

# NISSHIN STEEL

Annual Report 2000

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# Consolidated Financial Highlights

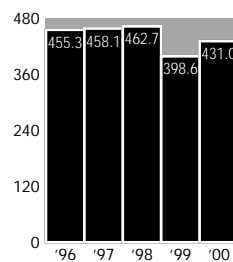
Nisshin Steel Co., Ltd. and its consolidated subsidiaries  
Years ended March 31, 2000, 1999 and 1998

	Millions of yen (except per share amounts)			Percent change (2000/1999)	Thousands of U.S. dollars <sup>1</sup> (except per share amounts)
	2000	1999	1998		
Net sales	<b>¥430,956</b>	¥398,584	¥462,661	8.1%	<b>\$4,059,878</b>
Net (loss) income	<b>(5,919)</b>	(4,968)	3,294	—	<b>(55,761)</b>
Total assets	<b>669,266</b>	648,439	670,257	3.2	<b>6,304,908</b>
Total shareholders' equity	<b>244,999</b>	251,533	260,389	(2.6)	<b>2,308,045</b>
Net (loss) income per share <sup>2</sup>	<b>¥(5.95)</b>	¥(4.94)	¥3.24	—%	<b>\$(0.06)</b>
Cash dividends per share <sup>2</sup>	<b>2.00</b>	2.50	5.00	(20.0)	<b>0.02</b>

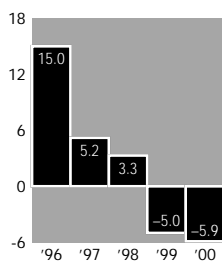
Notes: 1. Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at ¥106.15=\$1, the effective rate of exchange on March 31, 2000.

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

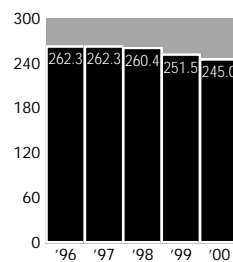
**Net Sales**  
(Billions of yen)  
(Years ended March 31)



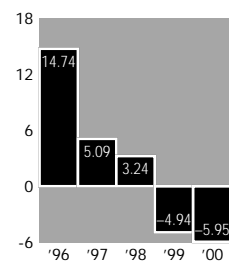
**Net (Loss) Income**  
(Billions of yen)  
(Years ended March 31)



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



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



# Message from Management

## Management Policies

### *Business and Profit Structure Reform*

The Nisshin Steel Group recognizes the establishment of a corporate foundation to secure adequate profit even amid persistently severe market conditions as its greatest managerial task. As such, the Group has continually promoted business and profit structure reforms.

With these reforms as the backbone, Nisshin Steel drew up a new two-year medium-term management plan for the years ended/ending March 31, 2000 and 2001. In the first year of the plan, we directed the combined strength of the entire Group toward the swift achievement of the plan's goals.

With regard to profit structure reforms, the Company set itself the target of management streamlining of ¥30 billion on a non-consolidated basis within the plan's years. During the year under review, we vigorously implemented the plan's measures and succeeded in achieving approximately ¥20 billion in cost reductions. This success was due to the reduction of manufacturing costs through improved operational technologies at each of our production facilities; the containment of variable costs related to raw materials procurement, distribution, and sales; and the radical revision and reduction of fixed costs.

Concerning labor costs in particular, one of the measures included in the Company's structural reforms was a system whereby personnel seconded to related companies are transferred to the employ of those companies. This measure was highly effective in reducing net labor costs. Our plan calls for a substantial reduction in the number of employees from 5,260 on March 31, 1999 to 4,500 by March 31, 2001. Thus far, our efforts are proceeding as planned, with the total number of employees standing at 5,040 on March 31, 2000.

As part of its marketing policies, Nisshin Steel strove to shift its product mix to more high-value-added and profitable products. At the same time, the Company worked to increase the share of overall sales accounted for by new products and endeavored to expand its product lineup and sales volume. Our products include ZAM (next-generation hot-dipped, super-corrosion-resistant zinc-aluminum-magnesium-alloy-coated steel), as well as antibacterial and chrome-free stainless steels.

