

NKK CORPORATION AND CONSOLIDATED SUBSIDIARIES  
**CONSOLIDATED FIVE-YEAR SUMMARY**

Years ended March 31	Millions of yen					Thousands of U.S. dollars (Note 4)
	2000	1999	1998	1997	1996	2000
<b>FINANCIAL DATA</b>						
<b>For the Year:</b>						
Net sales . . . . .	<b>¥1,685,391</b>	¥1,808,767	¥1,934,367	¥1,877,655	¥1,805,994	<b>\$15,877,447</b>
Gross profit . . . . .	<b>276,924</b>	234,407	317,550	310,374	314,575	<b>2,608,799</b>
Operating income (loss) . . . . .	<b>61,922</b>	(4,160)	76,503	94,419	93,878	<b>583,344</b>
(Loss) income before income taxes and minority interests . . . . .	<b>(43,390)</b>	(155,884)	29,123	56,540	71,994	<b>(408,761)</b>
Net (loss) income . . . . .	<b>(45,928)</b>	(108,557)	14,278	16,692	52,411	<b>(432,671)</b>
Capital expenditures . . . . .	<b>91,973</b>	94,794	123,438	133,203	85,193	<b>866,444</b>
Depreciation . . . . .	<b>118,384</b>	130,361	135,910	106,964	139,758	<b>1,115,252</b>
<b>At Year-End:</b>						
Total current assets . . . . .	<b>1,029,614</b>	1,143,841	1,168,532	996,713	1,008,411	<b>9,699,614</b>
Property, plant and equipment . . . . .	<b>1,447,104</b>	1,314,977	1,594,365	1,397,727	1,433,708	<b>13,632,633</b>
Total investments and other assets . . . . .	<b>181,491</b>	207,491	183,782	211,236	221,020	<b>1,709,760</b>
Total assets . . . . .	<b>2,688,702</b>	2,691,396	2,963,892	2,635,324	2,692,785	<b>25,329,270</b>
Total current liabilities . . . . .	<b>1,147,601</b>	1,201,494	1,302,402	1,139,413	1,210,406	<b>10,811,126</b>
Total long-term liabilities and reserves . . . . .	<b>1,173,238</b>	1,076,602	1,100,351	959,455	972,044	<b>11,052,642</b>
Total shareholders' equity . . . . .	<b>285,402</b>	327,957	465,064	463,738	446,224	<b>2,688,667</b>
			Yen			U.S. dollars (Note 4)
<b>PER SHARE DATA</b>						
Net (loss) income . . . . .	<b>¥ (13.48)</b>	¥ (31.59)	¥ 4.05	¥ 4.74	¥ 14.87	<b>\$ (0.13)</b>
Shareholders' equity . . . . .	<b>83.77</b>	96.26	131.99	131.61	126.64	<b>0.79</b>
<b>OPERATING DATA</b>						
Number of employees . . . . .	<b>39,603</b>	—	—	—	—	
Number of shareholders . . . . .	<b>266,800</b>	256,198	245,073	235,683	245,986	
Production of raw steel (Millions of tons) . . . . .	<b>19.29</b>	—	—	—	—	

Notes: 1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥106.15=US\$1.00  
2. Consolidated number of employees and production of raw steel were not prepared prior to fiscal 2000.

**Overview**

In fiscal 2000, Japan's economy remained in a dire state. Despite signs of recovery in private-sector capital investment for information technologies and other industries, personal consumption continued to be stagnant. In contrast, the economies in Asia rebounded and the U.S. economy posted favorable growth.

It was in this severe environment that the NKK Group implemented various measures to achieve a quick recovery in earnings and create an earnings structure that allows the Group to secure profit even under the harshest economic conditions. Specific measures included the spin off of the Group's bars and shapes operations and withdrawal from unprofitable businesses. As a profit-improving measure, Group companies were reorganized so that each company focused on a specific aspect of NKK's operations and full-fledged cost reductions were applied throughout the Group.

Reflecting the stringent market conditions, NKK Group recorded consolidated net sales of ¥1,685.4 billion for the year ended March 31, 2000, a 6.8% slip from a year earlier. Cost of sales dipped 10.5%, to ¥1,408.5 billion, and represented 83.6% of net sales, versus 87.0% in fiscal 1999 and 83.6% in fiscal 1998. Gross profit advanced 18.1%, to ¥276.9 billion, with the gross profit margin at 16.4%, compared with 13.0% and 16.4% in the two previous years.

Selling, general and administrative (SG&A) expenses decreased 9.9%, to ¥215.0 billion, and amounted to 12.7% of net sales, compared with 13.2% in fiscal 1999 and 12.6% in fiscal 1998. Operating income rose to ¥61.9 billion for the period.

Net loss stood at ¥45.9 billion owing to the posting of special charges for structural changes, including retirement and severance expense, and the reorganization of

our electrical device operations. Nonetheless, this was still an improvement in net loss of more than ¥60 billion over fiscal 1999.

**Summary of Division Performance**

*Steel Division*

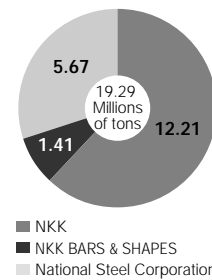
Domestic demand in fiscal 2000 sank below that of the previous year, owing to decreases in private-sector capital spending, and lower production in the automotive, industrial machinery and shipbuilding industries.

Exports grew overall reflecting increased shipments to Asia, mainly the Republic of Korea. However, anti-dumping actions taken against Japan resulted in a continued decline in exports to the United States.

Steel deliveries at the Company's U.S. operations rose but selling prices were down reflecting intense competition.

As a consequence, steel volume rose but sales dropped 7.8%, to ¥1,235.9 billion, held down by flagging steel prices and the yen's appreciation against the dollar. Operating income for the Steel Division shot up ¥47.6 billion, to ¥56.7 billion, owing to Group reduction of labor costs and other fixed costs, as well as outsourcing expenses.

