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79th Term Business Report

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Nippon Steel Corporation
79th Term Business Report
April 1, 2003 to March 31, 2004

AR/S
3-31-04

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Report of Operations**79th Term: From April 1, 2003 to March 31, 2004****1. Review of Operations****(1) General Review****(Progress and results of business operations and tasks ahead)****The Japanese Economy and the Steel Industry**

The Japanese economy during fiscal 2003 showed a steady recovery, buttressed by a high level of exports primarily to Asia, a rally in private capital investment and other favorable factors.

In the steel industry, domestic steel demand for the construction industry remained sluggish; however, for automobile, shipbuilding and industrial machinery industries, each of which enjoyed brisk overseas demand, domestic demand for steel maintained a relatively firm pace. Steel exports also remained high, reflecting robust demand in China.

Under these circumstances, national crude steel production during fiscal 2003 increased by 1.19 million tons over the previous year to reach 110.98 million tons. Similarly, crude steel production at Nippon Steel rose by 0.24 million tons to a total of 30.14 million tons.

Management Policies

In this operating environment, Nippon Steel made its best endeavors to carry out the Medium-Term Consolidated Business Plan* (fiscal 2003 to 2005).

- * The consolidated financial performance figures targeted by the Plan for fiscal 2005 are: ordinary profit of around ¥250 billion, return of sales of around 9%, return of assets of around 9%, interest-bearing debt of around ¥1,600 billion and shareholders' equity of around ¥1,000 billion.

• Steelmaking and Steel Fabrication

The worldwide availability of raw materials, fuels and freight capacity steeply contracted due to active demand in China. Amid soaring costs for raw materials, fuel and ocean freight, Nippon Steel worked to fine-tune production and shipments to meet demand, while also continuing efforts to improve both domestic and export prices for steel. At the same time, the company joined its group companies in a maximum effort to improve profitability.

In the area of equipment investments, successive steps are being taken to acquire a better balance in production, including the relining of blast furnaces (No. 4 blast furnace at Kimitsu Works completed in May 2003, and No. 2 blast furnace at Oita Works completed in May 2004).

Research and development efforts primarily targeted stronger international competitiveness, the development of highly differentiated products, and a commitment to environmental preservation and energy conservation. In automotive applications, the world saw the first commercialized development of 60 and 80 kgf/mm²-class hot-dip iron-zinc alloyed steel sheets of the TRIP (transformation-induced plasticity) type with excellent formability and impact energy-absorbing properties. The technology for effectively utilizing plastic waste in the coke ovens used in ironmaking (a technology that is highly beneficial in creating a resources recycling-oriented society) was awarded the Fiscal 2003 Invention Prize by the Japan Institute of Invention and Innovation. In addition, the continuous subterranean steel diaphragm wall method that was developed for applications in the civil engineering and building construction fields won high acclaim.

Sustained emphasis was placed on strengthening Nippon Steel's alliance with other domestic and foreign steelmakers. Nippon Steel and Sumitomo Metal Industries, Ltd. integrated their stainless steel businesses through a new company named Nippon Steel & Sumikin Stainless Steel Corporation that was jointly established (joint *Shinsetsu Bunkatsu*) on schedule in October 2003. Overseas, Nippon Steel signed a Joint Venture Agreement with Baoshan Iron & Steel Co., Ltd. of China and Arcelor of the EU to establish a company on Baoshan Iron & Steel's premises (Shanghai) to manufacture and sell automotive steel sheets. Nippon Steel continues, with Arcelor, to conduct joint R&D in the area of automotive steel sheets and joint

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technological approach in response to world-car projects of automobile makers. Nippon Steel also reached an agreement with the Ispat Group, a longtime partner in Nippon Steel's joint ventures in the U.S. to manufacture cold-rolled and coated steel sheets, to establish a closer alliance aimed at enhancing the ability of these joint ventures to respond to the needs of North American automakers and other customers. Further, the strategic alliance between Nippon Steel and POSCO of Korea has led to their support for consolidation of operations of a coal mine in Australia in which Nippon Steel has equity interests and another Australian coal mine in which POSCO has equity interests. The consolidation was agreed in February 2004.

In the procurement of raw materials, a worldwide tightening of supply and demand for steel raw materials has been caused by brisk demand in China and other countries. To cope with this, basic agreements were reached with Rio Tinto (Australia and the U.K.) on creating a comprehensive alliance involving Nippon Steel's acquisition of interests in and the development of iron ore and coking coal mines in Australia and conclusion of long-term contracts for such raw materials. Nippon Steel anticipates that the basic agreements will ensure the stable supply of steel raw materials over medium- to long-term basis and also establish a closer relationship with Rio Tinto in a wide range of areas including cooperation on marine transportation. Nippon Steel also came to an agreement with Kanematsu Corporation and Tianjin Tiantie Coking and Chemical Co., Ltd., a company from which Nippon Steel procures coke in China, on the establishment of a joint venture in Tianjin City, China to manufacture and sell coke.

As for Nippon Steel's strategies for the operation of all Nippon Steel Group companies, efforts on stronger consolidated management and "selection and concentration" of management resources in core businesses were accelerated in fiscal 2003. An agreement was reached in April 2004 to transform three consolidated subsidiaries into wholly owned subsidiaries of Nippon Steel in July 2004, through share-for-share exchange (*Kabushiki Kokan*) using Nippon Steel's treasury stocks. These companies are Nittetsu Steel Sheet Corporation, Nittetsu Steel Pipe Co., Ltd. and Nippon Steel Metal Products Co., Ltd., each of which functions as a core company of the Nippon Steel Group vis-à-vis activities in markets for steel sheets used as building materials, steel pipe and tubes, and fabricated products used in building construction and civil engineering, respectively. However, in order for these companies to continue making strides in the future, it was determined that a still stronger alliance had to be established in which each company was more closely integrated with Nippon Steel than ever before. In addition, business integration is being actively promoted among Nippon Steel Group companies, mainly those engaged in sales and processing of steel products.

• **Engineering and Construction**

In the engineering and construction sector, a severe operating environment in the domestic market still prevails due primarily to prolonged stringency in public works expenditures. Under these circumstances, Nippon Steel is strengthening the development and promotion of customer-oriented solution projects that meet both social and client needs. These efforts were rewarded with new orders, including one in the environmental field that was placed by Kitakyushu City for a large direct waste melting and recycling plant and another in the construction field for the No. 7 Central Government building—one of the largest private finance initiative (PFI) projects in the country.

Overseas, Nippon Steel has steadily secured orders for oil and natural gas development projects in Sakhalin, Russia, and other Asian districts. At the same time, stepped-up marketing has been promoted in China by capitalizing on a newly established subsidiary involved in steel plant business.

Further, Nippon Steel is making steady progress in implementing various energy related solution businesses, which include retail electricity sales and wind power generation.

• **Urban Development**

Nippon Steel City Produce, Inc. is using its unique capabilities as a developer to promote various urban development projects. These include the Yawata-Higashida comprehensive development project in Kitakyushu and the Hanada development project in Sakai, Osaka, both of which utilize company-owned lands. Nippon Steel City Produce is also committed to projects involving asset reevaluation in the redevelopment of underutilized urban areas and to condominium sales mainly in Tokyo metropolitan areas and the Kansai district.

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• **Chemicals and Nonferrous Materials**

Nippon Steel Chemical Co., Ltd., which became a wholly owned subsidiary of Nippon Steel in July 2003, spearheads the chemicals operations of the Nippon Steel Group. Following its inception as a coal chemicals business, this company has developed to include fields of petrochemical products and electronics materials into which it has preferentially injected management resources. These include ESPANEX, an adhesive-free copper-clad laminated sheet for flexible printed circuit boards in addition to styrene monomers and other petrochemical products. In so doing, it now compares favorably with other major chemical companies in Japan in terms of profitability. In March 2004, Nippon Steel Chemical signed two basic agreements, one for a joint venture to sell industrial gases and another for a joint venture to conduct tar operations. Thus, by pursuing a policy of selection and concentration in business, this company aims to improve and solidify its profit base.

In the area of new materials, a recovery in the major market of IT-related industries was a factor in favorable business operations. Metal foils for use mainly in suspension materials for hard disc drives served as a prime mover in this buoyancy. Another brisk sector was the area of semiconductor materials, including bonding wires and fillers for IC chips, which are prominently served by subsidiaries of Nippon Steel.

In titanium operations, aggressive efforts were directed at the acquisition of large-scale orders for construction materials in domestic and overseas projects and also at the development of new applications for titanium products, such as consumer goods and mufflers for two-wheeled vehicles.

In the area of silicon wafers, Nippon Steel sold all of its equity holdings (45% of the outstanding shares) in Wacker NSCE Corporation, an affiliate of Nippon Steel accounted for by the equity method, to Wacker Group.

• **System Solutions**

The operating environment of the system solutions business continues to be tight, marked by customers strict selection of system solutions projects, fiercer competition with other system solutions companies and declining prices. In this environment, NS Solutions Corporation, a subsidiary of Nippon Steel, has made full use of advanced business-operations knowledge and information systems technology to help clients solve problems, thereby winning high market acceptance.