Regarding business reforms, in June 1999 the Company established the Joint Stainless Steel Business Division, the Specialty Steel Department, and the Systems Department. Emphasizing the unique specialization in each of their respective business fields, we strove to improve management speed and administrative efficiency and implement thorough profit control. Moreover, to develop further as a specialist in the field of information technology (IT), in April 2000 the Company reorganized its Systems Department into the independent Nisshin Information Service Corp.

In its stainless steel business, the Company established NS Stainless Steel Planning Co., Ltd. together with Nippon Steel Corporation. Both parties have agreed on several mutually beneficial alliances, including the joint shipment of exports, joint purchase of auxiliary materials and supplies, and even the reciprocal supply of semifinished products. Some of these proposals have already been implemented. Furthermore, we made efforts to enhance our business organization both in Japan and overseas. In Europe, we took steps to further solidify our ties to ACERINOX, S.A. of Spain, one of Europe's premier stainless steel makers. At the same time, operations of the newly completed stainless steel cold-rolling facilities at the Company's Chinese joint venture—Ningbo Baoxin Stainless Steel Co., Ltd.—continue to achieve high levels of productivity.

Furthermore, in efforts to reduce interest-bearing debt and improve cash flows, Nisshin Steel established the Asset Cost Reduction Committee to promote the disposition of various assets, including inventories, fixed assets, and marketable securities.

## **Operating Results**

### ***Overview of Consolidated Operating Results for the Year Ended March 31, 2000***

Regarding consolidated operating results, Nisshin Steel strove to establish a corporate foundation to secure adequate profit even in the event of severe market conditions and proactively promoted business and profit structure reforms during the year. As a result, consolidated net sales for the year ended March 31, 2000 amounted to ¥431.0 billion, compared with ¥398.6 billion in the previous year. Consolidated income before special items totaled ¥5.6 billion, compared with a consolidated loss before special items of ¥0.6 billion in the previous year. However, principally due to special early retirement benefits, the Company recorded a consolidated net loss of ¥5.9 billion for the year under review.

On a non-consolidated basis, domestic sales volumes throughout the year under review exceeded those of the previous year, owing to progress in inventory adjustments and increased sales to the automotive market in the second half of the year under review. In exports, such factors as the slow recovery in demand for coated steel in Southeast Asia—the Company's primary export market—and profit-focused marketing initiatives resulted in a substantial year-on-year decline in sales. Overall, combined domestic and export sales were up for the year under review. Regarding pricing, we made every effort to recover domestic sales, which have been in sharp fall since the second half of the previous year. Although recovery in export sales was seen in the second half of the year under review, it was not sufficient to compensate for substantial sales price drops in the first half.

***Dividends***

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

***Prospects***

Recognizing that the reinforcement of its corporate foundation through the implementation of its medium-term management plan is essential, the Company will proactively strive to improve income throughout its business operations. At our Toyo Works—the construction of which was achieved through the combination of Groupwide technical expertise—in addition to the rolling on scale pickling line put into operation in October 1999, the tandem cold-rolling mill and hot and cold continuous galvanizing lines came on stream in April and May 2000, respectively. Nisshin Steel will try to maximize their synergistic effects on both production and sales to enhance productivity and new-product development.

Also, from the point of view of consolidated operations, together with its Group subsidiaries and affiliates, Nisshin Steel is committed to the further strengthening of its construction materials business, the promotion of its processed products business, and the creation of new markets as well as working to expand its operating scale on a consolidated basis. Furthermore, we will draw up an operational strategy for the entire Nisshin Steel Group, through which we will clearly define the position and duties of each Group subsidiary and affiliate. Through these efforts, we intend to strengthen the Group's competitiveness and profit base and reap benefits from the further consolidation of operations.

We look forward to your continued support for our operations in the coming year.