**Production of Raw Steel by Company**



*Engineering Division*

During the period under review, market conditions remained severe for the Engineering Division, as competition intensified owing to a slump in private demand. NKK endeavored to boost sales activities, closing contracts for pipelines, city waste incinerators, various

types of beams for bridges, bulk carrier ships and civil engineering works.

Engineering Division sales were ¥435.7 billion, nearly in line with fiscal 1999, as an increase in new shipbuilding orders compensated for the drop-off in large-scale orders in Energy and Environmental Industries Engineering. Moreover, successful groupwide cost reductions aided in securing profit. Operating income for the Engineering Division in fiscal 2000 was ¥11.2 billion, a major increase over the preceding term.

#### *Other Fields*

Operating income from urban development and LSIs made significant gains compared with a year earlier, owing to increased sales of condominiums and a shift to the fabless semiconductor production model. In addition, business system solutions, mainly for the finance industry, turned out to be a major earnings contributor to the IT category. However, the dissolution of KOKAN CONSTRUCTION CORP. dragged down sales. As a consequence, Other Fields recorded an operating loss of ¥1.9 billion, an improvement over the previous term's loss of ¥13.1 billion.

#### *Financial Position*

At fiscal year-end, total assets inched down 0.1%, to ¥2,688.7 billion, primarily because of a large drop in cash, and decreases in inventories. However, the actual decline in total assets is not clearly reflected owing to the addition of NKK BARS & SHAPES to the Company's consolidated accounts. Total current assets slipped 10.0%, to ¥1,029.6 billion, and comprised 38.3% of total assets, down from 42.5% in fiscal 1999. Property, plant and equipment, net, grew 10.0%, to ¥1,447.1 billion, and there was a 2.8% fall in accumulated depreciation,

to ¥2,716.3 billion. Total investments and long-term receivables declined 5.6%, to ¥28.2 billion.

Total long-term liabilities and reserves rose 9.0%, to ¥1,173.2 billion. However, this rise does not take into account the removal of TOA STEEL CO., LTD., from the Company's consolidated balance sheets from fiscal 1999 (see Note 2). Total current liabilities declined 4.5%, to ¥1,147.6 billion, and represented 42.7% of total liabilities and shareholders' equity, compared with 44.6% in fiscal 1999. Reflecting the increase in the Company's indebtedness, total long-term liabilities and reserves climbed 9.0%, to ¥1,173.2 billion. The current ratio was 0.90, down from 0.95 in fiscal 1999.

Total shareholders' equity slid 13.0%, to ¥285.4 billion. The equity ratio decreased to 10.6%, from 12.2% in fiscal 1999. The debt-to-equity ratio was 5.4:1, as against 4.5:1 in fiscal 1999.

---

### **State of Readiness Regarding the Year 2000 Issue**

NKK recognized the Year 2000 (Y2K) Issue as a key management concern and took decisive steps to ensure any problems could be managed throughout the Group. Owing to our attentiveness, we did not experience any system, facility or equipment malfunctions related to Y2K between the end of 1999 and the early part of 2000, the period in which problems were most likely to arise. We continue to remain fully alert and ready to handle any such problems should they arise.

**ASSETS**

March 31	Millions of yen		Thousands of U.S. dollars (Note 4)
	2000	1999	2000
<b>CURRENT ASSETS:</b>			
Cash . . . . .	¥ 59,756	¥ 150,842	\$ 562,939
Marketable securities (Note 5) . . . . .	115,368	128,664	1,086,839
Accounts receivables . . . . .	435,452	429,162	4,102,233
Allowance for doubtful receivables . . . . .	(4,072)	(5,106)	(38,361)
Inventories:			
Finished goods . . . . .	73,301	81,221	690,542
Work in process . . . . .	159,874	159,176	1,506,114
Raw materials and supplies . . . . .	139,136	149,449	1,310,749
Other current assets . . . . .	50,799	50,433	478,559
<b>TOTAL CURRENT ASSETS . . . . .</b>	<b>1,029,614</b>	<b>1,143,841</b>	<b>9,699,614</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 3):</b>			
Land . . . . .	341,885	275,715	3,220,772
Buildings . . . . .	977,976	921,592	9,213,151
Machinery and equipment . . . . .	2,829,795	2,871,027	26,658,455
Construction in progress . . . . .	13,783	42,566	129,845
Accumulated depreciation . . . . .	(2,716,335)	(2,795,923)	(25,589,590)
<b>PROPERTY, PLANT AND EQUIPMENT, NET . . . . .</b>	<b>1,447,104</b>	<b>1,314,977</b>	<b>13,632,633</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investments in unconsolidated subsidiaries and affiliates (Note 7) . . . . .	40,244	32,107	379,124
Investments in other securities . . . . .	22,976	20,761	216,448
Other assets (Note 8) . . . . .	118,271	154,623	1,114,188
<b>TOTAL INVESTMENTS AND OTHER ASSETS . . . . .</b>	<b>181,491</b>	<b>207,491</b>	<b>1,709,760</b>
<b>TRANSLATION ADJUSTMENTS . . . . .</b>	<b>30,493</b>	<b>25,087</b>	<b>287,263</b>
<b>TOTAL ASSETS . . . . .</b>	<b>¥2,688,702</b>	<b>¥2,691,396</b>	<b>\$25,329,270</b>

The accompanying notes are an integral part of these statements.