In addition, NS Solutions has reinforced its commitment to solidifying its business foundations and to improving competitiveness. While strengthening the functions of a special team dedicated solely to assist the formulation of an IT strategy, the company has built an integrated lifecycle support structure for its systems that extends from consulting to development, management and maintenance. At the same time, the company has enhanced the activities to ensure precise management of project risks while also promoting solution activities focused on the pursuit of higher development productivity.

• **Other Businesses: Electric Power Supply, Services and Others**

Nippon Steel supplies wholesale electricity to electric power companies from its Yawata, Muroran, Kamaishi, Hirohata and Oita Works.

The gas holder explosion that occurred at Nagoya Works in September 2003 caused great anxiety among nearby residents, customers and many other relevant persons. In April 2004, a new gas holder equipped with advanced safety and anti-disaster devices went into full-scale operation. Henceforth, Nippon Steel firmly resolves to enhance its commitment to safety and disaster prevention based on its experience of this accident.

In January 2004, the Fair Trade Commission of Japan ordered Nippon Steel to take elimination measures in respect of the sales activities of cold-rolled stainless steel sheets. Nippon Steel firmly resolves to demand compliance with laws and to procure ethical business conduct.

Sales and Revenues

Among the foregoing factors, domestic and overseas improvements in the sale prices in the steelmaking and steel fabrication sector and cost curtailments that exceeded expectations in the *Medium-Term Consolidated Business Plan* were particularly influential. Together, they more than offset

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adverse factors such as the upward spiral in market prices for raw materials and the gas holder explosion at Nagoya Works. As a result, non-consolidated sales for fiscal 2003 advanced to ¥1,861.8 billion, an increase of ¥72.1 billion over the previous year; operating profits rose to ¥162.9 billion, or a gain of ¥70.6 billion over the previous year; and ordinary profits rose to ¥117.6 billion, or an increase of ¥69.3 billion over the previous year. Due to a special loss of ¥34.2 billion credited to impairment for fixed assets and other reasons, non-consolidated net income for fiscal 2003 came to ¥51.2 billion before income taxes and to ¥31.1 billion after taxes, an improvement of ¥51.6 billion over the previous year.

As for consolidated operations, consolidated sales for fiscal 2003 came to ¥2,925.8 billion, or a gain of ¥176.5 billion over the previous year. Consolidated operating profits were ¥224.4 billion, or an increase of ¥81.5 billion over the previous year; consolidated ordinary profits were ¥172.8 billion, or a gain of ¥103.9 billion over the previous year; and consolidated net income was ¥41.5 billion, an improvement of ¥93.2 billion over the previous year.

Nippon Steel Group has been striving to advance the implementation of a series of accounting reforms. Starting with the 2003 fiscal year accounts, the group applied the accounting principles to the impairment for fixed assets earlier than mandated, thereby enhancing both the soundness of the group's financial structure and the transparency of its financial information.

Capital Procurement

Nippon Steel made every effort to reduce interest-bearing debts using cash flows arising from operating activities. At the same time, in order to procure the capital required for cash payments such as the redemption of loans and the repayment of long-term loans, Nippon Steel closely monitored developments in the financial market and secured less expensive capital by, among other means, issuing corporate bonds and acquiring long-term loans.

Nippon Steel also remained committed to improving its consolidated financial structure by proceeding with the liquidation of consolidated asset holdings, such as the assignment of mortgage loans for employees. As a result, the balance of interest-bearing debts outstanding at the end of fiscal 2003 was reduced to ¥1,561.2 billion, or an improvement of ¥310.6 billion from a year earlier—an achievement reached two years earlier than anticipated in the Medium-Term Consolidated Business Plan.

After carefully considering fiscal 2003 operating results, future prospects, the company's improved financial structure and other factors, Nippon Steel proposes to pay a year-end dividend of ¥1.5 per share, unchanged from the previous year.

Nippon Steel decided not to pay bonuses to the directors and corporate auditors at the end of this fiscal year, as was the case in the previous year.

Tasks Ahead

Regarding the outlook of the Japanese economy, situations about the future of the Chinese economy and developments in foreign currency exchange rates require that they be closely watched. Nevertheless, a business recovery led mainly by exports and private capital investments can be expected.

In the Japanese steel industry, domestic demand for steel, especially among manufacturers, is expected to remain firm as a reflection of the recovery in private capital investments and buoyancy in external demand. Japanese steel exports will also see continued and active demand for the time being, especially from East Asia. It is feared, however, that the Japanese steel industry will be affected by worldwide shortfalls in the supply of steelmaking raw materials, together with upward spiraling prices, that will be caused by the ongoing rapid expansion of steel production in China.

In this environment, Nippon Steel will continue efforts to strengthen its technological development capabilities and its competitiveness in terms of quality. Concurrently, it will make every possible effort to fine-tune production to match demand. In addition, Nippon Steel, together with its group companies, will make managerial efforts to enhance profitability and accelerate to realize a sound financial structure. Based on our view that changes in the current global balance in the supply and demand of iron and steel products, triggered by the booming Chinese economy, not as short-lived but as a fundamental issue, Nippon Steel will ask its customers to fully understand this as it continues with efforts to improve

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steel prices.

A harsh operating environment is expected to persist in engineering and construction and other business sectors. Nippon Steel will focus its efforts on creating a stable profit foundation and strengthening its financial structure in these sectors.

Nippon Steel will aim for the following operating performance for fiscal 2004 (April 1, 2004 to March 31, 2005):

• Consolidated Operating Performance

	(Billions of yen)			
	Net sales	Operating profit	Ordinary profit	Net income
Fiscal 2004	3,090	250	200	100
1st half of fiscal 2004	1,440	85	65	30

• Non-Consolidated Operating Performance

	(Billions of yen)			
	Net sales	Operating profit	Ordinary profit	Net income
Fiscal 2004	1,920	200	150	80
1st half of fiscal 2004	900	75	55	30

In fiscal 2004 and beyond, Nippon Steel will, in principle, distribute profits consistent with the consolidated operating results of each fiscal year. The company will reward shareholders with dividends based on consideration of capital requirements for investment and other activities aimed at raising corporate value, prospects for future operating results and other relevant factors and by endeavoring to further reinforce its financial structure.

Nippon Steel and its group companies are firmly and collectively resolved to carry out the Medium-Term Consolidated Business Plan, thereby demonstrating the full potential inherent in the total capabilities of the Nippon Steel Group.

Nippon Steel wishes to take this opportunity to ask its shareholders for their understanding of the aforementioned circumstances and for their continued support.

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(2) Sales Results

• Sales by segment

(Millions of yen)

Term		78th term			79th term (term under review)		
Market		(%)	(%)	(%)	(%)	(%)	(%)
Product name		Domestic	Export	Total	Domestic	Export	Total
Steel products	Sections	(9.6) 123,350	(6.4) 31,811	(8.7) 155,161	(11.1) 147,296	(4.2) 22,726	(9.1) 170,023
	Flat-rolled products	(42.6) 550,120	(61.6) 307,726	(47.9) 857,847	(45.5) 601,128	(66.4) 358,683	(51.6) 959,811
	Pipe and tubes	(5.0) 64,865	(1.3) 6,308	(4.0) 71,173	(5.0) 66,137	(1.1) 5,931	(3.9) 72,068
	Specialty steel products	(18.2) 234,466	(22.6) 112,935	(19.4) 347,401	(16.6) 218,637	(17.2) 92,978	(16.7) 311,615
	Secondary steel products	(1.4) 18,128	(0.1) 343	(1.0) 18,472	(1.6) 21,336	(0.0) 168	(1.2) 21,504
	Total	(76.8) 990,931	(92.0) 459,124	(81.0) 1,450,056	(79.8) 1,054,535	(88.9) 480,488	(82.5) 1,535,023
Pig iron, ingots and others		(1.4) 18,604	(0.1) 466	(1.1) 19,071	(1.6) 21,707	(0.1) 571	(1.2) 22,279
Engineering and construction		(16.9) 218,196	(6.7) 33,719	(14.1) 251,916	(14.3) 188,847	(9.9) 53,499	(13.0) 242,347
Chemicals and nonferrous materials, and electricity		(4.9) 62,815	(1.2) 5,847	(3.8) 68,662	(4.3) 56,314	(1.1) 5,865	(3.3) 62,179
Total		(100.0) 1,290,548	(100.0) 499,158	(100.0) 1,789,706	(100.0) 1,321,404	(100.0) 540,424	(100.0) 1,861,829

• Exports by region

(Millions of yen)

Term	78th term		79th term (term under review)	
Asia	377,368	(75.6) %	389,839	(72.1) %
Middle and Near East	20,832	(4.2)	23,392	(4.3)
Europe	21,031	(4.2)	42,719	(7.9)
North America	25,931	(5.2)	23,147	(4.3)
Central and South America	35,776	(7.2)	35,102	(6.5)
Africa	6,593	(1.3)	11,552	(2.2)
Oceania	11,624	(2.3)	14,670	(2.7)
Total	499,158	(100.0)	540,424	(100.0)

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(3) Raw Materials

• Purchase volume of iron ore and coking coal

(Ten thousand tons)

