding the steel industry is still unclear, and the crude steel production in fiscal 1999 is expected to decline below even fiscal 1998's figures.


Despite these harsh economic conditions, we are pushing onward. The rolling on scale pickling line at our new Toyo Works in Ehime Prefecture, with an approximate cost of ¥24 billion, is scheduled to commence operations in the second half of fiscal 1999, preceded by tuning that began this spring. This is just one example of our commitment to replacing our existing facilities with new, state-of-the-art equipment and upgrading our production systems.

Furthermore, to secure revenues even in the case that these severe market conditions persist for the next few years, in March Nisshin Steel drew up a new medium-term management plan that is scheduled for completion within two years, starting in fiscal 1999. Through the promotion and implementation of this plan, we will achieve by the second half of fiscal 2000, ¥30 billion in management streamlining (a reduction of ¥18 billion in variable costs, ¥7 billion in fixed costs, and ¥5 billion in improved product mix). It is our goal to establish a powerful operational structure, adaptable to even these severe economic conditions. Above all, in regard to our sales activities, we will make every effort to improve sales prices and increase our emphasis on highly profitable products while striving to engineer thorough managerial improvement and increased efficiency. Moreover, recognizing the importance of consolidated operations, we will execute these policies not only as a single company but with the full cooperation of the entire Nisshin Steel Group.

In addition, we have placed high priority on the year 2000 issue and are making doubly sure of our Y2K compliance through both our Companywide action committee and individual efforts.

In closing, we wish to thank our shareholders and business partners for their understanding and look forward to their continued support.

June 1999



Minoru Tanaka  
Chairman, President and Chief Executive Officer

## Non-Consolidated Eleven-Year Summary

Nisshin Steel Co., Ltd.  
Years ended March 31

	1999	1998	1997	1996
Results for the year				
Net sales:	¥ 322,224	¥ 375,899	¥ 379,965	¥ 383,601
Ordinary steel:	193,687	224,594	224,796	221,193
Hot- and cold-rolled ordinary steel	60%	60%	59%	58%
Coated steel	39,978	54,668	60,089	60,814
Stainless steel	12%	15%	16%	16%
Special steel and others	153,709	169,926	164,707	160,379
Operating expenses	48%	45%	43%	42%
Operating (loss) income	90,329	110,301	114,223	124,905
Other (income) expenses, net	28%	29%	30%	33%
(Loss) income before special items	38,208	41,004	40,946	37,503
Special items	12%	11%	11%	9%
(Loss) income before provision for income taxes	324,318	362,742	370,669	363,749
Provision for income taxes	(2,094)	13,157	9,296	19,852
Net (loss) income	(857)	1,720	2,909	4,639
Per share amounts:	(1,237)	11,437	6,387	15,213
Net (loss) income per share	(0.4)%	3.0%	1.7%	4.0%
Cash dividends per share	4,079	2,969	2,965	1,580
Acquisition of property, plant and equipment	(5,316)	8,468	3,422	13,633
Year-end financial position:	(2,322)	4,800	400	367
Total current assets	(2,994)	3,668	3,022	13,266
Total property, plant and equipment	(2,994)	3,668	3,022	13,266
Total assets	225,740	262,997	243,071	248,534
Total current liabilities	280,995	262,901	269,878	282,564
Long-term debt	562,106	579,336	562,641	578,948
Total shareholders' equity	184,676	209,690	224,967	207,534
Weighted average number of shares issued (thousands)	112,730	96,056	63,075	94,322
Other data:	222,724	230,544	232,019	234,159
Number of employees	5,620	5,985	6,427	6,932

Note: % indicates percent of net sales.

Millions of yen  
(except per share amounts)

	1995	1994	1993	1992	1991	1990	1989
¥	370,582	¥ 373,846	¥ 399,060	¥ 431,778	¥ 429,191	¥ 428,697	¥414,730
	225,988	232,185	249,403	271,105	266,927	269,541	253,010
	61%	62%	63%	63%	62%	63%	61%
	59,597	60,933	60,021	61,769	65,523	70,412	68,724
	16%	16%	15%	14%	15%	16%	17%
	166,391	171,252	189,382	209,336	201,404	199,129	184,286
	45%	46%	48%	49%	47%	47%	44%
	109,134	105,634	112,647	122,526	121,975	121,271	124,408
	29%	28%	28%	28%	29%	28%	30%
	35,460	36,027	37,010	38,147	40,289	37,885	37,312
	10%	10%	9%	9%	9%	9%	9%
	356,916	361,410	383,211	397,498	388,644	362,341	342,552
	13,666	12,436	15,849	34,280	40,547	66,356	72,178
	6,466	7,956	4,131	2,415	(7,313)	1,174	8,726
	7,200	4,480	11,718	31,865	47,860	65,182	63,452
	1.9%	1.2%	2.9%	7.4%	11.2%	15.2%	15.3%
	1,342	1,980	28,917	10,854	1,605	1,311	932
	5,858	2,500	(17,199)	21,011	46,255	63,871	62,520
	367	367	367	12,200	21,500	33,000	34,400
	5,491	2,133	(17,566)	8,811	24,755	30,871	28,120
	5.40	2.10	(17.28)	8.67	24.36	30.65	30.30
	3.00	3.00	5.00	7.00	7.00	7.00	6.00
	30,979	24,019	49,956	67,690	61,088	51,346	30,050
¥	260,698	¥ 256,957	¥ 287,673	¥ 316,879	¥ 339,863	¥ 332,445	¥283,929
	275,796	282,707	300,638	293,256	265,789	243,280	227,786
	584,343	584,704	642,479	668,822	658,333	639,359	565,873
	205,497	193,139	229,462	205,463	198,550	191,849	222,083
	111,040	128,174	151,515	176,156	178,618	185,915	167,598
	226,524	224,073	224,482	248,217	246,652	229,227	152,688
	1,016,532	1,016,527	1,016,527	1,016,527	1,016,289	1,007,239	928,044
	7,189	7,477	7,565	7,428	7,219	7,139	7,133