## LIABILITIES AND SHAREHOLDERS' EQUITY

March 31	Millions of yen		Thousands of U.S. dollars (Note 4)
	2000	1999	2000
<b>CURRENT LIABILITIES:</b>			
Short-term bank borrowings and commercial paper . . . . .	¥ 452,442	¥ 515,161	\$ 4,262,289
Current portion of long-term indebtedness (Note 9) . . . . .	155,921	147,195	1,468,874
Advances from customers on contracts . . . . .	57,358	68,943	540,349
Accounts payable . . . . .	301,076	292,354	2,836,326
Accrued expenses . . . . .	160,200	148,228	1,509,185
Accrued income taxes . . . . .	6,945	8,218	65,426
Other current liabilities . . . . .	13,659	21,395	128,677
<b>TOTAL CURRENT LIABILITIES . . . . .</b>	<b>1,147,601</b>	<b>1,201,494</b>	<b>10,811,126</b>
<b>LONG-TERM LIABILITIES AND RESERVES:</b>			
Indebtedness (Note 9) . . . . .	926,542	813,053	8,728,610
Employees' termination allowances . . . . .	76,062	86,781	716,552
Reserve for rebuilding furnaces . . . . .	38,132	37,004	359,228
Other long-term liabilities (Note 10) . . . . .	132,502	139,764	1,248,252
<b>TOTAL LONG-TERM LIABILITIES AND RESERVES . . . . .</b>	<b>1,173,238</b>	<b>1,076,602</b>	<b>11,052,642</b>
<b>CONTINGENT LIABILITIES (Note 15)</b>			
<b>MINORITY INTERESTS . . . . .</b>	<b>82,461</b>	<b>85,343</b>	<b>776,835</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock, ¥50 par value:			
Authorized			
5,883,584,000 shares as of March 31, 2000			
5,883,584,000 shares as of March 31, 1999			
Issued and outstanding			
3,407,165,634 shares as of March 31, 2000 . . . . .	233,731	—	2,201,894
3,407,165,634 shares as of March 31, 1999 . . . . .	—	233,731	—
Additional paid-in capital . . . . .	95,509	95,509	899,755
Retained earnings (deficit) . . . . .	(43,838)	(1,283)	(412,982)
Less treasury common stock, at cost			
9,012 shares at March 31, 2000 and			
7,524 shares at March 31, 1999 . . . . .	(0)	(0)	(0)
<b>TOTAL SHAREHOLDERS' EQUITY . . . . .</b>	<b>285,402</b>	<b>327,957</b>	<b>2,688,667</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY . . . . .</b>	<b>¥2,688,702</b>	<b>¥2,691,396</b>	<b>\$25,329,270</b>

NKK CORPORATION AND CONSOLIDATED SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 4)
	2000	1999	1998	2000
<b>NET SALES</b> .....	<b>¥1,685,391</b>	¥1,808,767	¥1,934,367	<b>\$15,877,447</b>
<b>COST OF SALES</b> .....	<b>1,408,467</b>	1,574,360	1,616,817	<b>13,268,648</b>
Gross profit .....	<b>276,924</b>	234,407	317,550	<b>2,608,799</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> .....	<b>215,002</b>	238,567	241,047	<b>2,025,455</b>
Operating (loss) income .....	<b>61,922</b>	(4,160)	76,503	<b>583,344</b>
<b>OTHER (INCOME) EXPENSES:</b>				
Interest income .....	<b>(3,434)</b>	(4,946)	(7,078)	<b>(32,350)</b>
Interest expenses .....	<b>40,216</b>	43,489	44,784	<b>378,860</b>
Dividends received .....	<b>(2,092)</b>	(2,496)	(2,893)	<b>(19,708)</b>
Equity in earnings of affiliates .....	<b>(739)</b>	(3,182)	3,555	<b>(6,962)</b>
Other, net (Note 11) .....	<b>71,361</b>	118,859	9,012	<b>672,265</b>
	<b>105,312</b>	151,724	47,380	<b>992,105</b>
<b>(LOSS) INCOME BEFORE INCOME TAXES, AND MINORITY INTERESTS</b> .....	<b>(43,390)</b>	(155,884)	29,123	<b>(408,761)</b>
<b>INCOME TAXES (CREDIT):</b>				
Current .....	<b>7,434</b>	9,801	18,444	<b>70,033</b>
Deferred .....	<b>(1,410)</b>	(41,284)	(2,540)	<b>(13,283)</b>
	<b>6,024</b>	(31,483)	15,904	<b>56,750</b>
<b>(LOSS) INCOME BEFORE MINORITY INTERESTS</b> .....	<b>(49,414)</b>	(124,401)	13,219	<b>(465,511)</b>
<b>MINORITY INTERESTS</b> .....	<b>3,486</b>	15,844	1,059	<b>32,840</b>
<b>NET (LOSS) INCOME</b> .....	<b>¥ (45,928)</b>	¥ (108,557)	¥ 14,278	<b>\$ (432,671)</b>

