

NKK CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED SIX-YEAR SUMMARY

Years ended March 31	Millions of yen						Thousands of U.S. dollars (Note 1)
	2001	2000	1999	1998	1997	1996	2001
FINANCIAL DATA:							
For the Year:							
Net sales	¥1,787,228	¥1,685,391	¥1,808,767	¥1,934,367	¥1,877,655	¥1,805,994	\$14,424,762
Gross profit	300,751	276,924	234,407	317,550	310,374	314,575	2,427,369
Operating income (loss) . . .	80,586	61,922	(4,160)	76,503	94,419	93,878	650,412
Income (loss) before income taxes and minority interests	77,514	(43,390)	(155,884)	29,123	56,540	71,994	625,617
Net income (loss)	96,990	(45,928)	(108,557)	14,278	16,692	52,411	782,809
Capital expenditures	89,886	91,973	94,794	123,438	133,203	85,193	725,472
Depreciation and amortization	112,102	118,384	130,361	135,910	106,964	139,758	904,778
At Year-End:							
Total current assets	945,074	1,029,614	1,143,841	1,168,532	996,713	1,008,411	7,627,716
Property, plant and equipment, net.	1,391,661	1,447,104	1,314,977	1,594,365	1,397,727	1,433,708	11,232,131
Total investments and other assets	294,452	181,491	207,491	183,782	211,236	221,020	2,376,529
Total assets	2,631,188	2,688,702	2,691,396	2,963,892	2,635,324	2,692,785	21,236,384
Total current liabilities	986,166	1,147,601	1,201,494	1,302,402	1,139,413	1,210,406	7,959,370
Total long-term liabilities and reserves	1,200,101	1,173,238	1,076,602	1,100,351	959,455	972,044	9,686,045
Total shareholders' equity	376,410	285,402	327,957	465,064	463,738	446,224	3,038,015
							U.S. dollars (Note 1)
PER SHARE DATA:							
Net income (loss)	¥ 28.47	¥ (13.48)	¥ (31.59)	¥ 4.05	¥ 4.74	¥ 14.87	\$ 0.230
Shareholders' equity	110.48	83.77	96.26	131.99	131.61	126.64	0.892
OPERATING DATA:							
Number of employees	39,875	39,603	—	—	—	—	
Number of shareholders . . .	254,615	266,800	256,198	245,073	235,683	245,986	
Production of raw steel (Millions of tons)	20.75	19.29	—	—	—	—	

Notes: 1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥123.90=US\$1.00
2. Consolidated number of employees and production of raw steel were not prepared prior to fiscal 2000.

Background

Fiscal 2001, ended March 31, 2001, comprised a favorable first half and a challenging second half. In the first half of the year, the domestic economy showed signs of gradual recovery, supported by brisk capital investment, particularly in IT-related areas, and by positive economic conditions in other parts of Asia. In the second half of the year, however, the economic skies over Japan clouded and even IT-related investment—the driving force of corporate spending in the first half—tightened. Overseas, the U.S. economy began to slow down, and Asian economies, including South Korea, entered an adjustment phase.

Fiscal Performance

Sales

NKK's net sales rebounded from a drop in fiscal 2000, rising 6.0%, to ¥1,787.2 billion. Major contributing factors were strong demand for steel in the first half of the year, which buoyed shipments 8.2% from a year earlier, as well as a solid performance by the Engineering Division, which benefited from favorable demand for oil tankers and urban waste-processing facilities. The Company also posted good sales of condominium units in its urban development segment.

Income and Expenses

Cost of sales expanded 5.5%, to ¥1,486.5 billion, paralleling higher net sales. Gross profit reached ¥300.8 billion, up 8.6%, for a gross profit margin of 16.8%, a 0.4-percentage point improvement over fiscal 2000.

Cost of sales and gross profit

	Millions of yen		Thousands of U.S. dollars	Percentage change
	2001	2000	2001	
Net sales	¥1,787,228	¥1,685,391	\$14,424,762	6.0%
Cost of sales	1,486,477	1,408,467	11,997,393	5.5%
Gross profit	¥ 300,751	¥ 276,924	\$ 2,427,369	8.6%
Gross profit margin	16.8%	16.4%		

Selling, general and administrative expenses grew 2.4%, to ¥220.2 billion, another consequence of higher net sales, but represented only 12.3% of net sales, or 0.4 percentage point less than in fiscal 2000. This improvement was achieved by curtailing fixed costs and through other concerted groupwide efforts to control costs.