## Non-Consolidated Balance Sheets

Nisshin Steel Co., Ltd.  
March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	1999
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks	¥ 15,475	¥ 15,677	\$ 128,370
Marketable securities, at cost (Note 5)	58,361	58,562	484,123
Receivables:			
Notes receivable, trade	890	799	7,383
Accounts receivable, trade	45,981	70,620	381,427
Subsidiaries and affiliates	12,141	19,809	100,713
	59,012	91,228	489,523
Less: allowance for doubtful accounts	235	434	1,949
	58,777	90,794	487,574
Inventories (Note 4)	82,727	89,829	686,246
Deferred income taxes (Note 9)	180	—	1,493
Other current assets	10,220	8,135	84,778
Total current assets	225,740	262,997	1,872,584
Investments and long-term receivables:			
Investments in securities (Notes 5 and 8)	8,588	8,624	71,240
Investments in and advances to subsidiaries and affiliates (Notes 5, 6 and 8)	24,529	25,745	203,476
Deferred income taxes (Note 9)	4,682	—	38,839
Others	16,498	17,525	136,856
Less: allowance for doubtful accounts	497	50	4,123
Total investments and long-term receivables	53,800	51,844	446,288
Property, plant and equipment, at cost:			
Buildings and structures	198,124	185,946	1,643,501
Machinery and equipment	678,398	661,241	5,627,523
	876,522	847,187	7,271,024
Less: accumulated depreciation	669,597	651,720	5,554,517
	206,925	195,467	1,716,507
Land	53,830	53,849	446,537
Construction in progress	20,240	13,585	167,897
Total property, plant and equipment	280,995	262,901	2,330,941
Other assets (Note 7)	1,571	1,594	13,032
	¥562,106	¥579,336	\$4,662,845

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	1999
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term loans (Note 8)	¥ 67,600	¥ 99,200	\$ 560,763
Current portion of long-term debt (Note 8)	8,955	269	74,285
Payables:			
Notes payable, trade and construction	8,896	9,176	73,795
Accounts payable, trade	32,371	40,966	268,528
Subsidiaries and affiliates	18,862	18,121	156,466
	60,129	68,263	498,789
Advances from customers	245	466	2,032
Accrued income taxes (Note 9)	26	3,842	216
Accrued expenses	18,729	19,344	155,363
Other current liabilities	28,992	18,306	240,498
Total current liabilities	184,676	209,690	1,531,946
Long-term liabilities and reserves:			
Long-term debt (Note 8)	112,730	96,056	935,131
Employees' retirement benefits (Note 11)	17,566	19,668	145,715
Reserve for rebuilding furnaces	24,410	23,378	202,489
Total long-term liabilities and reserves	154,706	139,102	1,283,335
Commitments and contingent liabilities (Note 12)			
Shareholders' equity:			
Common stock, par value ¥50 per share (Note 13):			
Authorized: 3,977,964 and 4,000,000 thousand shares			
at March 31, 1999 and 1998, respectively			
Issued: 994,500 and 1,016,536 thousand shares			
at March 31, 1999 and 1998, respectively			
	79,913	79,913	662,903
Additional paid-in capital (Note 13)	49,893	53,098	413,878
Legal reserve (Note 14)	13,384	12,971	111,024
Special reserves (Note 14)	2,247	4,220	18,639
General reserve (Note 14)	70,000	70,000	580,672
Retained earnings (Note 15)	7,287	10,342	60,448
Total shareholders' equity	222,724	230,544	1,847,564
	¥562,106	¥579,336	\$4,662,845

## Non-Consolidated Statements of Income and Retained Earnings

Nisshin Steel Co., Ltd.  
Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	1999
Net sales:			
Customers	¥270,614	¥315,096	\$2,244,828
Subsidiaries and affiliates	51,610	60,803	428,121
	322,224	375,899	2,672,949
Cost of sales	276,536	310,999	2,293,953
Gross profit	45,688	64,900	378,996
Selling, general and administrative expenses	47,782	51,743	396,366
Operating (loss) income	(2,094)	13,157	(17,370)
Other (income) expenses:			
Interest and dividend income	(3,157)	(3,243)	(26,188)
Interest expense	3,469	4,068	28,776
Others, net	(1,169)	895	(9,697)
	(857)	1,720	(7,109)
(Loss) income before special items	(1,237)	11,437	(10,261)
Special items:			
Gain on sale of properties	33	445	274
Loss on sale and disposition of properties	742	688	6,155
Loss on devaluation of marketable securities	1,400	2,726	11,613
Special early retirement benefit payments	1,509	—	12,518
Allowance for doubtful accounts	461	—	3,824
(Loss) income before provision for income taxes	(5,316)	8,468	(44,097)
Provision for income taxes (Note 9):			
Current	50	4,800	415
Deferred	(2,372)	—	(19,676)
	(2,322)	4,800	(19,261)
Net (loss) income	(2,994)	3,668	(24,836)
Retained earnings (Note 15):			
Balance at beginning of year	10,342	11,400	85,790
Cumulative effect of income tax deferral on retained earnings	2,490	—	20,655
Cumulative effect of income tax deferral on special reserves	1,606	—	13,323
Reversal of special reserves	666	933	5,525
Appropriations:			
Cash dividends	4,052	5,083	33,613
Officers' bonuses	60	60	498
Transfer to legal reserve	412	516	3,418
Transfer to special reserves	299	—	2,480
	4,823	5,659	40,009
Balance at end of year	¥ 7,287	¥ 10,342	\$ 60,448
Net (loss) income per share	¥ (2.98)	¥ 3.61	\$ (0.02)
Cash dividends per share	¥ 2.50	¥ 5.00	\$ 0.02
Weighted average number of shares issued (thousands)	1,005,389	1,016,536	

The accompanying notes are an integral part of these statements.