	Yen			U.S. dollars (Note 4)
<b>AMOUNTS PER SHARE OF COMMON STOCK:</b>				
Net (loss) income .....	<b>¥ (13.48)</b>	¥ (31.59)	¥ 4.05	<b>\$ (0.13)</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 4)
	2000	1999	1998	2000
<b>COMMON STOCK:</b>				
Beginning balance . . . . .	¥233,731	¥233,731	¥233,731	\$2,201,894
Ending balance . . . . .	¥233,731	¥233,731	¥233,731	\$2,201,894
<b>ADDITIONAL PAID IN CAPITAL:</b>				
Beginning balance . . . . .	¥ 95,509	¥109,130	¥109,130	\$ 899,755
Deduct:				
Retirement of treasury stock from additional paid-in capital . . . . .	—	(13,621)	—	—
Ending balance . . . . .	¥ 95,509	¥ 95,509	¥109,130	\$ 899,755
<b>RETAINED EARNINGS (DEFICIT):</b>				
Beginning balance . . . . .	¥ (1,283)	¥122,203	¥120,878	\$ (12,087)
Adjustment to retained earnings for initial application of tax effect accounting . . . . .	—	(9,164)	—	—
Adjustment to reflect NSC's restatement (Note 12) . . . . .	—	—	2,678	—
Add:				
Net income . . . . .	—	—	14,278	—
Application of the equity method for certain affiliates and initial consolidation of previously unconsolidated subsidiaries . . . . .	490	458	—	4,616
Exclusion from consolidation . . . . .	165	996	—	1,554
Redemption of redeemable preferred stock and related settlement (Note 13) . . . . .	—	—	1,636	—
Merger of subsidiaries . . . . .	—	—	3	—
Gain on purchase by NSC of its own stock . . . . .	768	824	—	7,235
Asset revaluation gain on an affiliate in Thailand . . . . .	—	958	—	—
Adjustment to recognize minimum pension liability (Note 14) . . . . .	2,634	—	—	24,814
Deduct:				
Net loss . . . . .	(45,928)	(108,557)	—	(432,671)
Cash dividends paid . . . . .	—	(5,285)	(15,856)	—
Directors' bonuses . . . . .	(29)	(40)	(68)	(273)
Application of the equity method for certain affiliates . . . . .	—	—	(725)	—
Merger of subsidiaries . . . . .	—	(12)	—	—
Increase in capital . . . . .	—	(329)	(580)	—
Write-down of asset revaluation at Thai subsidiary/affiliate . . . . .	(336)	—	—	(3,165)
Adjustment to beginning balance following revision to financial statements prepared by Thai affiliate (Note 12) . . . . .	(319)	—	—	(3,005)
Adjustment to recognize minimum pension liability (Note 14) . . . . .	—	(3,335)	(41)	—
Ending balance . . . . .	¥ (43,838)	¥ (1,283)	¥122,203	\$ (412,982)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended March 31	Thousands of U.S. dollars (Note 4)	
	Millions of yen 2000	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	¥ (45,928)	\$ (432,671)
Depreciation and amortization	118,384	1,115,252
Decrease in reserves	(13,591)	(128,036)
Interest and dividend income	(5,526)	(52,058)
Interest expenses	40,216	378,860
Gain on sale or disposal of fixed assets	(16,795)	(158,220)
Loss on sale or disposal of fixed assets	4,883	46,001
Liquidation loss related to investment in affiliates	4,024	37,909
Past service cost of pension plan	1,491	14,046
Loss on early retirement	46,538	438,417
Loss on marketable securities	9,789	92,219
Loss on reorganization of electronic device business	11,282	106,284
Increase in trade receivables	(419)	(3,947)
Decrease in inventories	11,006	103,683
Increase in account payable	12,190	114,837
Others	45,970	433,067
Total adjustments	223,514	2,105,643
Interest and dividends received	4,895	46,114
Interest paid	(38,081)	(358,747)
Retirement and severance benefits paid	(63,852)	(601,526)
Others	(4,034)	(38,003)
NET CASH PROVIDED BY OPERATING ACTIVITIES	122,442	1,153,481
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(91,353)	(860,603)
Proceeds from sale of property, plant and equipment	35,474	334,187
Acquisition of investment securities	(5,707)	(53,764)
Increase in investment in subsidiaries and affiliates following consolidation	(3,970)	(37,400)
Expenditures for acquisition of TOA STEEL CO., LTD.'s business	(102,159)	(962,402)
Expenditures for other investing activities	(39,884)	(375,732)
Proceeds from other investing activities	33,957	319,897
NET CASH USED IN INVESTING ACTIVITIES	(173,642)	(1,635,817)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term borrowings	60,262	567,706
Decrease in commercial paper	(122,000)	(1,149,317)
Proceeds from long-term borrowings	85,843	808,695
Repayment of long-term borrowings	(84,767)	(798,559)
Increase in bonds	79,099	745,163
Decrease in bonds	(62,300)	(586,905)
Cash dividends paid to minority shareholders	(1,165)	(10,975)
Proceeds from issuance of common stock to minority shareholders	131	1,234
Decrease in other financing activities	(3,510)	(33,066)
NET CASH USED IN FINANCING ACTIVITIES	(48,407)	(456,024)
Translation differences	(3,576)	(33,688)
Net decrease in cash and cash equivalents	(103,183)	(972,048)
Cash and cash equivalents at beginning of year	167,465	1,577,626
Increase reflecting consolidation of subsidiaries and affiliates	318	2,995
Cash and cash equivalents at end of year	¥ 64,600	\$ 608,573

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2000	2000
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Income taxes . . . . .	¥ (9,153)	\$ (86,227)
<b>Cash and cash equivalents at end of year consisted of the following balance sheet items</b>		
Cash and deposits . . . . .	¥ 59,756	\$ 562,939
Time deposits with a maturity of more than three months . . . . .	(720)	(6,782)
Short-term investments . . . . .	5,564	52,416
(includes bond investment trust funds maturing within three months)		
Cash and cash equivalents . . . . .	¥ 64,600	\$ 608,573
<b>Assets and liabilities of THAI COATED STEEL SHEET CO., LTD., at the time of consolidation as a new subsidiary</b>		
Current assets . . . . .	¥ 2,465	\$ 23,222
Fixed assets . . . . .	12,074	113,745
Adjustments for foreign exchange translations . . . . .	(1,837)	(17,306)
Total assets . . . . .	¥ 12,702	\$ 119,661
Current liabilities . . . . .	¥ 3,404	\$ 32,068
Fixed liabilities . . . . .	7,685	72,397
Total liabilities . . . . .	¥ 11,089	\$ 104,465
<b>Increase in assets and liabilities following the acquisition of TOA STEEL CO., LTD.'s business</b>		
Current assets . . . . .	¥ 37,248	\$ 350,900
Fixed assets . . . . .	193,838	1,826,076
Total assets . . . . .	¥ 231,086	\$ 2,176,976
Current liabilities . . . . .	¥ 18,788	\$ 176,995
Fixed liabilities . . . . .	110,139	1,037,579
Total liabilities . . . . .	¥ 128,927	\$ 1,214,574
Cost of acquisition of TOA STEEL CO., LTD.'s business . . . . .	(¥ 102,159)	(\$ 962,402)

In fiscal 2000, ¥15,599 million in both assets and liabilities were newly recorded for finance leases.