June 2000

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

Minoru Tanaka  
Chairman, President and Chief Executive Officer

## Consolidated Seven-Year Summary

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

	2000	1999
Results for the year:		
Net sales	¥430,956	¥398,584
Gross profit	69,404	60,014
Operating income	15,583	1,428
Income (loss) before special items	5,610	(561)
(Loss) income before provision for income taxes	(8,878)	(4,343)
Net (loss) income	(5,919)	(4,968)
Year-end financial position:		
Total current assets	¥216,843	¥259,270
Total property, plant and equipment	327,421	323,680
Total assets	669,266	648,439
Total current liabilities	234,163	213,234
Long-term debt	133,352	127,787
Total shareholders' equity	244,999	251,533
Per share amounts*:		
Net (loss) income per share	¥(5.95)	¥(4.94)
Cash dividends per share	2.00	2.50
Weighted average number of shares issued (thousands)	994,500	1,005,389

\* Per share figures are in exact yen.

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

1998	1997	1996	1995	1994
¥462,661	¥458,114	¥455,343	¥429,058	¥413,277
80,418	77,324	86,135	77,112	72,535
17,942	16,220	26,586	19,604	15,988
14,406	11,798	19,713	11,453	5,760
11,363	8,790	18,114	10,140	8,607
3,294	5,172	14,984	8,027	7,672
¥299,059	¥277,838	¥275,778	¥288,191	¥272,581
307,089	313,618	323,750	316,106	318,884
670,257	653,201	660,554	666,155	654,247
238,801	257,306	236,404	238,271	210,876
113,199	77,822	109,970	125,685	149,607
260,389	262,263	262,252	252,493	247,902
¥3.24	¥5.09	¥14.74	¥7.90	¥7.55
5.00	5.00	5.00	3.00	3.00
1,016,536	1,016,536	1,016,536	1,016,532	1,016,527

## Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2000	1999	2000
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks (Note 14)	¥ 18,721	¥ 21,951	\$ 176,364
Marketable securities, at cost (Notes 6, 14 and 16)	3,920	64,686	36,929
Notes and accounts receivable:			
Trade	74,451	58,997	701,375
Unconsolidated subsidiaries and affiliates	13,167	9,887	124,041
Less: Allowance for doubtful accounts	881	287	8,300
	86,737	68,597	817,116
Inventories	93,114	91,185	877,193
Deferred income taxes (Note 9)	4,949	1,295	46,623
Other current assets	9,402	11,556	88,573
	216,843	259,270	2,042,798
Investments and long-term receivables:			
Investments in securities (Notes 6, 13 and 16)	65,540	8,900	617,428
Investments in and advances to unconsolidated subsidiaries and affiliates (Notes 7, 13 and 16)	30,397	29,905	286,359
Deferred income taxes (Note 9)	7,326	6,203	69,016
Others	14,913	19,297	140,489
Less: Allowance for doubtful accounts	498	552	4,691
	117,678	63,753	1,108,601
Property, plant and equipment, at cost:			
Buildings and structures (Note 13)	227,417	218,782	2,142,412
Machinery, equipment and vessels (Note 13)	758,691	734,178	7,147,348
	986,108	952,960	9,289,760
Less: Accumulated depreciation	738,809	713,331	6,960,047
	247,299	239,629	2,329,713
Land (Note 13)	63,471	62,283	597,937
Construction in progress	16,651	21,768	156,862
	327,421	323,680	3,084,512
Other assets			
	5,301	1,709	49,939
Foreign currency translation adjustments	2,023	27	19,058
	¥669,266	¥648,439	\$6,304,908