## Non-Consolidated Statements of Cash Flows

Nisshin Steel Co., Ltd.  
Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	1999
<b>Cash flows from operating activities:</b>			
Net (loss) income	¥ (2,994)	¥ 3,668	\$ (24,836)
Adjust to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	28,244	31,607	234,293
Loss on sale and disposition of properties	453	464	3,758
Gain on sale of properties	(35)	(461)	(290)
Loss on devaluation of marketable securities	1,400	2,726	11,613
Provision for employees' retirement benefits, net	(2,102)	(567)	(17,437)
Reserve for rebuilding furnaces, net	1,032	1,033	8,561
Decrease (increase) in receivables	31,360	(8,855)	260,141
Decrease (increase) in inventories	7,102	(3,683)	58,913
Increase in other current assets	(2,085)	(287)	(17,296)
Deferred income taxes	(2,371)	—	(19,668)
(Decrease) increase in payables	(7,938)	1,514	(65,848)
Decrease in advances from customers	(221)	(458)	(1,833)
(Decrease) increase in accrued incomes taxes	(3,816)	2,912	(31,655)
(Decrease) increase in other current liabilities	(1,521)	2,065	(12,617)
Others, net	(960)	(106)	(7,964)
Net cash provided from operating activities	45,548	31,572	377,835
<b>Cash flows from investing activities:</b>			
Net sale of marketable securities	267	456	2,215
Acquisition of property, plant and equipment	(34,881)	(19,169)	(289,349)
Acquisition of investment and other assets	(1,958)	(6,765)	(16,242)
Proceeds from sale of properties	2,041	1,157	16,931
Proceeds from sale and collection of investment and other assets	2,278	1,561	18,896
Net cash used in investing activities	(32,253)	(22,760)	(267,549)
<b>Cash flows from financing activities:</b>			
(Decrease) increase in short-term loans	(31,600)	15,300	(262,132)
Proceeds from long-term debt	25,629	37,450	212,601
Repayment of long-term debt	(269)	(46,248)	(2,231)
Cancellation of treasury stocks	(3,205)	—	(26,587)
Cash dividends paid	(4,052)	(5,083)	(33,613)
Net cash (used in) provided from financing activities	(13,497)	1,419	(111,962)
Net (decrease) increase in cash	(202)	10,231	(1,676)
Cash at the beginning of the year	15,677	5,446	130,046
Cash at the end of the year	¥15,475	¥15,677	\$128,370
<b>Additional cash flow information:</b>			
Interest paid	¥ 3,313	¥ 4,236	\$ 27,482
Income taxes paid	6,103	1,877	50,626

The accompanying notes are an integral part of these statements.

# Notes to Non-Consolidated Financial Statements

Nisshin Steel Co., Ltd.  
Years ended March 31, 1999 and 1998

## 1. Basis of Presenting Financial Statements

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Nisshin Steel Co., Ltd. (the "Company") 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 non-consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan. In addition, the non-consolidated financial statements of cash flows are not required to be filed with the MOF, but have been prepared and included in the non-consolidated financial statements.

The non-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

### ***Non-consolidation of subsidiaries***

The accompanying financial statements do not include the accounts of majority-owned subsidiaries. (The consolidated financial statements of the Company and subsidiaries are presented from page 20.)

### ***Sales recognition***

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

### ***Foreign currency translation***

Current receivables and payables are translated into Japanese yen at the rate prevailing at the balance-sheet date.

Long-term receivables and payables are translated into yen at the historical rates.

The amount of unrealized exchange profit or loss, which is not recorded on the Company's books, is disclosed in Note 10.

Exchange gains and losses for receivables and payables at the historical rate are recognized in the periods in which cash settlements are made.

### ***Inventory valuation***

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

### ***Investments in securities***

Investments in securities, both quoted and non-quoted, are valued at cost, which is determined by the moving average method.

### ***Investments in subsidiaries and affiliates***

Investments in subsidiaries and affiliates (meaning 20% to 50% owned companies) are valued at cost, except for certain companies which have incurred substantial losses and are not expected to recover such losses in the near future. Appropriate write-downs are recorded for such investments.

### ***Depreciation and amortization***

Depreciation of structures, all machinery and equipment at Kure Works, Shunan Works, Osaka Works and cold-rolling mills at Sakai Works, and vehicles and tools is computed on the declining-balance method, based on the useful lives provided for in the Japanese Corporation Tax Law. Depreciation of machinery and equipment other than at Kure Works, Shunan Works, Osaka Works and cold-rolling mills at Sakai Works is computed on the straight-line method.

Buildings are depreciated by the straight-line method. Effective from the year ended March 31, 1999, an amendment to the Japanese Corporation Tax Law requires that the Company depreciate newly acquired buildings on the straight-line method. Previously, the law allowed corporations to choose depreciation method for newly acquired buildings between the straight-line and the declining-balance methods, and the Company had been adopting the declining-balance method. Effective from the year ended March 31, 1999, the Company has depreciated not only newly acquired buildings but also previously acquired ones on the straight-line method. This change has been made so that the Company deals with the depreciation of previously acquired buildings and newly acquired ones in the same manner. Moreover, the straight-line method was considered to be more suitable for the depreciation of buildings, which are utilized steadily for a long time. This change reduced the Company's depreciation expenses by ¥1,878 million and loss before provision for income taxes by ¥1,579 million relative to what they would have been had the previous method been used.

The range of useful lives utilized is mainly from 15 to 50 years for buildings and structures and from seven to 14 years for machinery and equipment. Additional depreciation is charged to income for machinery and equipment when the Company operates with additional shifts.

Effective from the year ended March 31, 1999, the Company has shortened the useful lives of buildings due to the change in the Japanese Corporation Tax Law. This change increased its depreciation expenses by ¥452 million and loss before provision for income taxes by ¥378 million relative to what they would have been had the previous method been used.

Amortization of intangible assets is computed on the straight-line method over the period provided for in the Japanese Corporation Tax Law. The cost of property, plant and equipment, retired or otherwise disposed of, and accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

***Deferred charges***

Prior to the year ended March 31, 1999, the Company deferred its debenture issue costs and amortized them over three years. Effective from the year ended March 31, 1999, it has ceased deferrals of its debenture issue costs and expenses them as period costs in the period of issuance to more conservatively evaluate and increase the soundness of the Company's financial position. This change increased loss before provision for income taxes by ¥74 million relative to what it would have been had the previous method been used.