Term	78th term		79th term (term under review)	
	(%) Iron ore	(%) Coking coal	(%) Iron ore	(%) Coking coal
Asia	(12.7) 578	(20.4) 445	(10.0) 455	(18.6) 396
Europe	(—) —	(5.1) 111	(—) —	(4.1) 88
North America	(0.5) 25	(16.0) 347	(1.4) 65	(13.2) 282
Central and South America	(24.1) 1,102	(—) —	(23.1) 1,052	(—) —
Africa	(4.7) 213	(—) —	(6.1) 275	(—) —
Oceania	(58.0) 2,650	(58.5) 1,274	(59.4) 2,700	(64.1) 1,365
Total	(100.0) 4,568	(100.0) 2,176	(100.0) 4,547	(100.0) 2,130

(4) Plant and Equipment Investments

State of invested facilities	Subject name
Major equipment and facilities completed during the term	Kimitsu: Relining of No. 4 blast furnace
Major plant and equipment investment continued during the term	Oita: Relining of No. 2 blast furnace Kimitsu: New installation of dephosphorization treatment furnace at No. 2 steelmaking plant

(5) Capital Procurement

Date of issue	Bonds	Total issues
April 14, 2003	1st unsecured bonds with early redemption clauses (limited number of subscribers)	¥5 billion
June 4, 2003	49th unsecured bonds	¥20 billion
June 4, 2003	50th unsecured bonds with early redemption clauses	¥15 billion

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(6) Changes in Production, Financial Performance, Assets and Dividends

Term	76th term	77th term	78th term	79th term (term under review)
Production (million tons)				
Pig iron	26.66	26.86	27.62	28.24
Crude steel	27.83	26.14	29.90	30.14
Steel products	26.23	25.49	28.22	28.40
Net sales (¥billion)	1,848.7	1,681.4	1,789.7	1,861.8
Ordinary profit (¥billion)	78.7	0.7	48.3	117.6
Net income (loss) (¥billion)	18.3	(28.1)	(20.4)	31.1
Total assets (¥billion)	2,884.5	2,738.9	2,588.6	2,652.3
Shareholders' equity (¥billion)	866.7	793.5	713.7	845.0
Net income (loss) per share (Yen)	2.69	(4.13)	(3.02)	4.62
Net assets per share (Yen)	127.33	116.58	107.15	124.99
Cash dividends per share (Yen) (interim dividend included therein)	1.50 (—)	1.50 (—)	1.50 (—)	*1.50 (—)
Payout ratio (%)	55.6	—	—	32.5

Notes:

- *Indicate the figure if the proposed plan for appropriation of profit for the 79th term is approved.
- Numbers in parentheses indicate losses.
- "Production of steel products" excludes consigned production and includes byproducts.
- "Net income per share" is calculated based on the average number of shares issued during the term, and "Net assets per share" on the number of shares issued at the end of the term. Effective from the 77th term, the average number of shares issued during the term and the number of shares issued at the end of the term excludes the number of the treasury shares.

[77th Term]

Domestic demand during the term fell rapidly mainly from the construction and manufacturing industries. The environment surrounding export sales deteriorated in the wake of slower economic activity overseas and other adverse factors. Reflecting this situation, crude steel production for both the Japanese steel industry in general and Nippon Steel fell below the levels of the 76th term. Sales, too, failed to match those of the 76th term, due mainly to a persistent decline in steel prices through the first half of the term and beyond, in addition to curtailed production and shipments in response to sharply reduced demand. As for profit performance, despite the additional and advanced implementation of projected profit-improving measures, ordinary profits showed a steep decline from the 76th term, totaling ¥0.7 billion for the term under review. Further, while a special profit was recorded, including a gain on contribution of securities to employee retirement benefit trust and the deposition profit of reserve for repairs for blast furnaces, a special loss was also recorded, including a loss in the value of investments in securities and other factors, resulting in an inevitable net loss for this term of ¥28.1 billion. Total assets decreased as a whole from their level at the end of the 76th term. This was mainly attributable to a substantial decline in investments in securities incurred by an enforced reevaluation of listed securities, such as shares in financial institutions, as well as unlisted stock in subsidiaries and affiliates. Also affecting this was a decrease in the latent profit of listed stocks caused by declining market values.

[78th Term]

Although domestic steel demand as a whole remained sluggish, exports rose in response to robust demand in China and other East Asian countries. As a result, both national and Nippon Steel's crude steel productions during the 78th term surpassed those in the 77th term. Sales rose above the levels of the 77th term mainly due to increased shipments of steel products to the domestic automobile and shipbuilding industries and increased exports to East Asian markets. Supported by improved export prices and thorough cost reductions in addition to the increased shipments, ordinary profits rose to ¥48.3 billion, an increase over the 77th term. As for profit performance, while a special profit was posted, including a gain on the

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sale of subsidiary stocks, special loss was also recorded, including allowance for loss on guarantees and loss on valuation of investments in securities. Consequently, a net loss of ¥20.4 billion was posted. Total assets as a whole decreased from their level at the end of the 77th term. This was primarily attributable to a decrease in investments in securities mainly due to the enforced reevaluation of listed securities and the decreased latent profit of these securities, and to the reduction in inventories and tangible fixed assets.

[79th Term: Term under Review]

The operating conditions for the term under review were as described in “(1) General Review” above. Total assets at the end of the 79th term as a whole increased from their level at the end of the 78th term. This resulted primarily from increase in latent profit in securities attributable to a recovery in the stock market despite a reduction in inventories and also in tangible fixed assets due to the early application of accounting principles to the impairment for fixed assets.

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2. Outline of Nippon Steel (as of March 31, 2004)**(1) Major Business Operations**

Steel products	Sections	Rails, sheet piles, H-beams and other shapes; bars, bar-in-coils, low-carbon and high-carbon wire rods
	Flat rolled products	Heavy plates, medium plates, hot-rolled sheets, cold-rolled sheets; tinplate, tin-free steel, galvanized sheets and other metallic coated sheets, precoated sheets; electrical steel sheets
	Pipe and tubes	Seamless, butt-welded, electric-resistance welded, electric-arc welded, cold-drawn and coated pipe and tubes
	Specialty steel products	Stainless steel, machine structural carbon steel, structural alloy steel, spring steel, bearing steel, heat-resistant steel, free-cutting steel, piano wire rods, high-strength steel
	Secondary steel products	H-beam bridges, steel segments, gratings, PANZERMAST, vibration-damping sheets and plates, NS Louver, steel sheet members for building structures
Pig iron, steel ingots and others		Steelmaking pig iron, foundry pig iron; steel ingots, steel slag products
Engineering and construction		Iron-and steelmaking plants, factory automation and distribution automation systems, rolls, industrial machinery, industrial furnaces; Resources recycling, environmental restoration solutions; Environmental plants, waterworks and water-treatment plants; Energy facilities, chemical plants, storage tanks, on-land and offshore pipelines; Energy-related solutions; Offshore structure fabrication/construction, civil engineering work, bridge fabrication/construction, pipe piling work; Building construction, steel-structure construction, trusses, standardized buildings, base-isolated and vibration-control devices; Urban redevelopment solutions; Iron-and steelmaking plant construction engineering, operation assistance, provision of iron- and steelmaking know-how
Chemicals and nonferrous materials		Coal tar, ammonium sulfate; Rolled titanium products, aluminum products; Fine ceramic products, rolled metallic foils, metal catalyst carriers for cleaning automobile emissions, carbon-fiber composite products
Electricity		Supply of electricity

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(2) Major Plants, Research Institutes, Domestic Sales Offices and Overseas Offices

Plants	Yawata Works, Muroran Works, Kamaishi Works, Hirohata Works, Hikari Works, Nagoya Works, Sakai Works, Kimitsu Works, Oita Works, Tokyo Works, Hikari Pipe & Tube Division, Wakamatsu Plant, Metal Foil Plant (Hikari)
Research institutes	Steel Research Laboratories, Advanced Technology Research Laboratories and Environment & Process Technology Center (at Comprehensive Technology Center in Futtsu) R&D Laboratories (in Yawata, Muroran, Hirohata, Nagoya, Kimitsu and Oita Works)
Domestic sales offices	Hokkaido, Tohoku, Niigata, Nagoya, Osaka, Chugoku, Kyushu Muroran, Aomori, Akita, Morioka, Kamaishi, Koriyama, Chiba, Yokohama, Nagano, Toyama, Shizuoka, Gifu, Daio, Wakayama, Kobe, Okayama, Hikari, Takamatsu, Kitakyushu, Oita, Nagasaki, Kumamoto, Miyazaki, Kagoshima, Naha
Overseas offices	Düsseldorf, Sydney, Bangkok, São Paulo, Beijing, Shanghai, Guangzhou

Notes:

- Hokkaido, Tohoku, Chugoku and Kyushu Sales Offices are located in Sapporo, Sendai, Hiroshima and Fukuoka, respectively.
- Nippon Steel U.S.A. Inc. performs office functions covering North America and Central America in New York, Chicago and Mexico.
- Nippon Steel Southeast Asia Pte. Ltd. performs office functions covering Southeast Asia in Singapore.