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2000	1999	2000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term loans (Note 8)	¥ 89,962	¥ 79,892	\$ 847,499
Current portion of long-term debt (Notes 8 and 13)	28,010	13,471	263,872
Notes and accounts payable:			
Trade and construction	63,366	60,768	596,948
Unconsolidated subsidiaries and affiliates	7,787	1,841	73,358
	71,153	62,609	670,306
Accrued income taxes	363	818	3,420
Other current liabilities	44,675	56,444	420,866
Total current liabilities	234,163	213,234	2,205,963
Long-term debt (Notes 4, 8 and 13)	133,352	127,787	1,256,260
Employees' retirement benefits	17,496	20,775	164,823
Reserve for rebuilding furnaces	25,658	24,669	241,715
Deferred income taxes (Note 9)	2,889	3,172	27,216
Other liabilities (Note 4)	1,455	—	13,707
Total liabilities	415,013	389,637	3,909,684
Minority interests in consolidated subsidiaries	9,254	7,269	87,179
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized: 3,977,964 thousand shares			
at March 31, 2000 and 1999			
Issued: 994,500 thousand shares at March 31, 2000 and 1999	79,913	79,913	752,831
Additional paid-in capital	49,893	49,893	470,023
Retained earnings (Note 19)	115,193	121,727	1,085,191
	244,999	251,533	2,308,045
Less: Treasury stock, at cost	0	0	0
Total shareholders' equity	244,999	251,533	2,308,045
	¥669,266	¥648,439	\$6,304,908

# Consolidated Statements of Income and Retained Earnings

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

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2000	1999	2000
Net sales	¥430,956	¥398,584	\$4,059,878
Cost of sales	361,552	338,570	3,406,048
Gross profit	69,404	60,014	653,830
Selling, general and administrative expenses (Notes 11 and 12)	53,821	58,586	507,028
Operating income	15,583	1,428	146,802
Other (income) expenses:			
Interest and dividend income	(2,198)	(2,357)	(20,707)
Interest expense	4,292	4,443	40,433
Equity in losses of unconsolidated subsidiaries and affiliates	432	1,201	4,070
Service cost of temporarily transferred employees (Note 3)	5,804	—	54,677
Others, net	1,643	(1,298)	15,479
Income (loss) before special items	5,610	(561)	52,850
Special items:			
Gain on sale of properties	902	572	8,497
Loss on sale and disposition of properties	2,095	816	19,736
Loss on devaluation of marketable securities	—	1,492	—
Special early retirement benefit payments	13,093	1,566	123,344
Allowance for doubtful accounts	—	480	—
Loss on liquidation of unconsolidated subsidiary	202	—	1,903
Loss before provision for income taxes	(8,878)	(4,343)	(83,636)
Provision for income taxes (Note 9):			
Current	1,081	2,514	10,184
Deferred	(4,511)	(2,886)	(42,496)
	(3,430)	(372)	(32,312)
	(5,448)	(3,971)	(51,324)
Less: Minority interests in earnings of consolidated subsidiaries	471	997	4,437
Net loss	(5,919)	(4,968)	(55,761)
Retained earnings:			
Retained earnings, balance at beginning of year (Note 4)	121,727	114,407	1,146,745
Legal reserve, balance at beginning of year (Note 4)	—	12,971	—
	121,727	127,378	1,146,745
Cumulative effect of income tax deferral on retained earnings	—	3,429	—
Increase due to change in the number of affiliates	388	—	3,656
Decrease due to change in the number of affiliates	9	—	85
Appropriations:			
Cash dividends	994	4,052	9,364
Officers' bonuses	—	60	—
	994	4,112	9,364
Balance at end of year	¥115,193	¥121,727	\$1,085,191
		Yen	U.S. dollars (Note 5)
Net loss per share	¥(5.95)	¥(4.94)	\$(0.06)
Cash dividends per share	2.00	2.50	0.02
Weighted average number of shares issued (thousands)	994,500	1,005,389	

The accompanying notes are an integral part of these statements.