In many of its operating segments, NKK faced extremely challenging conditions, as heightened competition eroded sales opportunities. Nevertheless, by maximizing groupwide resources, the Company generated a 30.1% jump in operating income, to ¥80.6 billion. The ratio of operating income to net sales thus edged up 0.8 percentage point, to 4.5%.

Selling, general and administrative expenses and operating income

	Millions of yen		Thousands of U.S. dollars	Percentage change
	2001	2000	2001	
Selling, general and administrative expenses	¥220,165	¥215,002	\$1,776,957	2.4%
Operating income	¥ 80,586	¥ 61,922	\$ 650,412	30.1%
Ratio of operating income to net sales	4.5%	3.7%		

Other expenses plummeted 97.1%, to ¥3.1 billion.

On the expenses side, the Company applied ¥25.1 billion to reorganization of welfare and real estate functions, ¥24.5 billion to amortization of transitional obligations caused by changes to accounting standards for retirement benefits, and ¥11.4 billion to cover a special charge arising from employees' termination benefits. On the income side, the Company derived a ¥73.6 billion gain on sales or disposals of fixed assets, such as the head office building in Tokyo and corporate housing and dormitories; a ¥25.0 billion gain on sales of investments in securities; and a ¥6.7 billion gain on the establishment of a pension trust fund following the introduction of retirement benefits accounting on April 1, 2000.

Consequently, NKK recorded ¥77.5 billion in income before income taxes and minority interests, compared with a pretax loss of ¥43.4 billion in fiscal 2000. The before tax profit rate rallied 6.9 percentage points, from -2.6% to 4.3%.

Other (income) expenses, and income (loss) before income taxes and minority interests

	Millions of yen		Thousands of U.S. dollars	Percentage change
	2001	2000	2001	
Other (income) expenses:				
Interest income	¥ (2,736)	¥ (3,434)	\$ (22,082)	-20.3%
Interest expenses	40,604	40,216	327,716	1.0%
Dividends received	(2,239)	(2,092)	(18,071)	7.0%
Equity in earnings of affiliates	1,970	(739)	15,900	
Other, net	(34,525)	71,361	(278,652)	
	¥ 3,072	¥105,312	\$ 24,794	-97.1%
Income (loss) before income taxes and minority interests	¥ 77,514	¥ (43,390)	\$ 625,617	
Before tax profit rate	4.3%	-2.6%		

At ¥97.0 billion, net income moved well into the black from a net loss of ¥45.9 billion in fiscal 2000, thanks to higher income before income taxes and minority interests, as well as a ¥31.4 billion credit generated through deferred tax credit.

Divisional Results

Steel Division

Total sales in the Steel Division climbed 5.1%, to ¥1,298.4 billion, while operating income rose 6.0%, to ¥60.1 billion. This was despite adverse developments such as operating losses at National Steel Corp. in the United States, and a deteriorating business environment that caused a rise in the price of materials and a fall in

sales prices—resulting in the forfeiture of ¥37.0 billion in expected profit. Increased operating income is attributed to earnings contributions—¥40.0 billion by the parent and ¥10.0 billion by domestic Group companies—achieved primarily through expanded production, valued at ¥13.0 billion, at the Fukuyama Works, and continued cost reductions, equivalent to ¥25.0 billion.

Engineering Division

Total sales in the Engineering Division improved 3.1%, to ¥449.0 billion, while operating income surged 59.8%, to ¥17.9 billion. Although heightened competition put downward pressure on sales prices and ultimately shaved ¥12.0 billion from anticipated sales value, the Engineering Division was able to realize its vast improvement in operating income thanks to aggregate earnings of ¥19.0 billion, underscored by ¥14.0 billion in cost reductions aimed at securing groupwide profits and expanded orders worth ¥3.0 billion in both new and existing segments.