Note: Consolidated Statements of Cash Flows were not prepared prior to fiscal 2000.

The accompanying notes are an integral part of these statements.

---

## 1. Basis of Preparation

The accompanying consolidated financial statements were principally prepared from accounts and records maintained by NKK CORPORATION (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

---

## 2. Consolidation Policy and Accounts for Investments in Nonconsolidated Subsidiaries and Affiliates

The consolidated financial statements include the accounts of the Company and its 109 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The investments in 18 affiliates are stated at their underlying equity value.

In eliminating the cost of investments in consolidated subsidiaries with the underlying equity in net assets of such subsidiaries or affiliates accounted for by the equity method, a difference may arise between the two amounts. Such difference is principally deferred as an asset or liability, as the case may be, and is amortized to/against income on a straight-line method over a period of five years. Such difference, if not significant in amount, is charged or credited to income in the year of the acquisition.

Investments in unconsolidated subsidiaries and the remaining affiliates is carried at cost or less. If an impairment in value is recognized, then the investment to be disposed of is reported at the lower of the carrying amount or fair value less costs to sell.

Certain consolidated subsidiaries were included in these consolidated financial statements as the accounts settlement dates of these subsidiaries falls within a three month period from the Company's own fiscal year-end. Any significant events or changes in circumstances

occurring during the three month period are recorded on the consolidated financial statements.

TOA STEEL CO., LTD., following a resolution for dissolution at an extraordinary general meeting of its shareholders held on March 31, 1999, is now in the process of being liquidated. Therefore, although TOA STEEL CO., LTD., is included in the accompanying consolidated statements of operations, it has not been included in the consolidated balance sheets for fiscal 1999. As a result, total assets were ¥244,273 million lower and borrowings ¥216,372 million lower than if the accounts of TOA STEEL CO., LTD., had been reflected in fiscal 1999.

---

## 3. Significant Accounting Policies

### (a) Valuation of Securities

Marketable and investment securities are principally stated at cost, determined by the moving-average method.

### (b) Valuation of Inventories

Inventories for finished goods, semi-finished goods and raw materials are carried at cost, determined by the moving-average method. Work in process and uncompleted construction contracts are valued at cost on an individual basis. Molds and rolls are carried at cost on an individual basis. All other inventories are carried at cost based on the periodic-average method.

### (c) Depreciation Method of Tangible Fixed Assets

Machinery and equipment are depreciated mainly using the straight-line method. All other tangible fixed assets are depreciated using the declining balance method.

### (d) Allowance for Doubtful Accounts

Allowance for doubtful accounts represents an amount deemed necessary to cover possible losses on specific receivables and also projected collection losses estimated based on past provisions.

### (e) Retirement and Severance Benefits and Pension Costs

The Company has a tax qualified pension benefit plan to provide for those employees 50 years or older upon termination of employment. 26 of the Company's domestic consolidated subsidiaries have a tax qualified pension benefit plan.

## MAJOR SUBSIDIARIES AND AFFILIATES

Company	Line of Business	NKK's Shareholdings (%)
<b>Steelmaking Operations</b>		
NKK BARS & SHAPES CO., LTD.	Manufacture and sale of shapes, sections, bars, wire rods	100.0
NKK WELDED PIPE MANUFACTURING CO., LTD.	Manufacture and sale of electric-resistant welded pipes and butt-welded pipes	99.9
ADCHEMCO Corporation	Manufacture and sale of chemical products	100.0
Fukuyama Kyodo Power Co., LTD.	Thermal power generation	50.0
NKK MATERIAL CO., LTD.	Manufacture and sale of alloy steel and ceramics, etc.	98.9
NKK MARINE & LOGISTICS CORPORATION	Warehousing, domestic shipping business, port transport	73.0
NKK TRADING INC.	Sales and purchase of steel products	71.0
Japan Casting Co., Ltd.	Manufacture and sale of iron and steel casting products	42.3
NKK PRECISION CO., LTD.	Manufacture and sale of forms and blanks	100.0
NIPPON CHUTETSUKAN K.K.	Manufacture and sale of cast iron pipes	30.0
NKK STEEL SHEET & STRIP CORPORATION	Manufacture and sale of coated steel sheets	100.0
KOKAN DRUM COMPANY, LTD.	Manufacture and sale of steel drums	67.3
Nippon Kokan Light Steel Kabushiki Kaisha	Manufacture and sale of light gauge steel products	81.0
FUJI KAKO CO., LTD.	Manufacture and sale of synthetic resin pipes	60.0
Tokyo Shearing Co., Ltd.	Plate shearing and pressing, manufacture and sale of steel products	50.1
OKUTAMA KOGYO CO., LTD.	Mining and sale of lime	29.2
NIPPON KOKAN PIPE FITTING MFG. CO., LTD	Manufacture and sale of pipe fittings	68.7
GALVATEX CORPORATION	Manufacture and sale of galvanized steel products	100.0
KOKAN MINING COMPANY, LTD.	Mining and processing of raw materials for steel production	84.6
Nichiei Unyu Soko K.K.	Warehousing and transportation services	50.1
LS FENCE CO., LTD.	Sale of exterior goods, contract work	73.6
NISSAN SENPAKU LTD.	Coastal shipping (transportation) of steel-making raw materials and steel products	75.0
JAPAN STEEL LEASING CO., LTD.	Leasing and sale of construction machinery and materials	20.0
National Steel Corporation	Manufacture and sale of steel sheets	69.7
THAI COLD ROLLED STEEL SHEET PUBLIC CO., LTD.	Manufacture and sale of cold-rolled steel sheets	31.9
THAI COATED STEEL SHEET CO., LTD.	Manufacture and sale of zinc-coated steel products	46.6
<b>Engineering Operations</b>		
Nippon Kokan Koji K.K.	Civil construction services	68.6
NKK SHIMIZU CO., LTD.	Design, manufacture and construction of steel structures	99.9
NKK PLANT ENGINEERING CORPORATION	Design, manufacture, construction, maintenance and sale of various types of plant and equipment	89.9
<b>Other Operations</b>		
NKK BUSINESS SUPPORT CO., LTD.	Provision of welfare, wages, and other services under outsourcing contracts; renting and management of dormitories and company housing	99.9
NK HOME CO., LTD.	Design, construction and sale of houses	100.0
NKF Corporation	Real estate, travel, and insurance agency	100.0
NK-EXA CORPORATION	Development and sale of computer systems	100.0
NK KANKYO CORPORATION	Recycling of waste for various use	72.0
NKK Credit Corporation	Group finance	100.0
NKK U.S.A. Corporation	Holding company	100.0