## Consolidated Statement of Cash Flows

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

	Millions of yen	Thousands of U.S. dollars (Note 5)
	2000	2000
<b>Cash flows from operating activities:</b>		
Loss before provision for income taxes	¥ (8,878)	\$ (83,636)
Depreciation and amortization	33,955	319,878
Interest and dividend income	(2,198)	(20,707)
Interest expense	4,292	40,433
Equity in losses of unconsolidated subsidiaries and affiliates	432	4,070
Gain and loss on sale and disposition of property, plant and equipment	1,145	10,787
Decrease in notes and accounts receivable	3,629	34,187
Decrease in inventories	874	8,234
Decrease in notes and accounts payable	(8,856)	(83,429)
Increase in reserve for rebuilding furnaces	989	9,317
Decrease in employees' retirement benefits account	(3,286)	(30,956)
Others, net	5,201	48,997
	27,299	257,175
Receipt of interest and dividends	2,376	22,383
Payment of interest	(4,200)	(39,567)
Payment of income taxes	(1,556)	(14,659)
	23,919	225,332
<b>Cash flows from investing activities:</b>		
Acquisition of marketable securities	(9,287)	(87,490)
Proceeds from sale and redemption of marketable securities	6,501	61,244
Acquisition of property, plant and equipment	(51,078)	(481,187)
Proceeds from sale of property, plant and equipment	1,970	18,559
Others, net	(1,437)	(13,537)
	(53,331)	(502,411)
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	4,356	41,036
Proceeds from long-term debt	31,800	299,576
Repayment and redemption of long-term debt	(15,570)	(146,679)
Cash dividends paid by the parent company	(1,010)	(9,515)
Others, net	(41)	(386)
	19,535	184,032
Foreign currency translation adjustment of cash	(1,836)	(17,296)
Net decrease in cash	(11,713)	(110,343)
Cash and cash equivalents at beginning of year	27,700	260,951
Increase in cash due to the change in the number of consolidated subsidiaries	2,388	22,496
Cash and cash equivalents at end of year (Note 14)	¥18,375	\$173,104

The accompanying notes are an integral part of this statement.

# Notes to Consolidated Financial Statements

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

## 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.

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.

The Consolidated Statement of Cash Flows has been required to be prepared with effect from the year ended March 31, 2000 in accordance with a new accounting standard.

## 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 Kokan Co., Ltd.  
Nisshin Koki Co., Ltd.  
Nisshin A&C 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 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.

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 the consolidated financial statements was the same as that on the non-consolidated financial statements of the parent company. Legal reserves of subsidiaries were included in the retained earnings on the 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 the legal reserve was abolished.

Investments in 10 unconsolidated subsidiaries and 13 major affiliates 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 unconsolidated subsidiaries accounted for with such equity method included:

Tsukiboshi Art Co., Ltd.

Osaka Stainless Center Co., Ltd.

The affiliates accounted for with equity method included:

Sun Wave Corporation

Nihon Teppan Co., Ltd.

Sanko Metal Industrial Co., Ltd.

***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.

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.

***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, 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 those mentioned above is computed on the straight-line method. Buildings are depreciated by 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 software is computed on the straight-line method, based on its internally estimated useful life, i.e. five years. Prior to the year ended March 31, 2000, software was classified in "Others" of "Investments and long-term receivables" in the Consolidated Balance Sheets. Effective from the year ended March 31, 2000, software with the year-end balance of ¥3,672 million (US\$34,593 thousand) has been classified in "Other assets" due to the change in generally accepted accounting principles in Japan.

Depreciation of other intangible assets is computed on the straight-line method, based on the useful lives provided for in the Japanese Corporation Tax Law.

***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.

**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**

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 overseas subsidiaries. Effective from the year ended March 31, 1999, such deferrals are made for all 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 for the year ended March 31, 1999 by ¥2,939 million (US\$27,687 thousand) and increased retained earnings by ¥6,368 million (US\$59,991 thousand) 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, 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 Statement 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 (US\$54,677 thousand) 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. 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 the legal reserve was abolished.

Prior to the year ended March 31, 2000, long-term non-interest-bearing liabilities such as long-term deposits received were included in long-term debt on the Consolidated Balance Sheets. Effective from the year ended March 31, 2000, such liabilities with the year-end balance of ¥1,455 million (US\$13,707 thousand) have been shown as other liabilities so that long-term debt shows long-term interest-bearing liabilities.

**5. United States 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 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 ¥106.15=US\$1, the effective rate of exchange at March 31, 2000. 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 ¥106.15=US\$1 or at any other rate.

**6. Marketable Securities and Investments in Securities**

In the year ended March 31, 2000, a revision of classifications for marketable securities holdings was conducted, resulting in a transfer from marketable securities to investments in securities. Hence, marketable securities declined by ¥57,300 million (US\$539,802 thousand) and investments in securities increased by the same amount.