Other Fields

Total sales in Other Fields climbed 36.1%, to ¥121.8 billion, while operating income rebounded from a negative number in fiscal 2000 to ¥6.3 billion in fiscal 2001. The rally in operating income is underscored by contributions of ¥1.3 billion from the urban development segment on wider sales of condominium units, ¥1.0 billion from operations—fully inaugurated in fiscal 2001—to utilize waste plastics as blast furnace feed, and ¥2.0 billion following NKK's withdrawal from the electronic devices business.

Financial Position

Total assets stood at ¥2,631.2 billion as of March 31, 2001, a 2.1% decrease from a year earlier.

Total current assets settled at ¥945.1 billion at the end of fiscal 2001, down 8.2% from the previous fiscal year-end. The decrease was essentially due to the transfer of ¥109.8 billion in marketable securities out of the current assets category and into the investments and other assets category as part of investments in other securities, paralleling implementation of new accounting standards for financial instruments. While NKK is committed to keeping cash to a minimum, the addition of approximately ¥80 billion to cash as a reserve against corporate bond redemption in the first half of fiscal 2002 pushed the year-end total up ¥49.1 billion.

Property, plant and equipment, net, amounted to ¥1,391.7 billion, or 3.8% less than in the previous fiscal year. Total investments and other assets surged 62.2%, to ¥294.5 billion, owing to the transfer of the marketable securities balance out of the current assets category and into this account. A total of ¥30.5 billion in translation adjustments was removed from the assets category, as translation adjustments became a line item under shareholders' equity and minority interests following a revision to Japanese accounting standards for foreign currency transactions, which came into effect on April 1, 2000.

Total current liabilities settled at ¥986.2 billion, down 14.1% from a year earlier. The major components of this category were accounts payable, up 28.7%, to ¥387.5 billion, the current portion of long-term indebtedness, up 41.1%, to ¥220.0

billion, and short-term bank borrowings and commercial paper, down 68.4%, to ¥142.9 billion.

Outstanding debt, under current liabilities and fixed liabilities, shrank 14.2%, to ¥1,319.1 billion. This achievement is the result of concerted efforts to tighten the balance of interest-bearing liabilities, including short-term borrowings, with the free cash flow resources generated during fiscal 2001.

Total shareholders' equity jumped 31.9%, to ¥376.4 billion, thanks to the dramatic improvement in net income, which turned last year's deficit into retained earnings of ¥56.2 billion.

Shareholders' equity

	Millions of yen		Thousands of U.S. dollars	Percentage change
	2001	2000	2001	
Total assets . . .	¥2,631,188	¥2,688,702	\$21,236,384	-2.1%
Total shareholders' equity	376,410	285,402	3,038,015	31.9%
Shareholders' equity ratio . . .	14.3%	10.6%		

Capital Investment and Depreciation

Capital investment declined 2.3%, to ¥89.9 billion, owing to the Company's more prudent selection of areas into which funds would be applied.

Depreciation and amortization fell 5.3%, to ¥112.1 billion.

Capital investment and depreciation

	Millions of yen		Thousands of U.S. dollars	Percentage change
	2001	2000	2001	
Capital investment	¥ 89,886	¥ 91,973	\$725,472	-2.3%
Depreciation and amortization	¥112,102	¥118,384	\$904,778	-5.3%

Cash Flow Analysis

Net cash provided by operating activities amounted to ¥190.1 billion, an increase of ¥67.7 billion compared with the previous period. The major contributors to this solid expansion in cash flow from operations included a ¥142.9 billion aggregate change in net income, a decrease of ¥51.8 billion in retirement and severance benefits paid, and reduced working capital.

Net cash provided by investing activities reached ¥95.3 billion, a turnaround from ¥173.6 billion used in investing activities in fiscal 2000. This change is due to a gain of ¥134.1 billion in proceeds from sales of property, plant and equipment and ¥64.7 billion in proceeds from sales of investment securities, compared with ¥102.2 billion in expenditures for the acquisition of TOA STEEL CO., LTD.'s business, in fiscal 2000.

Net cash used in financing activities increased more than fivefold, to ¥246.6 billion, primarily because the Company applied funds to the repayment of ¥259.8 billion in short-term borrowings.

As a result, free cash flow—net cash provided by operating activities and net cash provided by investing activities—totaled ¥285.4 billion.