***Repairs and maintenance***

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

***Employees' retirement benefits***

Employees whose service with the Company is terminated are, under most circumstances, entitled to lump-sum severance benefits determined by reference to current basic rates of pay, length of service and conditions under which the termination occurs.

The Company provided and charged to income for each period such amount as is 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.

In addition, the Company has also adopted a contributory pension plan covering all of its employees and certain affiliates' employees. The plan provides for a lump-sum payment to employees with less than 15 years of participation in the plan. Retiring employees who have participated in the plan for 15 years or more have the option of receiving either a lump-sum payment or a pension for life which is paid out commencing at age 60. The annual provision for pension benefits includes current service costs and amortization of past service costs over an approximate 12-year period.

***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.

***Income taxes***

Effective from the year ended March 31, 1999, deferrals are made for timing differences in the recognition of certain expenses between tax and financial reporting as the "Regulations Concerning Terminology, Forms and Method of Preparation of Financial Statements, etc." (Ministry of Finance Ordinance No. 59 of 1963) changed. This change decreased net loss by ¥2,372 million and increased retained earnings by ¥6,469 million relative to what they would have been had the previous method been used.

***Dividends***

Dividends are declared by the Board of Directors and approved by the shareholders at meetings held subsequent to the financial year to which the dividends are applicable, and shareholders of record at the end of such financial year are entitled to the dividends.

Interim cash dividends may be paid upon approval of the Board of Directors.

Dividends (including interim dividends) charged to retained earnings represent those approved by the shareholders or the Board of Directors, in the case of interim dividends, and paid during the respective years as shown in the accompanying Non-Consolidated Statements of Income and Retained Earnings.

***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 Non-Consolidated Statements of Income and Retained Earnings are based on cash dividends applicable to the net income of each year.

**Changes in accounting method**

Under generally accepted principles of accounting and reporting in Japan, when a change in accounting principles or methods is made, pro forma effect of the change is not required to be computed or disclosed. Normally, only the direct effect of adopting the new accounting principle or method on income before income taxes in the year of the change is disclosed in the footnotes. However, as for the adoption of the deferral of timing difference in the recognition of certain expenses between tax and financial reporting in the year ended March 31, 1999, cumulative effects of such deferral on retained earnings and special reserves are required to be disclosed on financial statements.

**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 Company's sales to customers is withheld by the Company 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 Non-Consolidated Statements of Income and Retained Earnings but is recorded as a liability, "consumption tax withheld." The balances of "consumption tax withheld" and "consumption tax paid" (an asset item), which is paid by the Company on the purchases of products, merchandise and services from vendors, are offset, and the net balance is included in "other current liabilities" in the Non-Consolidated Balance Sheets.

**3. United States Dollar Amounts**

The Company maintains its accounting records in yen. The dollar amounts included in the financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥120.55=US\$1, the effective rate of exchange at March 31, 1999. 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 ¥120.55=US\$1 or at any other rate.

**4. Inventories**

Inventories at March 31, 1999, consisted of:

	Millions of yen	Thousands of U.S. dollars
Finished goods	¥19,330	\$160,348
Semi-finished goods and work in process	41,936	347,872
Raw materials and supplies	21,461	178,026
	¥82,727	\$686,246

**5. Marketable Securities and Investments in Securities**

The excess of market value over the book value of stocks listed on stock exchanges in the "marketable securities" account, the "investment in securities" account and the "investments in and advances to subsidiaries and affiliates" account aggregated ¥35,760 million (US\$296,640 thousand) at March 31, 1999.

**6. Investments in and Advances to Subsidiaries and Affiliates**

Investments in and advances to subsidiaries and affiliates at March 31, 1999, were as follows:

	Percentage of ownership	Millions of yen			Thousands of U.S. dollars
		Book value		Total	Book value
		Investment in ownership	Debentures and advances		
Nisshin France S.A.	80.0%	¥ 6,549	¥ —	¥ 6,549	\$ 54,326
Nisshin Holding, Inc.	100.0	5,930	—	5,930	49,191
Sun Wave Corporation	31.1	1,883	2,000	3,883	32,211
Ningbo Baoxin Stainless Steel Co., Ltd.	20.0	3,049	—	3,049	25,292
Nisshin A&C Co., Ltd.	97.2	1,610	—	1,610	13,355
NSA Metals (Pty.) Ltd.	55.0	165	444	609	5,052
Shinwa Kigyo Co., Ltd.	95.7	495	—	495	4,106
Nisshin Kokan Co., Ltd.	100.0	400	—	400	3,318
Tsukiboshi Kaiun Co., Ltd.	67.9	313	—	313	2,596
Nisshin Steel Australia Pty., Ltd.	100.0	278	—	278	2,306
Chang Fu Stainless Steel Center (Suzhou) Co., Ltd.	31.2	273	—	273	2,265
Tsukiboshi Shoji Co., Ltd.	41.2	180	—	180	1,493
Shunan Denko K.K.	20.0	80	100	180	1,493
Nisshin Steel (Canada) Ltd.	100.0	157	—	157	1,302
Nisshin Koki Co., Ltd.	100.0	96	—	96	796
Nihon Teppan Co., Ltd.	30.0	90	—	90	747
Others	—	437	—	437	3,627
		¥21,985	¥2,544	¥24,529	\$203,476

**7. Other Assets**

Other assets at March 31, 1999, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Intangible fixed assets consisting mainly of utility rights	¥1,571	\$13,032

**8. Short-Term Loans and Long-Term Debt**

Short-term loans at March 31, 1999, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Bank loans	¥57,600	\$477,810
Commercial paper	10,000	82,953
	¥67,600	\$560,763

Long-term debt at March 31, 1999, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other financial institutions, at interest rates ranging from 1.3% to 6.5%, due from the years ending March 31, 2000 to 2008	¥ 51,685	\$ 428,744
2.5% unsecured bond, due 2002	20,000	165,906
2.2% unsecured bond, due 2001	20,000	165,906
2.15% unsecured bond, due 2003	10,000	82,954
2.325% unsecured bond, due 2007	20,000	165,906
	121,685	1,009,416
Less: Portion due within one year	8,955	74,285
	¥112,730	\$ 935,131

At March 31, 1999, investments in securities and investments in and advances to subsidiaries and affiliates in the amount of ¥1,788 million (US\$14,832 thousand) were pledged as security for long-term loans.