**7. Investments in and Advances to Unconsolidated Subsidiaries and Affiliates**

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

	Millions of yen	Thousands of U.S. dollars
Stocks of and equity in unconsolidated subsidiaries and affiliates	¥27,876	\$262,610
Bonds of and loans to unconsolidated subsidiaries and affiliates	2,521	23,749
	¥30,397	\$286,359

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

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

	Millions of yen	Thousands of U.S. dollars
Bank loans	¥76,962	\$725,031
Commercial paper	13,000	122,468
	¥89,962	\$847,499

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

	Millions of yen	Thousands of U.S. dollars
Loans from banks and other financial institutions	¥ 80,762	\$ 760,829
2.5% unsecured bond of Nisshin Steel Co., Ltd., due 2002	20,000	188,413
2.2% unsecured bond of Nisshin Steel Co., Ltd., due 2001	20,000	188,413
2.15% unsecured bond of Nisshin Steel Co., Ltd., due 2003	10,000	94,206
2.325% unsecured bond of Nisshin Steel Co., Ltd., due 2007	20,000	188,413
1.72% unsecured bond of Nisshin Steel Co., Ltd., due 2006	10,000	94,206
1.8% secured bond of Tsukiboshi Kaiun Co., Ltd., due 2004	600	5,652
	161,362	1,520,132
Less: Portion due within one year	28,010	263,872
	¥133,352	\$1,256,260

## 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, inhabitant 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, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred income tax assets:		
Elimination of unrealized intercompany profit	¥1,112	\$10,476
Non-deductible portion of employees' retirement benefits	4,031	37,974
Non-deductible portion of reserve for rebuilding furnaces	1,809	17,042
Tax loss carryforward	5,490	51,719
Others	2,022	19,049
Total deferred income tax assets	14,464	136,260
Deferred income tax liabilities:		
Depreciation expenses of U.S. subsidiaries	2,493	23,485
Reserve for postponement of taxation on capital gains from property	1,501	14,140
Others	1,084	10,212
Total deferred income tax liabilities	5,078	47,837
Net deferred income tax assets	¥9,386	\$88,423

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

	%
Effective statutory tax rate	41.7%
Adjustments:	
Equity in losses of unconsolidated subsidiaries and affiliates	(2.0)
Others	(1.1)
Effective rate of income tax expense	38.6%

## 10. Contingent Liabilities

Contingent liabilities at March 31, 2000 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	¥2,412	\$22,723
Guarantee of bank loans for employees	1,626	15,318

In addition, the Companies issued letters of guarantee in future for others in the ordinary course of business. The aggregate amount was ¥184 million (US\$1,733 thousand) at March 31, 2000.

Endorsed amounts of notes receivable, as of March 31, 2000, stood at ¥22 million (US\$207 thousand). Endorsed amounts of notes receivable are netted against "Notes and accounts receivable, trade" in the Consolidated Balance Sheets.

## 11. Research and Development Expenses

Research and development expenses for the year ended March 31, 2000 totaled ¥5,761 million (US\$54,272 thousand), which were included in selling, general and administrative expenses.

**12. Selling, General and Administrative Expenses**

Principal selling, general and administrative expenses for the year ended March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
Freight out	¥16,474	\$155,195
Salaries, bonuses and allowances	13,195	124,305
Research and development expenses	5,761	54,272

**13. Mortgaged Properties**

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

	Millions of yen	Thousands of U.S. dollars
Properties pledged as security:		
Buildings and structures	¥ 421	\$ 3,966
Machinery, equipment and vessels	356	3,354
Land	1,608	15,148
Investments in securities and unconsolidated affiliates	1,788	16,844
<b>Total</b>	<b>¥4,173</b>	<b>\$39,312</b>
Liabilities guaranteed by right of security:		
Long-term bank loans (including portion due within one year)	¥2,759	\$25,992
Bonds	600	5,652
<b>Total</b>	<b>¥3,359</b>	<b>\$31,644</b>