ASSETS

March 31	Millions of yen		Thousands of U.S. dollars (Note 4)
	2001	2000	2001
CURRENT ASSETS:			
Cash	¥ 108,845	¥ 59,756	\$ 878,491
Marketable securities (Note 5)	403	115,368	3,253
Accounts receivable	405,535	435,452	3,273,083
Allowance for doubtful receivables	(2,956)	(4,072)	(23,858)
Inventories:			
Finished goods	78,407	73,301	632,825
Work in process	154,116	159,874	1,243,874
Raw materials and supplies	143,221	139,136	1,155,940
Other current assets	57,500	50,799	464,084
TOTAL CURRENT ASSETS	945,074	1,029,614	7,627,716
PROPERTY, PLANT AND EQUIPMENT (Notes 3 and 6):			
Land	324,193	341,885	2,616,570
Buildings	958,783	977,976	7,738,362
Machinery and equipment	2,824,005	2,829,795	22,792,615
Construction in progress	10,747	13,783	86,739
Accumulated depreciation	(2,726,068)	(2,716,335)	(22,002,163)
PROPERTY, PLANT AND EQUIPMENT, NET	1,391,661	1,447,104	11,232,131
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and affiliates (Note 7)	32,275	40,244	260,492
Investments in other securities	143,517	22,976	1,158,329
Other assets (Note 8)	118,660	118,271	957,708
TOTAL INVESTMENTS AND OTHER ASSETS	294,452	181,491	2,376,529
TRANSLATION ADJUSTMENTS	—	30,493	—
TOTAL ASSETS	¥ 2,631,188	¥ 2,688,702	\$ 21,236,384

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)
	2001	2000	2001
CURRENT LIABILITIES:			
Short-term bank borrowings and commercial paper	¥ 142,892	¥ 452,442	\$ 1,153,285
Current portion of long-term indebtedness (Note 9)	220,020	155,921	1,775,787
Advances from customers on contracts	47,891	57,358	386,529
Accounts payable	387,472	301,076	3,127,296
Accrued expenses	154,454	160,200	1,246,602
Accrued income taxes	19,511	6,945	157,474
Other current liabilities	13,923	13,659	112,373
TOTAL CURRENT LIABILITIES	986,166	1,147,601	7,959,370
LONG-TERM LIABILITIES AND RESERVES:			
Indebtedness (Note 9)	956,268	926,542	7,718,063
Employees' termination allowances	79,582	76,062	642,308
Reserve for rebuilding furnaces	39,955	38,132	322,478
Other long-term liabilities (Note 10)	124,294	132,502	1,003,180
TOTAL LONG-TERM LIABILITIES AND RESERVES	1,200,101	1,173,238	9,686,045
CONTINGENT LIABILITIES (Note 15)			
MINORITY INTERESTS	68,510	82,461	552,946
SHAREHOLDERS' EQUITY:			
Common stock, ¥50 par value:			
Authorized—			
5,883,584,000 shares as of March 31, 2001			
5,883,584,000 shares as of March 31, 2000			
Issued and outstanding—			
3,407,165,634 shares as of March 31, 2001	233,731	—	1,886,449
3,407,165,634 shares as of March 31, 2000	—	233,731	—
Additional paid-in capital	95,509	95,509	770,856
Retained earnings (deficit)	56,168	(43,838)	453,333
Less treasury common stock, at cost:			
16,750 shares at March 31, 2001 and			
9,012 shares at March 31, 2000	(1)	(0)	(8)
Other gain on revaluation of securities	4,554	—	36,755
Translation adjustments	(13,551)	—	(109,370)
TOTAL SHAREHOLDERS' EQUITY	376,410	285,402	3,038,015
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥2,631,188	¥2,688,702	\$21,236,384