The aggregate annual maturities of long-term debt outstanding at March 31, 1999, during the succeeding five-year periods are as follows:

	Millions of yen	Thousands of U.S. dollars
2000	¥ 8,955	\$ 74,285
2001	20,655	171,340
2002	22,855	189,589
2003	30,260	251,016
2004	16,741	138,872

## 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 47.3%. However, there is essentially no tax on domestic dividend income. Conversely, there are limits on certain types of deductions.

The income taxes consist of corporate income tax, inhabitant taxes and enterprise tax. Unlike other income taxes, the enterprise tax is deductible for other tax purposes when paid.

Components of the Company's deferred income tax assets and liabilities as of March 31, 1999, are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred income tax assets:		
Non-deductible portion of employees' retirement benefits	¥1,406	\$11,663
Non-deductible portion of reserve for rebuilding furnaces	1,753	14,542
Tax loss carryforward	2,695	22,356
Others	448	3,716
Total deferred income tax assets	6,302	52,277
Deferred income tax liabilities:		
Reserve for postponement of taxation on capital gains from property	1,273	10,560
Others	167	1,385
Total deferred income tax liabilities	1,440	11,945
Net deferred income tax assets	¥4,862	\$40,332

Net deferred income tax assets as of March 31, 1999, consisted of current assets of ¥180 million (US\$1,493 thousand) and fixed assets of ¥4,682 million (US\$38,839 thousand).

The reconciliation of effective statutory tax rate to effective rate of income tax expense is as follows:

	%
Effective statutory tax rate	47.3%
Adjustments:	
Influence of a change in the statutory tax rate on deferred income tax assets	(6.0)
Others	2.4
Effective rate of income tax expense	43.7%

**10. Unrealized Exchange Profit or Loss**

The amount of unrealized exchange profit or loss with respect to receivables and payables in foreign currencies which was not recorded on the Company's books consisted of:

	Book value	Unrealized profit (loss)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Long-term receivables in foreign currencies	¥ 7	¥ (1)	\$ (8)
Long-term loans to subsidiaries in foreign currencies	444	44	365
	¥451	¥43	\$357

**11. Employees' Retirement Benefits**

Costs for employees' lump-sum severance benefits including provision for future payments for the year ended March 31, 1999, amounted to ¥4,746 million (US\$39,370 thousand). This figure includes the amount that was charged to "special items" in the non-consolidated statements of income: ¥1,509 million (US\$12,518 thousand). Costs for the pension plan for the year ended March 31, 1999, amounted to ¥2,701 million (US\$22,406 thousand).

The balance of fund assets for the year ended March 31, 1998, aggregated ¥108,099 million (US\$896,715 thousand).

**12. Commitments and Contingent Liabilities**

At March 31, 1999, the Company had terminable long-term lease agreements, mainly for computer equipment, office space, and houses and dormitories for employees that provide for annual rental payments of approximately ¥5,838 million (US\$48,428 thousand).

Commitments outstanding at March 31, 1999, for acquisition of property, plant and equipment aggregated ¥27,552 million (US\$228,552 thousand).

Contingent liabilities at March 31, 1999, were as follows:

	Millions of yen	Thousands of U.S. dollars
Contingent liabilities arising from:		
Guarantee of loans for others in the ordinary course of business	¥2,894	\$24,007
Guarantee of bank loans for employees	1,554	12,891

In addition, the Company issued letters of guarantees in future for others in the ordinary course of business. The aggregate amount of them were ¥1,273 million (US\$10,560 thousand).

**13. Common Stock and Additional Paid-in Capital**

Transactions involving common stock and additional paid-in capital accounts during the year ended March 31, 1999, are summarized as follows:

	Number of shares of common stock issued (thousands)	Millions of yen		Thousands of U.S. dollars	
		Common stock	Additional paid-in capital	Common stock	Additional paid-in capital
Balance at March 31, 1998	1,016,536	¥79,913	¥53,098	\$662,903	\$440,465
Less: Cancellation of treasury stocks	22,036	—	3,205	—	26,587
Balance at March 31, 1999	994,500	¥79,913	¥49,893	\$662,903	\$413,878

**14. Legal Reserve,  
Special Reserves  
and General Reserve**

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends paid and officers' bonuses paid with respect to each financial period should be appropriated to legal reserve until such reserve equals 25% of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution of a shareholders' meeting, but is not available for dividend payments.

Special reserves were provided for tax purposes.

Details of special reserves at March 31, 1999, were as follows:

	Millions of yen	Thousands of U.S. dollars
Reserve for special depreciation	¥ 269	\$ 2,231
Reserve for overseas investment losses	8	66
Reserve for postponement of taxation on capital gains from property	1,970	16,342
	<b>¥2,247</b>	<b>\$18,639</b>

The Company's Board of Directors, with subsequent approval by shareholders, provides these reserves for tax purposes by the appropriation of retained earnings in subsequent financial periods.

The Company's Board of Directors, with subsequent approval by shareholders, has made annual appropriations of retained earnings for unspecified purposes, the accumulated balance of which is shown as "general reserve" in the accompanying financial statements. Any disposition of the general reserve is at the discretion of the Board of Directors and shareholders.

**15. Subsequent  
Appropriation of  
Retained Earnings**

The following plan for appropriation of retained earnings for the year ended March 31, 1999, was approved at the Shareholders' General Meeting held on June 29, 1999.

	Millions of yen	Thousands of U.S. dollars
Unappropriated retained earnings:		
Retained earnings at end of year	¥7,287	\$60,448
Reversal of special reserves	346	2,870
	7,633	63,318
Appropriations:		
Cash dividends	994	8,246
Transfer to legal reserve	100	829
Transfer to special reserves	58	481
	1,152	9,556
Retained earnings to be carried forward	<b>¥6,481</b>	<b>\$53,762</b>

## Report of Independent Certified Public Accountants

The Board of Directors  
Nisshin Steel Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Nisshin Steel Co., Ltd. (the "Company") as of March 31, 1999 and 1998, and the related non-consolidated statements of income and retained earnings and cash flows for the years then ended, 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 non-consolidated financial statements referred to above present fairly the non-consolidated financial position of the Company as of March 31, 1999 and 1998, and the non-consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1 to the accompanying non-consolidated financial statements).