(3) Overview on Shares

• Total number of shares authorized to be issued:	9,917,077,000
• Number of shares issued:	6,806,980,977
• Number of shareholders:	490,810
• Acquisition, deposition and holding of owned shares	
(a) Acquired shares	
Number of ordinary shares	431,530
Total acquisition cost (¥)	89,275,509
(b) Deposited shares	
Number of ordinary shares	100,114,663
Total deposited cost (¥)	13,619,401,491
(c) Shares held at term-end	
Number of ordinary shares	46,127,156

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• Major shareholders

Name	Number of shares held (Million)	Voting right percentage (%)	Investment by Nippon Steel in the relevant shareholders	
			Number of shares held (Million)	Voting right percentage (%)
Japan Trustee Services Bank, Ltd.	602	9.0	—	—
The Master Trust Bank of Japan, Ltd.	440	6.6	—	—
State Street Bank & Trust Company	323	4.8	—	—
Nippon Life Insurance Company	238	3.6	—	—
Trust & Custody Services Bank, Ltd.	204	3.0	—	—
Mizuho Corporate Bank, Ltd.	179	2.7	—	—
Meiji Yasuda Life Insurance Company	159	2.4	—	—
The Chase Manhattan Bank NA London	148	2.2	—	—
The Dai-ichi Mutual Life Insurance Company	101	1.5	—	—
The Tokyo Marine and Fire Insurance Co., Ltd.-	92	1.4	—	—

Notes:

- All shares included in the "number of shares held" for Japan Trustee Service Bank, Ltd., the Master Trust Bank of Japan, Ltd. and Trust & Custody Services Bank, Ltd. are shares relative to trust services.
- Mizuho Corporate Bank, Ltd. holds 22 million shares (voting right percentage 0.3 %) of Nippon Steel that are placed in trustee employee retirement benefit funds in addition to those listed above. Nippon Steel holds 6,000 shares of 11th type 11 preferred shares of Mizuho Financial Group, Inc., of which Mizuho Corporate Bank, Ltd. is a wholly-owned subsidiary.
- Nippon Steel holds 385 shares (voting right percentage 0 %) of Millea Holdings, Inc., of which The Tokyo Marine and Fire Insurance Co., Ltd. is a wholly-owned subsidiary.

(4) Subscription Rights for New Shares

Subscription rights for new shares already in effect

2nd convertible bonds (issued on June 22, 1989)

Outstanding convertible bonds (¥) 98,729,000,000

Class of shares to be issued through conversion Ordinary shares

Convertible price (¥) 898.60

Price to be incorporated into the stated capital (¥) 450

(5) Major Creditors

Creditor	Balance of borrowings (Billions of yen)	Investment by the relevant creditor in Nippon Steel	
		Number of shares held (Million)	Voting right percentage (%)
Meiji Yasuda Life Insurance Company	92.0	159	2.4
Nippon Life Insurance Company	82.5	238	3.6
The Dai-ichi Mutual Life Insurance Company	68.0	101	1.5
Sumitomo Life Insurance Company	49.0	26	0.4
Mizuho Corporate Bank, Ltd.	34.5	179	2.7
The Yamaguchi Bank, Ltd.	31.3	10	0.1
Taiyo Life Insurance Company	29.3	0	0
Sumitomo Mitsui Banking Corporation	24.4	53	0.8
The Bank of Tokyo-Mitsubishi, Ltd.	23.3	51	0.8
The Norinchukin Bank	21.5	—	—

Note: The balance of borrowings from the Mitsubishi Trust and Banking Corporation, a wholly-owned subsidiary of Mitsubishi Tokyo Financial Group, Inc. along with the Bank of Tokyo-Mitsubishi, Ltd., is ¥1.0 billion.

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(6) Executive Management

Position and name	Business overseen or major role
Representative Director and Chairman of the Board of Directors: Akira Chihaya	
Representative Director and President: Akio Mimura	
Representative Director and Executive Vice Presidents: Jyujiro Yagi	Director, Engineering Divisions Group; oversees domestic sales offices
Toshio Yonezawa	Oversees corporate planning, general administration, business process innovation, personnel & labor relations, affiliated companies administration, overseas business development, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project, new materials, silicon wafer, and overseas offices
Seiki Miyamoto	Oversees sales administration & planning, global marketing, project development, steel products, and machinery & materials; cooperates with Executive Vice President J. Yagi on domestic sales offices; cooperates with Executive Vice President T. Yonezawa on overseas offices
Yasushi Sawada	Director, Technical Development Bureau
Takashi Hirao	Oversees environmental management, intellectual property, technical administration & planning, and raw materials
Managing Directors: Nobuyoshi Fujiwara	In charge of corporate planning and accounting & finance (CFO)
Makoto Haya	Deputy Director, Engineering Divisions Group (planning & administration, project planning & development, Sagami-hara research & development, plant & machinery, environment & waterworks solutions, building construction, and technical cooperation); in charge of new materials
Toshio Ochiai	Deputy Director, Engineering Divisions Group (energy facilities engineering, civil engineering & marine construction, and Sakhalin I EPC2-Project)
Hideki Furuno	General Superintendent, Yawata Works
Naoki Okumura	Director, Steel Research Laboratories, Technical Development Bureau
Kazuo Nagahiro	In charge of intellectual property and technical administration & planning; assists Executive Vice President S. Miyamoto on steel products

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Hideaki Sekizawa	In charge of general administration and environmental management
Hiroshi Shima	General Superintendent, Muroran Works, Bar & Wire Rod Division
Shoji Muneoka	Director, Flat Products Division; in charge of sales administration & planning
Mitsuo Kitagawa	In charge of raw materials and machinery & materials
Directors:	
Koichi Nakamura	General Superintendent, Kimitsu Works
Tetsuo Imakubo	Director, Pipe & Tube Division; in charge of export; cooperates with General Manager, Brazil CGL Project Group on Brazil CGL Project
Bunyu Futamura	General Superintendent, Nagoya Works
Kiichiro Masuda	General Manager, Sales Administration & Planning Div.; Director, Bar & Wire Rod Division; assists Executive Vice President T. Yonezawa on business process innovation
Hidemi Ohta	Director, Civil Engineering & Marine Construction Division, Engineering Divisions Group
Katsutoshi Kurikawa	Director, Plate Division; Director, Structurals Division; in charge of project development and titanium
Junji Oota	General Manager, Corporate Planning Div.; General Manager, Affiliated Companies Administration Div.; Director, Silicon Wafer Division
Atsushi Takeda	General Manager, Osaka Sales Office
Yuki Iriyama	General Manager, Overseas Business Development Div.; General Manager, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project; General Manager, Brazil CGL Project Group
Itsuo Takahashi	General Superintendent, Oita Works
Keisuke Kuroki	General Manager, Business Process Innovation Div.
Tadashi Higashi	Director, Energy Facilities Engineering Division, Engineering Divisions Group
Yasuo Takeda	General Superintendent, Hirohata Works
Kizoh Hirayama	General Manager, Personnel & Labor Relations Div.
Kozoh Uchida	General Manager, General Administration Div.
Shinichi Taniguchi	General Manager, Accounting & Finance Div.

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Masakazu Iwaki	Deputy General Manager, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project Group; assists Director, Flat Products Division on flat products; cooperates with General Manager, Brazil CGL Project Group on Brazil CGL Project; in charge of NSC I/N Project Technical Group
Yasuo Hamamoto	General Superintendent, Sakai Works, Structural Division
Kenji Minami	General Manager, Technical Administration & Planning Div.; assists Executive Vice President T. Yonezawa on business process innovation
Senior Corporate Auditor (full-time): Takeshi Yoshii	
Corporate Auditors (full-time): Akira Shoga	
Muneyuki Higuchi	
Corporate Auditors: Josei Itoh	Representative Director and Chairman of the Board of Directors, Nippon Life Insurance Company
Hisashi Tanikawa	Professor Emeritus, Seikei University
Yoichi Kaya	Professor Emeritus, Tokyo University

Note: The corporate auditors Josei Itoh, Hisashi Tanikawa and Yoichi Kaya are outside auditors provided for in Section 1, Article 18 of the Law Concerning Exceptional Measures to the Commercial Code with respect to Auditing, etc., of Kabushiki Kaisha.

The directors and corporate auditors who retired during the term under review are as follows:

Position at retirement and name	Date of retirement	Business role at retirement
Directors:		
Takashi Imai	June 26, 2003	Senior Advisor
Tetsuo Seki	June 26, 2003	Attached to the President
Makoto Kihara	June 26, 2003	Attached to the President
Iwao Koyama	June 26, 2003	Attached to the President
Okitsugu Mantani	June 26, 2003	General Manager, Stainless Business Integration Project Group
Haruhiko Okumura	June 26, 2003	Attached to the President
Hideki Saito	June 26, 2003	Attached to the President
Motoyoshi Nishikawa	June 26, 2003	Attached to the President
Nobuhiko Yoshida	June 26, 2003	Attached to the President
Shinichi Kaminaga	June 26, 2003	Attached to the President
Hiromu Fujii	June 26, 2003	Attached to the President
Tetsuo Eto	June 26, 2003	Director, Stainless Steel Division; General Superintendent, Hikari Works, Stainless Steel Division; Deputy General Manager, Stainless Business Integration Project Group

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The executive management of Nippon Steel consists of the following directors and auditors-as of April 1, 2004.