NKK CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 4)
	2001	2000	1999	2001
NET SALES	¥1,787,228	¥1,685,391	¥1,808,767	\$14,424,762
COST OF SALES	1,486,477	1,408,467	1,574,360	11,997,393
Gross profit	300,751	276,924	234,407	2,427,369
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	220,165	215,002	238,567	1,776,957
Operating income (loss)	80,586	61,922	(4,160)	650,412
OTHER (INCOME) EXPENSES:				
Interest income	(2,736)	(3,434)	(4,946)	(22,082)
Interest expenses	40,604	40,216	43,489	327,716
Dividends received	(2,239)	(2,092)	(2,496)	(18,071)
Equity in earnings of affiliates	1,970	(739)	(3,182)	15,900
Other, net (Note 12)	(34,525)	71,361	118,859	(278,652)
	3,072	105,312	151,724	24,794
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	77,514	(43,390)	(155,884)	625,617
INCOME TAXES (CREDIT):				
Current	17,888	7,434	9,801	144,374
Deferred	(31,406)	(1,410)	(41,284)	(253,479)
	13,517	6,024	(31,483)	109,096
INCOME (LOSS) BEFORE MINORITY INTERESTS	91,031	(49,414)	(124,401)	734,713
MINORITY INTERESTS	5,958	3,486	15,844	48,087
NET INCOME (LOSS)	¥ 96,990	¥ (45,928)	¥ (108,557)	\$ 782,809

AMOUNTS PER SHARE OF COMMON STOCK:	Yen			U.S. dollars (Note 4)
	Yen	Yen	Yen	U.S. dollars
Net income (loss)	¥ 28.47	¥ (13.48)	¥ (31.59)	\$ 0.230