ISHIBASHI KOSAN CO., LTD., which was noted in last year's report, merged with KKT INC., a subsidiary of NKK TRADING INC., on October 1, 1999, and was dissolved at that time. On March 31, 2000, an extraordinary meeting of the shareholders of KOKAN CONSTRUCTION CORPORATION decided to dissolve the company. It is now in liquidation.

NKK BARS & SHAPES CO., LTD., NKK WELDED PIPE MANUFACTURING CO., LTD., NKK MATERIAL CO., LTD., NKK STEEL SHEET & STRIP CORPORATION, FUJI KAKO CO., LTD., THAI COATED STEEL SHEET CO., LTD., and NKK SHIMIZU CO., LTD., are recognized as major subsidiaries beginning this year.

Toa Fence Co., Ltd., which was listed in last year's report, changed its name to LS FENCE CO., LTD., this year.

TOA STEEL CO., LTD., which was listed among NKK's subsidiaries in the fiscal 1998 report, voted for dissolution and transfer of business at an extraordinary general meeting of its shareholders held on March 31, 1999, and is now in the process of being liquidated.

Regarding the operations of the former TOA STEEL CO., LTD., upon transfer of the business effective from April 1, 1999, NKK BARS & SHAPES CO., LTD., a subsidiary, took over operations related to the steel business, and Nippon Kokan Light Steel Kabushiki Kaisha took over operations related to the exterior business.

National Steel Corporation and its significant subsidiaries have defined benefit pension plans. Pension costs are reported in compliance with FAS 87, the "Employers' Accounting for Pensions."

**(f) Allowance for Special Maintenance and Repairs**

Blast furnaces and hot blast stoves, including related machinery and equipment, periodically require substantial component replacements and repairs. The estimated future costs of such work are provided for based on the actual cost of prior replacements and repairs, and the frequency at which they were implemented.

**(g) Basis of Translation of Foreign Currency Accounts**

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the appropriate current year-end rates and all income and expense accounts are translated at the average rate of exchange in effect during the year. The resulting adjustments are presented as "translation adjustments" in the accompanying consolidated balance sheets.

**(h) Leases**

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

**(i) Accounting Policies of Overseas Subsidiaries**

The financial statements of the consolidated subsidiaries in the U.S.A. have been prepared on the basis of accounting principles generally accepted in the U.S.A. The financial statements of THAI COATED STEEL SHEET CO., LTD., have been prepared on the basis of accounting principles generally accepted in Thailand. Such financial statements have been consolidated in the accompanying consolidated financial statements without any adjustments to conform them to accounting principles generally accepted in Japan.

**4. U.S. Dollar Amounts**

The translation of yen amounts for the year ended March 31, 2000, into U.S. dollar amounts is stated solely for convenience, as a matter of arithmetic computation only, at the rate of ¥106.15=U.S.\$1.00, the approximate rate of exchange on March 31, 2000. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

**5. Marketable Securities**

Marketable securities were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Listed stocks*	¥109,369	¥119,086	\$1,030,325
Other marketable securities	5,999	9,578	56,514
	¥115,368	¥128,664	\$1,086,839

\* Listed stocks were ¥163,382 million under the current value method as of March 31, 2000.

**6. Depreciation and Amortization**

Depreciation of plant and equipment for the years ended March 31, 2000 and 1999, amounted to ¥118,384 million (\$1,115,252 thousand) and ¥130,361 million, respectively.

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

Investments in unconsolidated subsidiaries and affiliates were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Investments valued:			
On an equity basis	¥19,568	¥18,333	\$184,343
At cost or less	20,676	13,774	194,781
	¥40,244	¥32,107	\$379,124

Had the equity method of accounting been applied to the above investments valued at cost or less, the effect on the consolidated financial statements would not have been material.

**8. Other Assets**

Other assets were composed of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Long-term prepaid expenses	¥ 13,600	¥ 27,098	\$ 128,121
Deferred tax assets	42,907	56,143	404,211
Long-term loans	9,986	13,290	94,074
Allowance for doubtful receivables	(63,910)	(63,076)	(602,072)
Intangible assets	28,631	3,134	269,722
Other	87,057	118,034	820,132
	¥118,271	¥154,623	\$1,114,188