Position and name	Business overseen or major role
Representative Director and Chairman of the Board of Directors: Akira Chihaya	
Representative Director and President: Akio Mimura	
Representative Director and Executive Vice Presidents: Jyujiro Yagi	Director, Engineering Divisions Group; oversees domestic sales offices
Toshio Yonezawa	Oversees corporate planning, general administration, business process innovation, personnel & labor relations (excluding safety and health), overseas business development, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project, new materials, and overseas offices
Seiki Miyamoto	Oversees sales administration & planning, global marketing, project development, steel products, and machinery & materials; cooperates with Executive Vice President J. Yagi on domestic sales offices; cooperates with Executive Vice President T. Yonezawa on overseas offices
Yasushi Sawada	Director, Technical Development Bureau
Takashi Hirao	Oversees safety and health in personnel & labor relations, environmental management, intellectual property, technical administration & planning, technical cooperation, and raw materials
Managing Directors: Nobuyoshi Fujiwara	In charge of corporate planning and accounting & finance (CFO)
Makoto Haya	Deputy Director, Engineering Divisions Group (planning & administration, steel plant & environmental engineering, and building construction); in charge of new materials
Toshio Ochiai	Deputy Director, Engineering Divisions Group (project planning & development; energy facilities, civil engineering & marine construction)
Hideki Furuno	General Superintendent, Yawata Works
Naoki Okumura	Director, Steel Research Laboratories, Technical Development Bureau
Kazuo Nagahiro	In charge of intellectual property, technical administration & planning and technical cooperation; assists Executive Vice President S. Miyamoto on steel products

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Hideaki Sekizawa	In charge of general administration and environmental management
Hiroshi Shima	General Superintendent, Muroran Works, Bar & Wire Rod Division
Shoji Muneoka	Director, Flat Products Division; in charge of sales administration & planning; assists Executive Vice President T. Yonezawa on Shanghai-Baoshan Cold-rolled & Coated Steel Sheet Products Project
Mitsuo Kitagawa	In charge of raw materials, and machinery & materials
Koichi Nakamura	General Superintendent, Kimitsu Works
Directors: Tetsuo Imakubo	Director, Pipe & Tube Division; in charge of export; cooperates with General Manager, Brazil CGL Project Group on Brazil CGL Project
Bunyu Futamura	General Superintendent, Nagoya Works
Kiichiro Masuda	General Manager, Sales Administration & Planning Div.; Director, Bar & Wire Rod Division; assists Executive Vice President T. Yonezawa on business process innovation
Hidemi Ohta	Director, Energy Facilities, Civil Engineering & Marine Construction Division, Engineering Divisions Group
Katsutoshi Kurikawa	Director, Plate Division; Director, Structurals Division; in charge of project development and titanium
Junji Oota	General Manager, Corporate Planning Div.
Atsushi Takeda	General Manager, Osaka Sales Office
Yuki Iriyama	General Manager, Overseas Business Development Div.; General Manager, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project; General Manager, Brazil CGL Project Group
Itsuo Takahashi	General Superintendent, Oita Works
Keisuke Kuroki	General Manager, Business Process Innovation Div.
Tadashi Higashi	Cooperates with Director, Energy Facilities, Civil Engineering & Marine Construction Division, Engineering Divisions Group on energy facilities, civil engineering & marine construction
Yasuo Takeda	General Superintendent, Hirohata Works
Kizoh Hirayama	General Manager, Personnel & Labor Relations Div.
Kozoh Uchida	General Manager, General Administration Div.

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Shinichi Taniguchi	General Manager, Accounting & Finance-Div.
Masakazu Iwaki	Deputy General Manager, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project Group; assists Director, Flat Products Division on flat products; cooperates with General Manager, Brazil CGL Project Group on Brazil CGL Project; in charge of NSC I/N Project Technical Group
Yasuo Hamamoto	General Superintendent, Sakai Works, Structural Division
Kenji Minami	General Manager, Technical Administration & Planning Div.; cooperate with General Manager, Personnel & Labor Relations Div. on safety and health in personnel & labor relations; assists Executive Vice President T. Yonezawa on business process innovation
Senior Corporate Auditor (full-time): Takeshi Yoshii	
Corporate Auditors (full-time): Akira Shoga	
Muneyuki Higuchi	
Corporate Auditors: Josei Itoh	Representative Director and Chairman of the Board of Directors, Nippon Life Insurance Company
Hisashi Tanikawa	Professor Emeritus, Seikei University
Yoichi Kaya	Professor Emeritus, Tokyo University

• Remunerations and other payments in consideration of services performed

	Kind of payment	Payment in the term (¥)
Directors	Remunerations	1,047,470,000
	Retirement bonus	1,942,200,000
Corporate auditors	Remunerations	85,440,000
	Retirement bonus	

Note: Remunerations to directors include the amount of salary (including bonuses) paid to directors who work concurrently as employees and directors for services rendered in their capacities as employees.

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(7) Employee Data

• Number of employees

Division	Number of employees	Division	Number of employees
Head office	975	Engineering Divisions Group	1,336
Yawata Works	2,517	New Materials Division and Silicon Wafer Division	80
Muroran Works	476	Technical Development Bureau	738
Kamaishi Works	144	Domestic sales offices	421
Hirohata Works	1,048	Overseas offices	29
Hikari Pipe & Tube Div.	207	Total	15,138
Nagoya Works	2,619		
Sakai Works	186		
Kimitsu Works	2,820		
Oita Works	1,449		
Tokyo Works	93		

Notes:

1. The number of employees does not include 44 employees who have been seconded from other companies (6 to the head office, 20 to Yawata Works, 3 to Hirohata Works, 11 to Nagoya Works and 4 to Engineering Divisions Group).
2. The number of employees does not include 6,311 employees who have been seconded to other companies.
3. The number of employees at the end of fiscal 2003 declined by 1,343 compared with the previous fiscal year-end total of 16,481 persons.

- Average age of employees 41.8 years old
- Average employment years 21.9 years

(8) Overview of Important Business Relations

• Important subsidiaries and affiliates

(Steelmaking and steel fabrication)

Company name	Paid-in capital (Millions of yen)	Voting right percentage (%)	Principal business
Nittetsu Steel Sheet Corporation	11,019	57.8	Manufacture and sale of galvanized sheets, pre-painted galvanized sheets, coated sheets and building materials
Hokkai Iron & Coke Co., Ltd.	9,255	80.0	Manufacture and sale of pig iron, blast-furnace slag, coke, etc.
Osaka Steel Co., Ltd.	8,769	* 61.7	Manufacture and sale of shapes, deformed bars, fabricated steel products and billets
Nippon Steel Metal Products Co., Ltd.	5,912	* 83.6	Manufacture and sale of structural materials for buildings and civil engineering, pre-painted galvanized sheets, steelmaking fluxes and CC powder
Nippon Steel & Sumikin Stainless Steel Corporation	5,000	80.0	Manufacture and sale of stainless steel
Nittetsu Steel Pipe Co., Ltd.	3,497	* 57.0	Manufacture, painting and sale of pipes and tubes
Nippon Steel Logistics Co., Ltd.	2,238	* 59.7	Ocean and land transportation, warehousing

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Nippon Steel Shipping Co., Ltd.	2,227	76.0	Ocean transportation
Nippon Steel Welding Products & Engineering Co., Ltd.	2,200	68.2	Manufacture and sale of welding materials and apparatus
Nippon Steel Drum Co., Ltd.	1,654	* 55.3	Manufacture and sale of drums
Nippon Steel Blast Furnace Slag Cement Co., Ltd.	1,500	100.0	Manufacture and sale of cement and slag products
Nittetsu Cement Co., Ltd.	1,500	85.0	Manufacture and sale of cement
Nittetsu Elex Co., Ltd.	1,032	90.3	Design, maintenance and construction related to electrical instrumentation apparatus
Nippon Steel Transportation Co., Ltd.	500	* 87.8	Harbor and land transportation, cargo handling
Nippon Steel U.S.A., Inc.	US\$ 22 million	100.0	Investment and financing in business entities and information gathering in the United States
Nippon Steel Australia Pty. Limited	AU\$21 million	100.0	Sydney Office (local firm), participation in mining business in Australia
Siam Nippon Steel Pipe Co., Ltd.	Thai Baht 779 million	60.8	Manufacture and sale of electrical-resistance welded pipe and tubes for machine structural applications
Nichia Steel Works Ltd.	8,604	24.5	Manufacture and sale of wire rods, bolts and pre-painted galvanized sheets
Japan Casting & Forging Corp.	6,000	42.0	Manufacture and sale of castings, forgings, ingots, billets, etc.
Krosaki Harima Corporation	5,537	45.6	Manufacture and sale of refractories and construction of furnaces
Taihei Kogyo Co., Ltd.	5,468	* 38.0	Execution of civil engineering and construction, manufacture and installation of machinery and equipment, ironmaking operations
Geostr Corporation	3,352	* 26.1	Manufacture and sale of concrete products for civil engineering and construction
Daiwa Can Company	2,400	33.4	Manufacture and sale of metallic, plastic and paper containers
Seitetsu Unyu Co., Ltd.	2,000	30.5	Harbor and land transportation, cargo handling
Sanko Metal Industrial Co., Ltd.	1,980	* 17.3	Manufacture, processing, construction and sale relating to metallic roofs, building materials, etc.
Suzuki Metal Industry Co., Ltd.	1,200	22.2	Manufacture and sale of wire rod fabricated products
Sanyu Co., Ltd.	1,028	* 17.4	Manufacture and sale of cold-finished bars and cold-heading wire
The Siam United Steel (1995) Company Limited	Thai Baht 9,000 million	36.3	Manufacture and sale of cold-rolled steel sheets
Guangzhou Pacific Tinplate Co., Ltd.	US\$36 million	27.3	Manufacture and sale of tinplate