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)
	2001	2000	1999	2001
COMMON STOCK:				
Beginning balance	¥233,731	¥233,731	¥233,731	\$1,886,449
Ending balance	¥233,731	¥233,731	¥233,731	\$1,886,449
ADDITIONAL PAID-IN CAPITAL:				
Beginning balance	¥ 95,509	¥ 95,509	¥109,130	\$ 770,856
Deduct:				
Retirement of treasury stock from additional paid-in capital	—	—	(13,621)	—
Ending balance	¥ 95,509	¥ 95,509	¥ 95,509	\$ 770,856
RETAINED EARNINGS (DEFICIT):				
Beginning balance	¥ (43,838)	¥ (1,283)	¥122,203	\$ (353,818)
Adjustment to reflect NSC's restatement (Note 13)	1,183	—	—	9,548
Adjustment to retained earnings for initial application of tax effect accounting	—	—	(9,164)	—
Add:				
Net income	96,990	—	—	782,809
Application of the equity method for certain affiliates and initial consolidation of previously unconsolidated subsidiaries	1,438	490	458	11,606
Exclusion from consolidation	523	165	996	4,221
Gain on purchase by NSC of its own stock	—	768	824	—
Asset revaluation gain on an affiliate in Thailand	—	—	958	—
Adjustment to recognize minimum pension liability (Note 14)	181	2,634	—	1,461
Deduct:				
Net loss	—	(45,928)	(108,557)	—
Cash dividends paid	—	—	(5,285)	—
Directors' bonuses	(21)	(29)	(40)	(169)
Merger of subsidiaries	—	—	(12)	—
Increase in capital	—	—	(329)	—
Write-down of asset revaluation at Thai subsidiary/affiliate	(288)	(336)	—	(2,324)
Adjustment to beginning balance following revision to financial statements prepared by Thai affiliate (Note 13)	—	(319)	—	—
Adjustment to recognize minimum pension liability (Note 14)	—	—	(3,335)	—
Ending balance	¥ 56,168	¥ (43,838)	¥ (1,283)	\$ 453,333
LESS TREASURY COMMON STOCK, AT COST:				
Beginning balance	¥ (0)	¥ (0)	¥ (0)	\$ (0)
Deduct:				
Retirement of treasury stock	(1)	—	—	(8)
Ending balance	¥ (1)	¥ (0)	¥ (0)	\$ (8)
OTHER GAIN ON REVALUATION OF SECURITIES:				
Beginning balance	¥ —	¥ —	¥ —	\$ —
Add	4,554	—	—	36,755
Ending balance	¥ 4,554	¥ —	¥ —	\$ 36,755
TRANSLATION ADJUSTMENTS:				
Beginning balance	¥ —	¥ —	¥ —	\$ —
Deduct	(13,551)	—	—	(109,370)
Ending balance	¥ (13,551)	¥ —	¥ —	\$ (109,370)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31	Millions of yen		Thousands of U.S. dollars (Note 4)
	2001	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	¥ 96,990	¥ (45,928)	\$ 782,809
Depreciation and amortization	112,102	118,384	904,778
Decrease in reserves	(39,484)	(13,591)	(318,676)
Interest and dividend income	(4,976)	(5,526)	(40,161)
Interest expenses	40,604	40,216	327,716
Gain on sales or disposals of fixed assets	(93,210)	(16,795)	(752,300)
Gain on sales of investments in securities	(24,966)	—	(201,501)
Gain on sales of securities issued by subsidiaries and affiliates	(8,513)	—	(68,709)
Gain on establishment of pension trust fund	(6,722)	—	(54,253)
Loss on sales or disposals of fixed assets	16,280	4,883	131,396
Loss on writedowns of investments in securities, etc.	8,814	—	71,138
Liquidation loss related to investments in affiliates, etc.	5,626	4,024	45,408
Past service cost of pension plan	—	1,491	—
Special charge arising from employees' termination benefits	11,396	46,538	91,977
Loss on writedowns of marketable securities	—	9,789	—
Loss on reorganization of electronic devices business operations	—	11,282	—
Loss on transfer of assets incurred from joint venturing of seamless pipes	7,189	—	58,023
Loss on reorganization of welfare and real estate function	25,078	—	202,405
Increase in trade receivables	(4,187)	(419)	(33,793)
Decrease in inventories	34,881	11,006	281,525
Increase in accounts payable	58,778	12,190	474,399
Others	(20,365)	45,970	(164,366)
Total adjustments	215,316	223,514	1,737,821
Interest and dividends received	5,632	4,895	45,456
Interest paid	(41,839)	(38,081)	(337,684)
Retirement and severance benefits paid	(12,030)	(63,852)	(97,094)
Others	23,021	(4,034)	185,803
NET CASH PROVIDED BY OPERATING ACTIVITIES	190,101	122,442	1,534,310
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(71,327)	(91,353)	(575,682)
Proceeds from sales of property, plant and equipment	134,067	35,474	1,082,058
Acquisition of investment securities	(38,939)	(5,707)	(314,278)
Proceeds from sales of investment securities	64,730	—	522,437
Increase in investment in subsidiaries and affiliates following consolidation	—	(3,970)	—
Expenditures for acquisition of TOA STEEL CO., LTD.'s business	—	(102,159)	—
Expenditures for other investing activities	(15,049)	(39,884)	(121,461)
Proceeds from other investing activities	21,851	33,957	176,360
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	95,332	(173,642)	769,427
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Decrease) Increase in short-term borrowings	(259,795)	60,262	(2,096,812)
Decrease in commercial paper	(58,000)	(122,000)	(468,119)
Proceeds from long-term borrowings	167,620	85,843	1,352,865
Repayment of long-term borrowings	(87,642)	(84,767)	(707,361)
Increase in bonds	80,596	79,099	650,492
Decrease in bonds	(83,915)	(62,300)	(677,280)
Cash dividends paid to minority shareholders	(770)	(1,165)	(6,215)
Proceeds from issuance of common stock to minority shareholders	—	131	—
Decrease in other financing activities	(4,688)	(3,510)	(37,837)
NET CASH USED IN FINANCING ACTIVITIES	(246,596)	(48,407)	(1,990,282)
Translation differences	2,205	(3,576)	17,797
Net increase (decrease) in cash and cash equivalents	41,043	(103,183)	331,259
Cash and cash equivalents at beginning of year	64,600	167,465	521,388
Increase reflecting consolidation of subsidiaries and affiliates	3,024	318	24,407
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 108,668	¥ 64,600	\$ 877,062

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2001	2000	2001
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes	¥ (7,154)	¥ (9,153)	\$ (57,740)
Cash and cash equivalents at end of year consisted of the following balance sheet items:			
Cash and deposits	¥108,845	¥ 59,756	\$ 878,491
Time deposits with a maturity of more than three months	(180)	(720)	(1,453)
Short-term investments (includes bond investment trust funds maturing within three months)	2	5,564	16
Cash and cash equivalents	¥108,668	¥ 64,600	\$ 877,062
Assets and liabilities of THAI COATED STEEL SHEET CO., LTD., at the time of consolidation as a new subsidiary:			
Current assets	¥ —	¥ 2,465	\$ —
Fixed assets	—	12,074	—
Adjustments for foreign exchange translations	—	(1,837)	—
Total assets	¥ —	¥ 12,702	\$ —
Current liabilities	¥ —	¥ 3,404	\$ —
Fixed liabilities	—	7,685	—
Total liabilities	¥ —	¥ 11,089	\$ —
Increase in assets and liabilities following the acquisition of TOA STEEL CO., LTD.'s business:			
Current assets	¥ —	¥ 37,248	\$ —
Fixed assets	—	193,838	—
Total assets	¥ —	¥ 231,086	\$ —
Current liabilities	¥ —	¥ 18,788	\$ —
Fixed liabilities	—	110,139	—
Total liabilities	¥ —	¥ 128,927	\$ —
Cost of acquisition of TOA STEEL CO., LTD.'s business	¥ —	(¥ 102,159)	\$ —