## 9. Long-Term Indebtedness

Long-term indebtedness at March 31, 2000 and 1999 were summarized as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
6.5% reverse dual currency yen/Australian dollar notes, due 2001	¥ 13,000	¥ 13,000	\$ 122,468
6.1% yen bonds, due 1999	—	20,000	—
6.2% yen bonds, due 2002	40,000	40,000	376,825
5.4% yen bonds, due 2000	—	20,000	—
2.3% yen bonds, due 2001	30,000	30,000	282,619
2.15% yen bonds, due 2000	20,000	20,000	188,413
2.35% yen bonds, due 2001	30,000	30,000	282,619
2.85% yen bonds, due 2003	20,000	20,000	188,413
2.1% yen bonds, due 2000	15,000	15,000	141,309
1.6% yen bonds, due 2001	15,000	15,000	141,309
2.175% yen bonds, due 2003	10,000	10,000	94,206
2.65% yen bonds, due 2005	10,000	10,000	94,206
1.55% yen bonds, due 2000	10,000	10,000	94,206
3.1% yen bonds, due 2007	20,000	20,000	188,413
3.5% yen bonds, due 2012	20,000	20,000	188,413
2.8% yen bonds, due 2004	10,000	10,000	94,206
3.225% yen bonds, due 2007	10,000	10,000	94,206
2.5% yen bonds, due 2008	10,000	10,000	94,206
2.075% yen bonds, due 2005	10,000	10,000	94,206
2.0% yen bonds, due 2003	20,000	20,000	188,413
1.6% yen bonds, due 2001	30,000	30,000	282,619
2.2% yen bonds, due 2004	10,000	10,000	94,206
2.05% yen bonds, due 2004	10,000	—	94,206
2.25% yen bonds, due 2004	10,000	—	94,206
3.27% yen bonds, due 2009	10,000	—	94,206
1.6% yen bonds, issued by subsidiaries, due 2004	500	—	4,710
Euro Medium-Term Notes issued by subsidiaries, at floating interest rates from 4.969% to 8.18%, due through 2003	20,751	32,172	195,488
7.49% bonds issued by subsidiaries, due 2003	5,147	5,826	48,488
Bonds issued by subsidiaries at interest rates from 8.375% to 9.875%, due through 2009	38,395	8,678	361,705
Bonds issued by subsidiaries, at interest rates from 4.5% to 9.15%, due through 2011	1,759	1,255	16,571
Loans, principally from banks and insurance companies, due through 2015	632,911	519,317	5,962,423
Less current portion included in current liabilities	(155,921)	(147,195)	(1,468,874)
	¥926,542	¥813,053	\$8,728,610

## 10. Other Long-Term Liabilities

Other long-term liabilities were composed of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Long-term pension liabilities	¥ 16,396	¥ 31,135	\$ 154,461
Postretirement benefits other than pensions	44,339	46,057	417,701
Deferred tax liabilities	17,263	19,206	162,628
Other long-term liabilities	54,504	43,366	513,462
	¥132,502	¥139,764	\$1,248,252

## 11. Other, Net

"Other, net" in "Other (income) expenses" was composed of the following:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
(Gain) loss on sales or disposal of property, plant and equipment	¥(8,975)	¥ 5,531	\$ (84,550)
Loss on sales of disposal of inventory	2,574	—	24,249
(Gain) loss on sales of securities	(330)	889	(3,109)
Past service cost of pension plan	1,491	3,952	14,046
Loss on liquidation of investments	4,024	8,131	37,909
Special charge arising from employees' termination benefits	46,538	16,451	438,417
Loss on writedowns of marketable securities	9,789	4,696	92,219
Special charge on the reorganization of bars and shapes operations	—	60,771	—
Special charge on reorganization of electronic devices business operation	11,282	17,471	106,284
Unusual credit from property tax of a subsidiary in the U.S.A.	—	(3,481)	—
Amortization of consolidation differences	—	(175)	—
Other, net	4,968	4,623	46,800
	¥71,361	¥118,859	\$672,265

"Special charge on the reorganization of bars and shapes operations" comprises losses on the dissolution of TOA STEEL CO., LTD., such as loss on disposal of fixed assets and a special charge arising from employees' termination benefits.

"Special charge on the reorganization of electronic devices business operation" comprises losses on the withdrawal from test manufacturing and sales of static random-access memory (SRAM) products, such as loss on disposal of inventories and loss on disposal of fixed assets.

## 12. Adjustment to Beginning Balance

National Steel Corporation ('NSC') restated its financial statements retroactively in fiscal 1997. This restatement increased NSC's retained earnings as of December 31, 1996 by \$52.6 million, and resulted in an increase in the Company's retained earnings of ¥2,678 million for the year ended March 31, 1998.

The Institute of Certified Accountants and Auditors of Thailand set forth a revision to accounting standards on January 20, 2000, prohibiting the recording of pre-operating expenses as an asset. The adjustments to retained earnings for the years beginning January 1, 1998 and 1999 is presented in the retained earnings statement of THAI COLD ROLLED STEEL SHEET PUBLIC CO., LTD.

## 13. Redemption of Redeemable Preferred Stock and Related Settlement

NSC redeemed its own redeemable preferred stock and settled certain liabilities related to employee benefits and environmental obligations.

## 14. Minimum Pension Liability

NSC recorded an adjustment to recognize its minimum pension liability at the excess of the accumulated benefit obligation over the fair value of the plan assets, including the unfunded accrued pension cost in underfunded plans.

## 15. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted with banks . . .	¥ 1,851	\$ 17,438
Guarantees of indebtedness . . . . .	84,581	796,806

The above guarantees include ¥61,402 million (\$578,446 thousand) of the guarantees for which collateral received, for example, of housing loans for employees of the Company and its consolidated subsidiaries.