(Engineering and construction)
No important subsidiaries and affiliates

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(Urban development)

Nippon Steel City Produce, Inc.	5,750	100.0	Sale, purchase and lease of real estates
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(Chemicals and nonferrous materials)

Nippon Steel Chemical Co., Ltd.	5,000	100.0	Manufacture and sale of coke and chemical products, and electronic components
Yutaka Electric Mfg. Co., Ltd.	1,250	100.0	Manufacture and sale of power supply equipment for electronic apparatuses

(System solutions)

NS Solutions Corporation	12,952	72.2	Engineering and consulting concerning computer systems
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(Services and others)

Nittetsu Finance Co., Ltd.	1,000	100.0	Financing, debt factoring
Sunvenus Takarazuka Co., Ltd.	775	* 100.0	Management of nursing homes for the elderly
Nittetsu Kagoshima Geothermal Co., Ltd.	700	70.0	Production and sale of geothermal steam for power generation
Nippon Steel International Finance PLC	US\$10 million	100.0	Capital procurement and investment in the Euro market
Nippon Steel Southeast Asia Pte. Ltd.	Singapore\$ 16 million	100.0	Investment in Asian business entities and information gathering
Nippon Steel Trading Co., Ltd.	8,750	* 39.1	Sale and purchase of steel and nonferrous materials, machinery, raw materials and fuels
Kyushu Oil Company, Limited	6,300	36.0	Petroleum refining and sale of petroleum products
Tetra Co., Ltd.	2,251	* 22.9	Execution of civil engineering, lease of block molds
Space World, Inc.	2,000	* 46.0	Management of space-oriented training facilities, exhibition and leisure facilities

Note: *Includes shares owned by subsidiaries

○ Progress of business integration

- On April 1, 2004, Nittetsu Steel Sheet Corporation, a consolidated subsidiary of Nippon Steel, merged with Daido Steel Sheet Corporation and Taiyo Steel Co., Ltd., each a wholly-owned subsidiary of Nittetsu Steel Sheet.
- On July 31, 2004, each of Nittetsu Steel Sheet Corporation, Nippon Steel Metal Products Co., Ltd. and Nittetsu Steel Pipe Co., Ltd., a consolidated subsidiary of Nippon Steel, is scheduled to become a wholly-owned subsidiary of Nippon Steel through share-for-share exchange with Nippon Steel.
- On October 1, 2003, Nippon Steel & Sumikin Stainless Steel Corporation was jointly established by Nippon Steel and Sumitomo Metal Industries, Ltd. by integrating both companies' stainless steel businesses by *Kyodo Shinsetsu Bunkatsu* (joint establishment of a new company by corporate split).
- Nippon Steel Development Canada Ltd., a consolidated subsidiary of Nippon Steel, was omitted from the list because Nippon Steel Development Canada is under liquidation.
- Nittetsu Mining Co., Ltd., listed in the previous term, was omitted because Nittetsu Mining is no longer an affiliate of Nippon Steel accounted for by the equity method due to a decrease in the voting rights percentage of Nippon Steel, caused by the sale of the shares of Nittetsu Mining in the current term.
- Takasago Tekko K.K., listed in the previous term, was omitted because the company is no longer an important affiliate of Nippon Steel accounted for by the equity method due to its becoming an affiliate of Nippon Steel & Sumikin Stainless Steel Corporation accounted for by the equity method following the

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establishment of Nippon Steel & Sumikin Stainless.

- On July 29, 2003, Nippon Steel Chemical Co., Ltd., a consolidated subsidiary of Nippon Steel, became a wholly-owned subsidiary of Nippon Steel. Nippon Steel Chemical subsequently increased its capital by ¥35 billion (wholly subscribed by Nippon Steel) and reduced its capital, and as a result the company's capital stock at the end of this term is ¥5 billion.
- Wacker NSCE Corporation, listed in the previous term, was omitted because the company is no longer an affiliate of Nippon Steel accounted for by the equity method due to the sale of all its shares held by Nippon Steel.

○ Results of business integrations

Consolidated subsidiaries totaled 259 (258 in the previous term) and affiliates accounted for by the equity method totaled 73 (86 in the previous term), including the important subsidiaries and affiliates listed above. Consolidated sales were ¥2,925.8 billion or a gain of ¥176.5 billion over the previous term, consolidated operating profit were ¥224.4 billion or a gain of ¥81.5 billion and consolidated ordinary profit were ¥172.8 billion or a gain of ¥103.9 billion. Consolidated net income was ¥41.5 billion or an increase of ¥93.2 billion over the net loss for the previous term.

3. Situation after the Settlement of Accounts

Nippon Steel resolved at its Board of Directors' meeting held on April 28, 2004 that Nippon Steel would make each of Nippon Steel Sheet Corporation, Nippon Steel Pipe Co., Ltd. and Nippon Steel Metal Products Co., Ltd. its wholly-owned subsidiary as of July 31, 2004 through share-for-share exchange under the Commercial Code of Japan. NSC and each of Nippon Steel Sheet, Nippon Steel Pipe and Nippon Steel Metal Products entered into a share-for-share exchange agreement respectively. 1.095 Nippon Steel shares will be allocated to 1 Nippon Steel Sheet share, 0.646 Nippon Steel share to 1 Nippon Steel Pipe share and 1.679 Nippon Steel shares to 1 Nippon Steel Metal Products share (62,979,951 Nippon Steel shares held as treasury stock will be allocated in total). The share-for-share exchanges will be implemented without obtaining the approval of the meeting of shareholders of Nippon Steel according to the provision of Clause 1, Article 358 of the Commercial Code of Japan.

Note:

Figures indicating monetary values in this 79th Term Business Report are stated by discarding fractional amounts less than the nearest whole number.

Notes to Non-Consolidated Balance Sheets and Statements of Income**I Notes to Accounting Standards**

1. Valuation basis and valuation method for securities: Securities of subsidiaries and affiliates are valued at cost as determined by the moving-average method; marketable securities are stated at fair value based on market price, etc. on the closing date (the difference in revaluation is included in shareholders' equity, and the cost of selling is calculated by the moving-average method), and non-marketable securities are valued at cost as determined by the moving-average method.
2. Valuation basis and valuation method for inventories: Finished products, semifinished products and raw materials are valued at cost determined by the periodic-average method, work in process at the lower of cost or market value with cost being determined by the specific-identification method, molds and rolls of supplies at the lower of cost or market value with cost being determined by the periodic-average method and other supplied at the lower of cost or market value with cost being determined by the first-in, first-out method.
3. The declining-balance method is adopted as the depreciation method for the tangible fixed assets. However, the depreciation method for buildings (excluding auxiliary facilities attached to buildings) that were acquired on and after April 1, 1998, are computed using the straight-line method.
4. The straight-line method is adopted as the depreciation method for the intangible fixed assets. For computer software purchased from third parties and software for which contracts have been concluded under which fees are payable by third parties, the straight-line method based on the software's internal estimated useful life (five years) is adopted.
5. Starting with the financial statements for the consolidated financial year ending March 31, 2004, it has become possible for Nippon Steel to adopt accounting standards for the impairment for fixed assets (Opinion Concerning the Establishment of Accounting Standards for the Impairment for Fixed Assets: Business Accounting Council, August 9, 2002) and Application Guidelines for Accounting Standards for the Impairment for Fixed Assets (Operating Guidelines for Business Accounting Standards, No. 6, October 31, 2003). In light of this, the company adopted the standards and guidelines in the current fiscal term. The effect of this adoption on the income before income taxes and minority interest was minus ¥34,283 million. The accumulated loss on the impairment for fixed assets was deducted directly from each asset value.
 To determine loss on the impairment for fixed assets, the individual business operations, as a rule, were divided into groups by business sector. For the valuation of accounts recoverable, fair sales value was compared with value in use. While fair sales value was primarily applied for idle real estates, value in use was mainly for the rest. For the assessment of fair sales value, the prevailing market price based on the publicly announced price was applied. For the discount rate in the calculation of value in use, the company's capital cost (7%) before income taxes was applied.
 As a result, loss on the impairment for fixed assets amounting to ¥34,283 million (¥3,451 million for buildings, ¥1,552 million for structures, ¥29,153 million for land, etc.) was posted as a special loss. Primary factors contributing to this loss were company-owned idle real estates in each business operation, which, amid the recent plunge in land prices, have suffered a widening gap between the carrying amount and the market value.
6. To provide for the future payment of retirement benefits to employees, the accrued pension and severance costs are provided for, based on the estimated payments as of the end of this non-consolidated term. The past service costs are amortized by the straight-line method for a certain number of years equal to or less than the average period of service left at the time of accrual (14 years). The actuarially computed difference is amortized by the straight-line method for a certain number of years equal to or less than the average period of service left at the time of accrual (14 years), starting with the following term of accrual.
7. The reserve for special repairs is calculated based on the past repairing experiences for large-scale repair of blast furnaces and hot blast stoves.
8. To provide for the loss involved in the guarantee of loans and others, the allowance for the loss for guarantee of loans is provided for, taking into account the financial conditions of the borrowers.
9. Nippon Steel applies the percentage-of-completion method in accounting for revenue relating to large-scale (contract amount of ¥3 billion or more) and long-term (construction period more than 12 months) construction contracts, and applies the completion-of-contract method for all other contracts. Revenues from construction contracts accounted for by the percentage-of-completion method are ¥39,733 million.