Note: Consolidated statements of cash flows were not prepared prior to fiscal 2000.

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.

As permitted by the Securities and Exchange Law, amounts of less than ¥1 million have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

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

The consolidated financial statements include the accounts of the Company and its 123 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The investments in 16 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 are 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 account 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.

3. Significant Accounting Policies

(a) Valuation of Securities

Prior to the year ended March 31, 2000, marketable and investment securities had been valued principally at cost being determined by the moving-average method.

A new accounting standard for financial instruments became effective April 1, 2000. Under the new accounting standard, available-for-sale securities with market price are marked to market based on the average market prices for one month before the balance sheet date. The revaluation differences are charged directly to the consolidated balance sheet by the direct-capitalization method, and the related costs of sale are calculated principally by moving-average method. Other available-for-sale securities without market price are stated at cost by the moving-average method.

Due to this adoption, the Company and its consolidated subsidiaries assessed their intention to hold their investments in securities at the beginning of the year, and classified certain investments as available-for-sale securities. As a result, marketable securities presented as current assets of ¥109,795 million (\$886,158 thousand) were reclassified to investment securities as of April 1, 2000.

(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

Until the year ended March 31, 2000, accrued employees' retirement benefits were stated at the amount in the discounted cash flow base, which would be required to be paid if all employees covered by the retirement benefit plans terminated their employment at the balance sheet date.

MAJOR SUBSIDIARIES AND AFFILIATES

Company	Line of Business	NKK's Shareholdings
		(%)
Steelmaking Operations		
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	67.1
NKKTUBES	Manufacture and sale of seamless steel pipes	49.0
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	49.6
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
MENTEC KIKO CORPORATION	Design, installation and maintenance of mechanical, electrical and control equipment; civil engineering works	83.5
KOKAN MINING COMPANY, LTD.	Mining and processing of raw materials for steel production	83.7
Nichiei Unyu Soko K.K.	Warehousing and transportation services	50.1
LS FENCE CO., LTD.	Sale of exterior goods, contract work	73.6
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
Engineering Operations		
Nippon Kokan Koji K.K.	Civil construction services	68.5
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
Other Operations		
NKK Facilities & Favor Co., Ltd.	Provision of welfare, wages, and other services under outsourcing contracts; renting and management of dormitories and company housing; real estate, travel and insurance services	99.9
NK HOME CO., LTD.	Design, construction and sale of houses	100.0
NK-EXA CORPORATION	Development and sale of computer systems	51.0
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

The resolution of the scheme to dissolve NKK U.S.A. Corp. was made at the Board of Directors' meeting of NKK on February 14, 2001.

NKK Marine & Logistics Corp. and Nissan Senpaku Ltd. were merged, with NKK Marine & Logistics the surviving entity, to reinforce the foundation of the Group's transportation division and to concentrate related know-how and operating resources in one company.

As noted last term as a subsequent event, NKF Corp. transferred the custodian and social welfare portions of its operations to NKK Facilities & Favor Co., Ltd., to centralize the Group's administration of property and employee welfare programs under one roof. NKF Corp. was then absorbed by NKK. NKK Facilities & Favor changed its name from NKK Business Support Co., Ltd., in the term under review.

NKKTUBES, a joint venture with Argentina's Siderca S.A. to produce seamless steel pipes, is a major affiliate of NKK from the term under review.

Seeking to integrate equipment and maintenance capabilities, NKK merged Mentec Kiko Corp. with a subsidiary conducting similar operations, and has from the term under review included the company as a major subsidiary.