As described in Note 2 to the accompanying non-consolidated financial statements, effective from the year ended March 31, 1999, the Company has changed the depreciation method for buildings from the declining-balance method to the straight-line method due to the change in the Japanese Corporation Tax Law. As a result of the change, loss before provision for income taxes for the year ended March 31, 1999 was decreased by ¥1,579 million as compared with the amount which would have been reported if the previous method had been applied consistently.

As described in Note 2 to the accompanying non-consolidated financial statements, effective from the year ended March 31, 1999, the Company has changed the method of recognition of debenture issue expenses from the method in which debenture issue expenses be deferred and amortized over three years to the method in which debenture issue expenses be charged to income as incurred. As a result of the change, loss before provision for income taxes for the year ended March 31, 1999 was increased by ¥74 million as compared with the amount which would have been reported if the previous method had been applied consistently.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.

*Chuo Audit Corporation*

CHUO AUDIT CORPORATION

Tokyo Japan  
June 29, 1999

## Consolidated Balance Sheets

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 4)
	1999	1998	1999
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks	¥ 21,951	¥ 25,060	\$ 182,090
Marketable securities, at cost	64,686	59,366	536,591
Notes and accounts receivable:			
Trade	58,997	85,500	489,399
Unconsolidated subsidiaries and affiliates	9,887	19,388	82,016
Less: Allowance for doubtful accounts	287	565	2,381
	68,597	104,323	569,034
Inventories	91,185	100,649	756,408
Deferred income taxes (Note 5)	1,295	312	10,742
Other current assets	11,556	9,349	95,861
Total current assets	259,270	299,059	2,150,726
Investments and long-term receivables:			
Investments in securities	8,900	8,861	73,828
Investments in and advances to unconsolidated subsidiaries and affiliates	29,905	32,911	248,071
Deferred income taxes (Note 5)	6,203	—	51,456
Others	19,297	20,670	160,075
Less: Allowance for doubtful accounts	552	92	4,579
Total investments and long-term receivables	63,753	62,350	528,851
Property, plant and equipment, at cost:			
Buildings and structures	218,782	206,442	1,814,865
Machinery, equipment and vessels	734,178	716,340	6,090,236
	952,960	922,782	7,905,101
Less: Accumulated depreciation	713,331	690,588	5,917,304
	239,629	232,194	1,987,797
Land	62,283	61,210	516,657
Construction in progress	21,768	13,685	180,573
Total property, plant and equipment	323,680	307,089	2,685,027
Other assets	1,709	1,759	14,177
Foreign currency translation adjustment	27	—	224
	¥648,439	¥670,257	\$5,379,005

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	1999	1998	1999
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term loans	¥ 79,892	¥109,825	\$ 662,729
Current portion of long-term debt	13,471	3,428	111,746
Notes and accounts payable:			
Trade and construction	60,768	71,483	504,089
Unconsolidated subsidiaries and affiliates	1,841	2,142	15,272
	<b>62,609</b>	73,625	<b>519,361</b>
Accrued income taxes	818	4,220	6,786
Accrued expenses	—	27,278	—
Other current liabilities	56,444	20,425	468,221
Total current liabilities	<b>213,234</b>	238,801	<b>1,768,843</b>
Long-term debt	127,787	113,199	1,060,033
Employees' retirement benefits	20,775	22,807	172,335
Reserve for rebuilding furnaces	24,669	23,662	204,637
Deferred income taxes (Note 5)	3,172	3,337	26,313
Foreign currency translation adjustments	—	1,276	—
Total liabilities	<b>389,637</b>	403,082	<b>3,232,161</b>
Minority interests in consolidated subsidiaries	7,269	6,786	60,299
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized: 3,977,964 and 4,000,000 thousand shares at March 31, 1999 and 1998, respectively			
Issued: 994,500 and 1,016,536 thousand shares at March 31, 1999 and 1998, respectively	79,913	79,913	662,903
Additional paid-in capital	49,893	53,098	413,878
Legal reserve (Notes 2 and 3)	—	12,971	—
Retained earnings (Notes 2 and 3)	121,727	114,407	1,009,764
	<b>251,533</b>	260,389	<b>2,086,545</b>
Less: treasury stock, at cost	0	0	0
Total shareholders' equity	<b>251,533</b>	260,389	<b>2,086,545</b>
	<b>¥648,439</b>	¥670,257	<b>\$5,379,005</b>