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- 10 The tax effect accounting is applied with the aim of rationally making periodical collations of the amounts between the net income before income taxes and minority interests in the term and the income tax and thus posting more appropriate net income in the term.
- 11 The consumption tax and the local consumption tax are generally not included in revenues and expenses.

II Notes to Balance Sheets and Statements of Income

1. Unrealized gains on available-for-sale securities appropriated in the shareholders' equity is ¥116,644 million (net assets in the Enforcement Order of the Commercial Code of Japan, Article 124, No. 3).
2. Short-term loans for subsidiaries and affiliates are ¥95,481 million and long-term loans ¥5,572 million; short-term debts for subsidiaries and affiliates is ¥88,907 million and long-term debts ¥471 million. In the business transactions with subsidiaries and affiliates, sales to subsidiaries and affiliates is ¥401,641 million, and purchases from subsidiaries and affiliates ¥524,184 million. In the transactions with subsidiaries and affiliates other than business transactions, total income from transfer of assets to subsidiaries and affiliates is ¥82,676 million and total expenditures on transfer of assets from subsidiaries and affiliates ¥30,162 million.
3. Accumulated depreciation amounts deducted from tangible fixed assets are ¥3,926,412 million.
4. The assets pledged as collateral is ¥845 million.
5. The ending balance of guarantee of loans is ¥36,210 million, of which the substantial amount taking into account guarantee of loans undertaken by others is ¥31,920 million. The ending balance of the committed guarantee of loans is ¥47,313 million, of which the substantial amount taking into account the committed guarantee of loans undertaken by others is ¥43,887 million.
6. Prepaid pension costs are ¥76,861 million and accrued pension and severance costs ¥60,806 million (lump-sum retirement payment system; balance before deduction of employee retirement benefit trust involved in the system is ¥96,429 million). Balance of projected benefit obligations is ¥513,388 million, balance of plan assets ¥323,491 million, balance of employee retirement benefit trust ¥88,753 million (¥35,622 million for lump-sum retirement payment system and ¥53,130 million for the tax-qualified pension scheme), balance of unrealized prior service costs (minus) ¥12,030 million and balance of unrealized actuarial differences ¥129,229 million.
6. Reserve for special repairs and allowances for the loss on guarantees conform to those prescribed in Enforcement Order of the Commercial Code of Japan.
7. The net income per share in the term is ¥4.62.

Financial Results**Consolidated financial statements :**

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CONSOLIDATED BALANCE SHEETS

NIPPON STEEL

As of March 31, 2004 and 2003

ASSETS	2004	Millions of yen 2003
Current assets :		
Cash and bank deposits	81,219	78,132
Notes and accounts receivable-trade	411,571	367,032
Marketable securities	1,019	996
Inventories	540,562	558,626
Deferred tax assets	40,322	21,143
Other	172,725	219,285
Less: Allowance for doubtful accounts	(2,920)	(624)
Total current assets	1,244,500	1,244,592
Fixed assets :		
Tangible fixed assets :		
Buildings and structures	460,197	499,710
Machinery and equipment	805,962	845,823
Land	327,557	357,885
Construction in progress	71,981	54,600
	1,665,698	1,758,019
Intangible fixed assets :		
Patents and utility rights	5,574	5,264
Software	3,522	5,200
Excess of cost over the underlying net equity of investments in subsidiaries and affiliates	8,740	-
	17,837	10,464
Investments and others :		
Investments in securities, unconsolidated subsidiaries and affiliates	660,872	533,405
Deferred tax assets	68,992	76,225
Other	62,672	184,764
Less: Allowance for doubtful accounts	(14,656)	(50,296)
	777,880	744,098
Total fixed assets	2,461,416	2,512,583
Total assets	3,705,917	3,757,175

LIABILITIES	Millions of yen	
	2004	2003
Current liabilities :		
Notes and accounts payable - trade	337,243	326,715
Short-term loans and long-term loans due within one year	396,094	701,210
Commercial paper	31,000	20,000
Bonds due within one year	50,000	40,112
Convertible bonds due within one year	98,729	-
Accrued expenses	239,068	254,463
Other	239,800	195,291
Total current liabilities	1,391,935	1,537,793
Long-term liabilities :		
Bonds and notes	346,450	340,000
Convertible bonds	-	98,729
Long-term loans	637,882	667,942
Deferred tax liabilities	92,927	35,287
Accrued pension and severance costs	112,797	110,109
Reserve for repairs to blast furnaces	50,188	50,274
Excess of the underlying net equity over cost of investments in subsidiaries and affiliates	-	2,940
Other	38,005	40,110
Total long-term liabilities	1,278,252	1,345,393
Total liabilities	2,670,187	2,883,187
Minority interest in consolidated subsidiaries	97,148	84,545
SHAREHOLDERS' EQUITY		
Common stock	419,524	419,524
Additional paid-in capital	105,850	105,518
Retained earnings	298,734	278,315
Unrealized gains on revaluation of land	12,191	6,621
Unrealized gains on available-for-sale securities	129,833	21,243
Foreign currency translation adjustments	(20,500)	(20,958)
Less: Treasury stock, at cost	(7,051)	(20,822)
Total shareholders' equity	938,581	789,443
Total liabilities and shareholders' equity	3,705,917	3,757,175

CONSOLIDATED STATEMENTS OF INCOME

NIPPON STEEL

Years ended March 31, 2004 and 2003

	2004	2003
Millions of yen		
Operating revenues :		
Net sales	2,925,878	2,749,306
Operating costs and expenses :		
Cost of sales	2,443,188	2,351,028
Selling, general and administrative expenses	258,215	255,316
	2,701,403	2,606,344
Operating profit	224,475	142,961
Non-operating profit and loss :		
Non-operating profit :		
Interest and dividend income	6,099	5,526
Equity in net income of unconsolidated subsidiaries and affiliates	11,854	-
Miscellaneous	8,605	12,437
	26,559	17,963
Non-operating loss :		
Interest expenses	23,798	29,186
Equity in net loss of unconsolidated subsidiaries and affiliates	-	20,418
Miscellaneous	54,385	42,439
	78,183	92,045
Ordinary profit	172,851	68,879
Special profit and loss :		
Special profit :		
Gain on sales of tangible fixed assets	514	7,666
Gain on sales of investments in securities and investments in subsidiaries and affiliates	-	26,381
	514	34,047
Special loss :		
Loss on disposal of tangible fixed assets and other assets	2,869	12,389
Loss on impairment for fixed assets	60,055	-
Loss on sales of investments in subsidiaries and affiliates	3,698	-
Loss on valuation of investments in securities	2,823	45,433
Special retirement allowances for voluntary retirement	10,777	9,922
Amortization of transition obligation in respect of the new accounting standard for retirement benefits	4,384	4,669
Industrial water obligation fee	3,649	-
Allowance for doubtful accounts	-	40,061
Loss on accidents at works	4,377	-
Loss on the integration of stainless-steel business	6,492	-
Loss on relinquishment of entrusted portion of the pension fund	595	302
Loss on business restructuring	-	19,185
Loss on valuation of real estate for sale	-	8,349
	99,723	140,313
Income(loss) before income taxes and minority interest	73,642	(37,386)
Income taxes - current	56,096	17,968
Income taxes - deferred	(29,500)	(8,712)
Minority interest in net income (loss) of consolidated subsidiaries	5,531	5,044
Net income (loss)	41,515	(51,686)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NIPPON STEEL

Years ended March 31, 2004 and 2003

	Millions of yen		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2002	419,524	105,518	338,565
Net loss for the year ended March 31, 2003	-	-	(51,686)
Increase due to the change in the number of consolidated companies	-	-	658
Cash dividends	-	-	(10,210)
Directors' and corporate auditors' bonuses	-	-	(97)
Other	-	-	1,086
Balance at March 31, 2003	419,524	105,518	278,315
Net income for the year ended March 31, 2004	-	-	41,515
Increase due to the change in the number of consolidated companies	-	-	(5,442)
Cash dividends	-	-	(9,991)
Directors' and corporate auditors' bonuses	-	-	(92)
Other	-	331	(5,569)
Balance at March 31, 2004	419,524	105,850	298,734