## 16. Leases

Finance leases, except for lease agreements which stipulate the transfer of ownership of the leased assets to the Company, are summarized as follows:

March 31, 2000	Millions of yen	Thousands of U.S. dollars
Acquisition cost equivalents:		
Buildings . . . . .	¥ 66	\$ 622
Machinery and equipment . . . . .	21,199	199,708
Other assets . . . . .	545	5,134
	¥21,810	\$205,464
Accumulated depreciation equivalents:		
Buildings . . . . .	¥ 48	\$ 452
Machinery and equipment . . . . .	10,717	100,961
Other assets . . . . .	332	3,128
	¥11,097	\$104,541
Balance equivalents:		
Buildings and structures . . . . .	¥ 18	\$ 170
Machinery and equipment . . . . .	10,482	98,747
Other assets . . . . .	213	2,007
	¥10,713	\$100,924

Lease commitment equivalents as of March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
Within one year . . . . .	¥ 3,754	\$ 35,365
More than one year . . . . .	6,959	65,558
	¥10,713	\$100,923

## 17. Income Taxes

Deferred income taxes reflect the net effects of the temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

March 31, 2000	Millions of yen	Thousands of U.S. dollars
Deferred tax assets		
Employees' termination allowances . . . . .	¥ 23,264	\$ 219,162
Loss carried forward . . . . .	13,830	130,287
Elimination of unrealized profits . . . . .	5,660	53,321
Deferred tax assets recorded		
at subsidiaries in the U.S.A. . . . .	53,575	504,710
Other . . . . .	27,896	262,798
Total deferred tax assets . . . . .	¥124,225	\$1,170,278
Valuation allowance . . . . .	(3,454)	(32,539)
Valuation allowance at subsidiaries in the U.S.A. . . . .	¥ (11,868)	\$ (111,804)
Deferred tax assets net of valuation allowances . . . . .	¥108,903	\$1,025,935
Deferred tax liabilities		

Reserve of Special Taxation Measures Law . . . . .	(22,494)	(211,908)
Deferred tax liabilities recorded at subsidiaries in U.S.A. . . . .	(20,757)	(195,544)
Other . . . . .	(11,960)	(112,670)
<b>Total deferred tax liabilities . . . . .</b>	<b>(55,211)</b>	<b>(520,122)</b>

Net deferred tax assets after valuation allowance . . . . .	¥ 53,692	\$ 505,813
---	----------	------------

## 18. Segment Information

The segment information of the Company and its consolidated subsidiaries was summarized as follows:

### (a) Information by Industry Segment

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
<b>Sales to customers:</b>			
Steelmaking operations	<b>¥1,211,369</b>	¥1,314,738	<b>\$11,411,861</b>
Engineering operations	<b>404,498</b>	421,417	<b>3,810,626</b>
Other operations	<b>69,524</b>	72,612	<b>654,960</b>
<b>Consolidated net sales</b>	<b>¥1,685,391</b>	¥1,808,767	<b>\$15,877,447</b>
<b>Inter-segment sales:</b>			
Steelmaking operations	<b>¥ 24,544</b>	¥ 25,822	<b>\$ 231,220</b>
Engineering operations	<b>31,201</b>	14,692	<b>293,933</b>
Other operations	<b>20,012</b>	24,461	<b>188,526</b>
	<b>¥ 75,757</b>	¥ 64,975	<b>\$ 713,679</b>
<b>Total sales:</b>			
Steelmaking operations	<b>¥1,235,913</b>	¥1,340,560	<b>\$11,643,081</b>
Engineering operations	<b>435,699</b>	436,109	<b>4,104,559</b>
Other operations	<b>89,536</b>	97,073	<b>843,486</b>
Eliminations	<b>(75,757)</b>	(64,975)	<b>(713,679)</b>
<b>Consolidated net sales</b>	<b>¥1,685,391</b>	¥1,808,767	<b>\$15,877,447</b>
<b>Operating expenses:</b>			
Steelmaking operations	<b>¥1,179,190</b>	¥1,331,470	<b>\$11,108,715</b>
Engineering operations	<b>424,526</b>	432,866	<b>3,999,302</b>
Other operations	<b>91,437</b>	110,152	<b>861,395</b>
Eliminations	<b>(71,684)</b>	(61,561)	<b>(675,309)</b>
<b>Consolidated operating expenses</b>	<b>¥1,623,469</b>	¥1,812,927	<b>\$15,294,103</b>
<b>Operating income:</b>			
Steelmaking operations	<b>¥ 56,723</b>	¥ 9,090	<b>\$ 534,366</b>
Engineering operations	<b>11,173</b>	3,243	<b>105,257</b>
Other operations	<b>(1,901)</b>	(13,079)	<b>(17,909)</b>
Eliminations	<b>(4,073)</b>	(3,414)	<b>(38,370)</b>
<b>Consolidated operating income (loss)</b>	<b>¥ 61,922</b>	¥ (4,160)	<b>\$ 583,344</b>

### (b) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic subsidiaries and sales (other than exports to Japan) of the foreign subsidiaries, were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Overseas sales	<b>¥588,567</b>	¥642,809	<b>\$5,544,673</b>
Percentage of overseas sales to consolidated net sales	<b>34.9%</b>	35.5%	

## 19. Subsequent Events

On May 25, 2000, the Company, its domestic consolidated subsidiaries, NKK BUSINESS SUPPORT CO., LTD., and NKF Corporation decided that NKK BUSINESS SUPPORT CO., LTD., will take over the custodian and social-welfare portions of NKF Corporation's operations, and after the transfer of business, the Company will absorb NKF Corporation.

The closing of NKF Corporation may result in losses for the Group. However, these losses will be offset by the unrealized gain of the Company's assets. And this will not have any significant effect on consolidated retained earnings.

On March 23, 2000, the Company decided the issuance of bonds with the following conditions:

Bonds	No. 33 unsecured bonds	No. 34 unsecured bonds
Date of issue . . . . .	May 22, 2000	June 27, 2000
Amount of issue . . . . .	¥10 billion	¥10 billion
Issue price . . . . .	Issued at par of ¥100	
Yield . . . . .	1.920%	2.100%
Maturity . . . . .	May 20, 2005	June 27, 2006
Collateral . . . . .	Unsecured	Unsecured
Use of procured funds . . .	Refinancing	Refinancing

*Note: Beginning fiscal 2001, the Company will prepare its consolidated financial statements based on current value accounting procedures and will introduce new accounting practices for retirement and pension reserves.*