## Consolidated Statements of Income and Retained Earnings

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 4)
	1999	1998	1999
Net sales	<b>¥398,584</b>	¥462,661	<b>\$3,306,379</b>
Cost of sales	<b>338,570</b>	382,243	<b>2,808,544</b>
Gross profit	<b>60,014</b>	80,418	<b>497,835</b>
Selling, general and administrative expenses	<b>58,586</b>	62,476	<b>485,989</b>
Operating income	<b>1,428</b>	17,942	<b>11,846</b>
Non-operating (income) expenses:			
Interest and dividend income	<b>(2,357)</b>	(2,060)	<b>(19,552)</b>
Interest expense	<b>4,443</b>	5,041	<b>36,856</b>
Equity in losses of unconsolidated subsidiaries and affiliates (Note 3)	<b>1,201</b>	—	<b>9,963</b>
Others, net	<b>(1,298)</b>	555	<b>(10,767)</b>
(Loss) income before special items	<b>(561)</b>	14,406	<b>(4,654)</b>
Special items:			
Gain on sale of properties	<b>572</b>	447	<b>4,745</b>
Loss on sale and disposition of properties	<b>816</b>	727	<b>6,769</b>
Loss on devaluation of marketable securities	<b>1,492</b>	2,763	<b>12,377</b>
Special early retirement benefit payments	<b>1,566</b>	—	<b>12,990</b>
Allowance for doubtful accounts	<b>480</b>	—	<b>3,982</b>
(Loss) income before provision for income taxes	<b>(4,343)</b>	11,363	<b>(36,027)</b>
Provision for income taxes (Note 5):			
Current	<b>2,514</b>	6,907	<b>20,854</b>
Deferred	<b>(2,886)</b>	148	<b>(23,940)</b>
	<b>(372)</b>	7,055	<b>(3,086)</b>
	<b>(3,971)</b>	4,308	<b>(32,941)</b>
Less: Minority interests in earnings of consolidated subsidiaries	<b>997</b>	771	<b>8,270</b>
Equity in losses of unconsolidated subsidiaries and affiliates (Note 3)	<b>—</b>	(243)	<b>—</b>
Net (loss) income	<b>(4,968)</b>	3,294	<b>(41,211)</b>
Retained earnings:			
Retained earnings, balance at beginning of year (Notes 2 and 3)	<b>114,407</b>	116,796	<b>949,042</b>
Legal reserve, balance at beginning of year (Notes 2 and 3)	<b>12,971</b>	—	<b>107,599</b>
	<b>127,378</b>	116,796	<b>1,056,641</b>
Cumulative effect of income tax deferral on retained earnings	<b>3,429</b>	—	<b>28,445</b>
Decrease due to change in the number of affiliates	<b>—</b>	25	<b>—</b>
Appropriations:			
Cash dividends	<b>4,052</b>	5,083	<b>33,613</b>
Transfer to legal reserve	<b>—</b>	515	<b>—</b>
Officers' bonuses	<b>60</b>	60	<b>498</b>
	<b>4,112</b>	5,658	<b>34,111</b>
Balance at end of year	<b>¥121,727</b>	¥114,407	<b>\$1,009,764</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 1999 and 1998

## 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 filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan. Consolidated financial statements of cash flows are not required to be filed with the MOF.

The consolidated financial statements are not intended to present the financial position and results of operations 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 Company had, as of March 31, 1999, 17 majority-owned subsidiaries. The consolidated financial statements include the accounts of the Company and its eight majority-owned subsidiaries listed below (the "Companies"):

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

The other nine majority-owned subsidiaries, including Tsukiboshi Art Co., Ltd., and Osaka Stainless Center Co., Ltd., have not been consolidated with the Companies, because their combined assets, combined retained earnings, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Companies.

Significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated.

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

Accordingly, 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 to 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 eliminated in proportion to the percentage of ownership of the subsidiaries by the parent company, and the minority interests were not affected by the elimination.

Prior to the year ended March 31, 1999, Japanese generally accepted accounting principles required that the legal reserve and the retained earnings be shown separately on consolidated financial statements. The legal reserve on consolidated financial statements was the same as that on non-consolidated financial statements of the parent company. Legal reserves of subsidiaries were included in the retained earnings on consolidated financial statements. Effective from the year ended March 31, 1999, legal reserve and retained earnings are required to be shown in the same account and legal reserve was abolished.

Investments in nine unconsolidated subsidiaries and 12 major affiliates in which the Company and its consolidated subsidiaries hold 20% to 50% of share capital are carried at cost plus equity in undistributed earnings (losses), and net income includes the Company's equity in net income (loss) of such companies after elimination of unrealized intercompany profits.

The Company currently has 13 affiliates, including:

Tsukiboshi Shoji Co., Ltd.

Sun Wave Corporation

Nihon Teppan Co., Ltd.

***Foreign currency translation***

Current receivables and payables are translated into Japanese yen at the rate prevailing at the balance-sheet date.

Long-term receivables and payables are translated into yen at the historical rates.

Exchange gains and losses for receivables and payables at the historical rate are recognized in the periods in which cash settlements are made.

Accounts of overseas subsidiaries are translated into yen at the current rate of exchange at the balance-sheet date.

***Inventory valuation***

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

***Investments in securities***

Investments in securities, both quoted and non-quoted, are valued at cost, which is determined by the moving-average method.

***Investments in unconsolidated subsidiaries and affiliates***

Investments in unconsolidated subsidiaries and major affiliates are accounted for by the equity method as described in Principles of Consolidation above.

***Depreciation and amortization***

Depreciation of structures, all machinery and equipment at Kure Works, Shunan Works, Osaka Works and cold-rolling mills at Sakai Works, and vehicles and tools is computed on the declining-balance method, based on the useful lives provided for in the Japanese Corporation Tax Law. Depreciation of machinery and equipment other than at Kure Works, Shunan Works, Osaka Works and cold-rolling mills at Sakai Works is computed on the straight-line method.

Buildings are depreciated by the straight-line method. Effective from the year ended March 31, 1999, an amendment to the Japanese Corporation Tax Law requires that the Companies depreciate newly acquired buildings on the straight-line method. Previously, the law allowed corporations to choose depreciation method for newly acquired buildings between the straight-line and the declining-balance methods, and the Companies had been adopting the declining-balance method. Effective from the year ended March 31, 1999, the Companies have depreciated not only newly acquired buildings but also previously acquired ones on the straight-line method. This change has been made so that the Companies deal with the depreciation of previously acquired buildings and newly acquired ones in the same manner. Moreover, the straight-line method was considered to be more suitable for the depreciation of buildings, which are utilized steadily for a long time. This change reduced the Companies' depreciation expenses by ¥1,896 million and loss before provision for income taxes by ¥1,597 million relative to what they would have been had the previous method been used.

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.

Effective from the year ended March 31, 1999, the Companies have shortened the useful lives of buildings due to the change in the Japanese Corporation Tax Law. This change increased the Companies' depreciation expenses by ¥505 million and loss before provision for income taxes by ¥431 million relative to what they would have been had the previous method been used.

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 accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

***Deferred charges***

Prior to the year ended March 31, 1999, the Companies deferred their debenture issue costs and amortized them over three years. Effective from the year ended March 31, 1999, the Companies have ceased deferrals of their debenture issue costs and expenses them as period costs in the period of issuance to

more conservatively evaluate and increase the soundness of the Companies' financial position. This change increased loss before provision for income taxes by ¥87 million relative to what it would have been had the previous method been used.