CONSOLIDATED STATEMENTS OF CASH FLOWS

NIPPON STEEL

Years ended March 31, 2004 and 2003

	2004	2003
Millions of yen		
Cash flows from operating activities :		
Income(loss) before income taxes and minority interest	73,642	(37,386)
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	183,510	196,653
Interest and dividend income (accrual basis)	(6,099)	(5,526)
Interest expenses (accrual basis)	23,798	29,186
Exchange losses(gains) on foreign currency transactions	3,166	7,262
Amortization of excess of the cost over underlying net equity of investments in subsidiaries and affiliates	1,744	(1,423)
Equity in net loss(income) of unconsolidated subsidiaries and affiliates	(11,854)	20,418
Gain on sales of investments in securities	5,828	(27,466)
Loss on valuation of investments in securities	2,526	44,460
Amortization of transition obligation in respect of new accounting standard for retirement benefits	4,384	4,669
Loss on impairment for fixed assets	60,055	-
Loss on the integration of stainless-steel business	6,492	-
Loss on restructuring of subsidiary's business structures	-	19,185
Loss on valuation of real estate for sale	-	8,349
Loss on disposal of tangible and intangible fixed assets	10,713	24,216
Gain on sales of tangible and intangible fixed assets	-	(7,487)
Changes in allowance for doubtful accounts	4,237	38,843
Changes in notes and accounts receivable-trade	(40,095)	39,734
Changes in inventories	26,740	24,274
Changes in notes and accounts payable-trade	7,661	6,262
Other	(35,191)	(7,532)
Interest and dividend income (cash basis)	7,699	6,828
Interest expenses (cash basis)	(23,928)	(29,038)
Income taxes (cash basis)	(17,010)	(19,980)
Net cash provided by operating activities	288,021	334,502
Cash flows from investing activities :		
Acquisition of investments in securities	(3,655)	(42,187)
Proceeds from sales of investments in securities	51,905	63,458
Acquisition of tangible and intangible fixed assets	(155,729)	(206,671)
Proceeds from sales of tangible and intangible fixed assets	24,545	23,261
Other	134,830	15,050
Net cash used in investing activities	51,897	(147,088)
Cash flows from financing activities :		
Payments for purchase of treasury stock	-	(19,374)
Net decrease(increase) in short-term loans	(253,846)	(81,844)
Net increase(decrease) in commercial paper	11,000	(96,000)
Proceeds from long-term loans	88,730	138,557
Payments of long-term loans	(189,834)	(86,183)
Proceeds from issuance of bonds and notes	56,246	94,568
Redemption of bonds and notes	(40,112)	(113,100)
Cash dividends	(9,991)	(10,210)
Proceeds from issuance of common stock to minority shareholders	-	12,276
Other	5,455	(15,693)
Net cash used in financing activities	(332,353)	(177,003)
Effect of exchange rate changes on cash and cash equivalents	(1,949)	(7,540)
Net increase(decrease) in cash and cash equivalents	5,615	2,869
Cash and cash equivalents at the beginning of the year	76,603	74,194
Increase(decrease) from the change in companies consolidated	(1,825)	(460)
Cash and cash equivalents at the end of the year	80,393	76,603

CONSOLIDATED SEGMENT INFORMATION

NIPPON STEEL

Years ended March 31, 2004 and 2003

	2004	2003
Millions of yen		
Sales		
Steelmaking and steel fabrication		
Customers	2,127,949	1,941,907
Intersegment	28,997	38,902
Total Sales	2,156,946	1,980,809
Engineering and construction		
Customers	246,440	247,456
Intersegment	46,697	27,447
Total Sales	293,137	274,903
Urban development		
Customers	114,241	97,119
Intersegment	6,570	8,069
Total Sales	120,811	105,188
Chemicals and nonferrous materials		
Customers	244,579	265,266
Intersegment	31,217	80,966
Total Sales	275,797	346,232
System solutions		
Customers	124,998	125,526
Intersegment	25,851	27,616
Total Sales	150,850	153,143
Other businesses		
Customers	67,669	72,029
Intersegment	5,945	7,029
Total Sales	73,615	79,059
Elimination of intersegment transactions	(145,280)	(190,031)
Consolidated total	2,925,878	2,749,306
Operating profit (loss)		
Steelmaking and steel fabrication	189,717	112,816
Engineering and construction	4,359	2,460
Urban development	13,526	4,469
Chemicals and nonferrous materials	12,667	13,458
System solutions	9,182	9,776
Other businesses	(4,310)	(2,115)
Elimination of intersegment transactions	(668)	2,135
Consolidated total	224,475	142,961

	2004	2003
Millions of yen		
Identifiable assets		
Steelmaking and steel fabrication	2,931,098	2,813,843
Engineering and construction	206,113	216,367
Urban development	160,394	186,962
Chemicals and nonferrous materials	281,847	292,937
System solutions	93,213	97,482
Other businesses	205,796	353,667
Elimination of intersegment transactions	(172,544)	(204,086)
Consolidated total	3,705,917	3,757,175
Depreciation of identifiable assets		
Steelmaking and steel fabrication	153,923	163,644
Engineering and construction	2,472	1,914
Urban development	2,409	2,509
Chemicals and nonferrous materials	11,853	13,416
System solutions	1,240	1,282
Other businesses	12,051	14,255
Elimination of intersegment transactions	(440)	(369)
Consolidated total	183,510	196,653
Loss on impairment for identifiable assets		
Steelmaking and steel fabrication	30,977	-
Engineering and construction	-	-
Urban development	14,788	-
Chemicals and nonferrous materials	1,455	-
System solutions	-	-
Other businesses	12,833	-
Elimination of intersegment transactions	-	-
Consolidated total	60,055	-
Capital expenditure for identifiable assets		
Steelmaking and steel fabrication	141,477	125,765
Engineering and construction	1,851	2,180
Urban development	1,320	2,533
Chemicals and nonferrous materials	9,219	12,066
System solutions	1,437	1,097
Other businesses	1,805	22,804
Elimination of intersegment transactions	(7,519)	(3,131)
Consolidated total	149,593	163,318

NON-CONSOLIDATED BALANCE SHEETS

NIPPON STEEL Corporation

As of March 31, 2004 and 2003

ASSETS	2004	Millions of yen 2003
Current assets :		
Cash and bank deposits	17,188	7,278
Notes and accounts receivable-trade	201,386	168,917
Inventories	338,101	376,752
Deferred tax assets	19,600	2,400
Other	170,673	186,086
Less: Allowance for doubtful accounts	(2,682)	(1,248)
Total current assets	744,269	740,187
Fixed assets :		
Tangible fixed assets :		
Buildings and structures	278,700	305,278
Machinery and equipment	589,662	643,902
Land	201,257	231,316
Construction in progress	61,595	47,956
	1,131,215	1,228,455
Intangible fixed assets :		
Patents and utility rights	1,457	1,274
Software	429	2,233
	1,887	3,507
Investments and others :		
Investments in securities, unconsolidated subsidiaries and affiliates	748,075	558,943
Deferred tax assets	-	9,500
Other	31,034	56,342
Less: Allowance for doubtful accounts	(4,127)	(8,238)
	774,982	616,547
Total fixed assets	1,908,084	1,848,510
Total assets	2,652,353	2,588,698

LIABILITIES	Millions of yen	
	2004	2003
Current liabilities :		
Notes and accounts payable - trade	164,697	161,459
Short-term loans and long-term loans due within one year	106,776	225,646
Commercial paper	31,000	20,000
Bonds due within one year	50,000	30,000
Convertible bonds due within one year	98,729	-
Accrued expenses	230,106	253,141
Other	128,776	91,219
Total current liabilities	810,085	781,466
Long-term liabilities :		
Bonds and notes	330,000	340,000
Convertible bonds	-	98,729
Long-term loans	459,367	473,834
Deferred tax liabilities	57,300	-
Accrued pension and severance costs	60,806	67,952
Reserve for repairs to blast furnaces	48,147	48,385
Other	41,546	64,558
Total long-term liabilities	997,168	1,093,459
Total liabilities	1,807,254	1,874,926
SHAREHOLDERS' EQUITY		
Common stock	419,524	419,524
Capital surplus	105,820	105,518
Retained earnings :		
Special tax-purpose reserve	98,321	101,432
Unappropriated retained earnings	110,955	86,652
	209,277	188,085
Unrealized gains on available-for-sale securities	116,644	20,039
Less: Treasury stock, at cost	(6,167)	(19,395)
Total shareholders' equity	845,099	713,772
Total liabilities and shareholders' equity	2,652,353	2,588,698

NON-CONSOLIDATED STATEMENTS OF INCOME

NIPPON STEEL Corporation

Years ended March 31, 2004 and 2003

	2004	Millions of yen 2003
Operating revenues :		
Net sales	1,861,829	1,789,706
Operating costs and expenses :		
Cost of sales	1,535,676	1,537,331
Selling, general and administrative expenses	163,185	160,095
	1,698,862	1,697,426
Operating profit	162,966	92,279
Non-operating profit and loss :		
Non-operating profit :		
Interest and dividend income	8,541	10,085
Miscellaneous	6,675	6,608
	15,216	16,694
Non-operating loss :		
Interest expenses	17,776	21,996
Miscellaneous	42,728	38,618
	60,504	60,614
Ordinary profit	117,678	48,359
Special profit and loss :		
Special profit :		
Gain on sales of tangible fixed assets	-	6,588
Gain on sales of investments in securities and investments in subsidiaries and affiliates	5,714	24,357
	5,714	30,946
Special loss :		
Loss on disposal of tangible fixed assets and other assets	820	-
Loss on impairment for fixed assets	34,283	-
Loss on valuation of investments in securities	2,204	41,295
Special retirement allowances for voluntary retirement	7,933	7,957
Industrial water obligation fee	3,649	-
Loss on accidents at works	4,377	-
Loss on the integration of stainless-steel business	6,492	-
Provision for allowance for loss on guarantees	12,346	61,300
	72,109	110,553
Income(loss) before income taxes	51,284	(31,247)
Income taxes - current	37,500	900
Income taxes - deferred	(17,400)	(11,700)
Net income (loss)	31,184	(20,447)