**14. Reconciliation of Cash on Hand and in Banks to Cash and Cash Equivalents**

The reconciliation of the cash on hand and in banks in the Consolidated Balance Sheets as of March 31, 2000 to the cash and cash equivalents in the Consolidated Statement of Cash Flows for the year ended March 31, 2000 is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	¥18,721	\$176,364
Marketable securities	3,920	36,929
	22,641	213,293
Less: Time deposits and short-term investments with deposit terms or maturity periods exceeding three months in marketable securities account	4,266	40,189
<b>Cash and cash equivalents</b>	<b>¥18,375</b>	<b>\$173,104</b>

**15. Lease Transactions**

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

1) As of March 31, 2000, 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 ¥12,458 million (US\$117,362 thousand), ¥6,950 million (US\$65,473 thousand) and ¥5,508 million (US\$51,889 thousand), respectively.

2) As of March 31, 2000, amounts equivalent to the year-end balance of prepaid leases stood at ¥5,508 million (US\$51,889 thousand), of which amounts to be paid within one year totaled ¥2,229 million (US\$20,999 thousand).

3) Lease payments and amounts equivalent to depreciation expenses for the year ended March 31, 2000 both amounted to ¥2,595 million (US\$24,447 thousand). 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.

**16. Fair Values of Marketable Securities**

The excess of market value over the book value of marketable securities with available fair values in the "Marketable securities, at cost" account, the "Investments in securities" account and the "Investments in and advances to unconsolidated subsidiaries and affiliates" account aggregated ¥43,960 million (US\$414,131 thousand) at March 31, 2000.

**17. 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. As of March 31, 2000, the Companies' derivative transactions comprised fixed payment and variable receipt interest swaps, the notional principal amount of which was ¥10,250 million (US\$96,561 thousand), and the unrealized profit (loss) from valuation of which amounted to a loss of ¥41 million (US\$386 thousand).

**18. 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, 2000 and combined sales and income (loss) before special items for the year 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, 2000 and combined sales for the year then ended.

Sales to Overseas Customers: The Companies' overseas sales for the year ended March 31, 2000 amounted to ¥85,340 million (US\$803,957 thousand), of which ¥39,153 million (US\$368,846 thousand) was accounted for by North American sales, and represented 19.8% of consolidated net sales.

**19. Subsequent Appropriation of Retained Earnings by the Parent Company**

At the Shareholders' General Meeting of the parent company held on June 29, 2000, a year-end dividend payment of ¥1,989 million (US\$18,738 thousand) was approved.

# 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, 2000 and 1999, the related consolidated statements of income and retained earnings for the years then ended, and the consolidated statement of cash flows for the year ended March 31, 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, 2000 and 1999, the consolidated results of their operations for the years then ended, and their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1 to the accompanying consolidated financial statements) applied on a consistent basis.

As described in Note 3 to the accompanying consolidated financial statements, effective from the year ended March 31, 2000, the Companies have changed the accounting method of salary, bonus and social benefit expenses for employees who are 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 to the accompanying consolidated financial statements, effective for the year ended March 31, 2000, the Companies have adopted new Japanese accounting standards for preparation of consolidated financial statements and research and development costs.

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

Tokyo Japan  
June 29, 2000

# Investor Information

(As of March 31, 2000)



Nisshin Steel Co., Ltd.

## Registered Head Office

Shinkokusai Building, 4-1, Marunouchi 3-chome,  
Chiyoda-ku, Tokyo 100-8366, Japan  
Telephone: (81)-3 3216-5511 Facsimile: (81)-3 3214-1895

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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

## Common Stock Price Range (Tokyo Stock Exchange)

	2000		1999		1998	
	High	Low	High	Low	High	Low
First Quarter	¥201	¥134	¥202	¥140	¥324	¥254
Second Quarter	184	124	211	140	309	195
Third Quarter	150	103	145	99	217	125
Fourth Quarter	145	99	142	103	205	116

Years ended March 31

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**Number of Shareholders** 65,780

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**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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