***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.

***Employees' retirement benefits***

Employees whose service with the Company is terminated are, under most circumstances, entitled to lump-sum severance benefits determined by reference to current basic rates of pay, length of service and conditions under which the termination occurs.

The Company provided and charged to income for each period such amount as is 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.

In addition, the Company has also adopted a contributory pension plan covering all of its employees and certain affiliates' employees. The plan provides for a lump-sum payment to employees with less than 15 years of participation in the plan. Retiring employees who have participated in the plan for 15 years or more have the option of receiving either a lump-sum payment or a pension for life which is paid out commencing at age 60. The annual provision for pension benefits includes current service costs and amortization of past service costs over an approximate 12-year period.

***Income taxes***

Prior to the year ended March 31, 1999, deferrals were not made for timing differences in the recognition of expenses between tax and financial reporting except for the overseas subsidiaries. Effective from the year ended March 31, 1999, such deferrals are made for the entire Companies as the "Regulations Concerning Terminology, Forms and Method of Preparation of Consolidated Financial Statements" (Ministry of Finance Ordinance No. 28 of 1976) changed. This change decreased net loss by ¥2,939 million and increased retained earnings by ¥6,368 million relative to what they would have been had the previous method been used.

***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, "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.

**3. Changes in Accounting Titles and Classifications**

As shown in Note 2, effective from the year ended March 31, 1999, legal reserve and retained earnings are required to be shown in the same account and legal reserve was abolished.

Prior to the year ended March 31, 1999, equity in earnings or losses of unconsolidated subsidiaries and affiliates was shown below the income or loss before provision for income taxes and above the net income or losses in the Consolidated Statements of Income and Retained Earnings. Effective from the year ended March 31, 1999, it is treated as non-operating income or expenses.

**4. United States Dollar Amounts**

The Companies maintain their accounting records in yen except for Nisshin Holding, Inc., Nisshin Steel USA, Inc., and Wheeling-Nisshin, Inc., which maintain their accounting records in United States dollars. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥120.55=US\$1, the effective rate of exchange at March 31, 1999. 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 ¥120.55=US\$1 or at any other rate.

## 5. Income Taxes

Components of the Companies' deferred income tax assets and liabilities as of March 31, 1999, are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred income tax assets:		
Elimination of unrealized intercompany profit	¥1,108	\$ 9,191
Non-deductible portion of employees' retirement benefits	1,972	16,359
Non-deductible portion of reserve for rebuilding furnaces	1,816	15,064
Tax loss carryforward	3,299	27,366
Others	959	7,955
<b>Total deferred income tax assets</b>	<b>9,154</b>	<b>75,935</b>
Deferred income tax liabilities:		
Depreciation expenses of US subsidiaries	2,740	22,729
Reserve for postponement of taxation on capital gains from property	1,399	11,605
Others	689	5,716
<b>Total deferred income tax liabilities</b>	<b>4,828</b>	<b>40,050</b>
<b>Net deferred income tax assets</b>	<b>¥4,326</b>	<b>\$35,885</b>

The reconciliation of effective statutory tax rate to effective rate of income tax expense is as follows:

	%
Effective statutory tax rate	47.3%
Adjustments:	
Equity in losses of unconsolidated subsidiaries and affiliates	(13.1)
Elimination of dividends received from foreign subsidiaries	(12.5)
Influence of a change in the statutory tax rate on deferred income tax assets	(7.0)
Others	(6.2)
<b>Effective rate of income tax expense</b>	<b>8.5%</b>

## 6. Contingent Liabilities

Contingent liabilities at March 31, 1999, were as follows:

	Millions of yen	Thousands of U.S. dollars
Contingent liabilities arising from:		
Guarantee of loans for others in the ordinary course of business	¥2,970	\$24,637
Guarantee of bank loans for employees	1,554	12,891

In addition, the Companies issued letters of guarantees in future for others in the ordinary course of business. The aggregate amount of them were ¥276 million (US\$2,290 thousand).

## Report of Independent Certified Public 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, 1999 and 1998, and the related consolidated statements of income and retained earnings for the years then ended, 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, 1999 and 1998, and the consolidated results of their operations for the years then ended, in conformity with accounting principles and practices generally accepted in Japan (see Note 1 to the accompanying consolidated financial statements).

As described in Note 2 to the accompanying consolidated financial statements, effective from the year ended March 31, 1999, the Companies have changed the depreciation method for buildings from the declining-balance method to the straight-line method due to the change in the Japanese Corporation Tax Law. As a result of the change, loss before provision for income taxes for the year ended March 31, 1999 was decreased by ¥1,597 million as compared with the amount which would have been reported if the previous method had been applied consistently.

As described in Note 2 to the accompanying consolidated financial statements, effective from the year ended March 31, 1999, the Companies have changed the method of recognition of debenture issue expenses from the method in which debenture issue expenses be deferred and amortized over three years to the method in which debenture issue expenses be charged to income as incurred. As a result of the change, loss before provision for income taxes for the year ended March 31, 1999 was increased by ¥87 million as compared with the amount which would have been reported if the previous method had been applied consistently.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

*Chuo Audit Corporation*

CHUO AUDIT CORPORATION

Tokyo Japan  
June 29, 1999



Nisshin Steel Co., Ltd.

**Registered Head Office**

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Chiyoda-ku, Tokyo 100-8366, Japan  
Telephone: (81-3) 3216-5511 Facsimile: (81-3) 3214-1895

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**Year of Establishment** 1928

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**Year of Incorporation** 1959

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

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**Common Stock Price Range  
(Tokyo Stock Exchange)**

	FY1998		FY1997		FY1996	
	High	Low	High	Low	High	Low
First Quarter	¥202	¥140	¥324	¥254	¥492	¥420
Second Quarter	211	140	309	195	425	381
Third Quarter	145	99	217	125	393	303
Fourth Quarter	142	103	205	116	315	255

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**Number of Shareholders** 66,560

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**Independent Certified Public Accountants** Chuo 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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