In line with a comprehensive agreement with IBM Japan, Ltd., NKK relinquished 49% of its equity holding in NK-EXA Corp. to IBM Japan, and another 2% is scheduled to be relinquished to IBM Japan in July 2001.

Retirement benefits are provided for the employees as of the balance sheet date based on the projected benefit obligation and pension assets.

Out of the difference of ¥80,052 million (\$646,102 thousand) which arose at the time of transition, the amount of ¥10,603 million (\$85,577 thousand) was amortized at the time through stock contribution to the pension trust fund, and the remaining amount is amortized over five years. Actuarial difference is amortized from the following year.

In accordance with a new accounting standard for retirement benefits, which became effective April 1, 2000, ¥6,722 million (\$54,253 thousand) of gain on establishment of pension trust fund was recorded from the stock contribution. The effect of the adoption of the new accounting standard was to decrease income before income taxes and minority interests by ¥4,751 million (\$38,345 thousand). Due to this adoption, amounts of former employees' termination allowances and past service liability costs are included in employees' termination allowances.

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 are 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, except for shareholders' equity accounts, which are translated at their historical exchange rates.

Current and non-current monetary accounts denominated in foreign currencies are translated into yen at the current rates. Translation differences are charged to operations.

A new accounting standard for foreign currency translation became effective April 1, 2000. The effect of the adoption of the new standard on the consolidated financial statements was immaterial for the year ended March 31, 2001. Due to this adoption, the Company has

presented translation adjustments as a component of shareholders' equity and minority interests (instead of as a component of assets or liabilities) in its consolidated financial statements for the year ended March 31, 2001.

(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 United States have been prepared on the basis of accounting principles generally accepted in the United States. 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.

(j) Derivative Financial Instruments

Hedge Accounting

Deferral hedge accounting is adopted for all derivative transactions. Unrealized gains or losses arising from forward exchange transactions and currency swaps are allocated through the period of transaction. Net amounts of interest received/paid arising from interest rate swap transactions are charged to original interests periodically.

The company and certain consolidated subsidiaries have entered into certain derivative transactions in order to hedge risks arising from adverse fluctuations in foreign currency exchange rates and interest rates according to their internal control regulations. These transactions are limited solely for hedging purposes and not for speculation.

4. U.S. Dollar Amounts

The translation of yen amounts for the year ended March 31, 2001, into U.S. dollar amounts is stated solely for convenience, as a matter of arithmetic computation only, at the rate of ¥123.90=U.S.\$1.00, the approximate rate of exchange on March 31, 2001. 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. Securities

Market value of available-for-sale securities at March 31, 2001 was as follows:

	Millions of yen			Thousands of U.S. dollars		
	Cost	Carrying amount	Unrealized gain (loss)	Cost	Carrying amount	Unrealized gain (loss)
Cost lower than carrying amount:						
Stocks	¥ 64,251	¥ 91,389	¥ 27,137	\$518,571	\$ 737,603	\$ 219,023
Bonds	114	117	2	920	944	16
Subtotal	¥ 64,366	¥ 91,506	¥ 27,140	\$519,500	\$ 738,547	\$ 219,048
Cost exceeding carrying amount:						
Stocks	¥ 53,572	¥ 36,575	¥(16,996)	\$432,381	\$ 295,198	\$(137,175)
Bonds	17	17	(0)	137	137	(0)
Subtotal	¥ 53,589	¥ 36,592	¥(16,996)	\$432,518	\$ 295,335	\$(137,175)
Total	¥117,955	¥128,099	¥ 10,143	\$952,018	\$1,033,890	\$ 81,864

Other available-for-sale securities sold within the fiscal year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Sales amount	¥52,810	\$426,231
Gain on sales	25,759	207,902
Loss on sales	794	6,408

Available-for-sale securities which were non-marketable at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:		
Unlisted stocks, except OTC-traded stocks	¥15,035	\$121,348
Private placement municipal bonds	138	1,114
Subscription certificates	144	1,162

The carrying values of available-for-sale securities at contractual maturity at March 31, 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due between one and five years	Due in one year or less	Due between one and five years
Bonds:				
National bonds, municipal bonds, etc.	¥67	¥183	\$541	\$1,477

6. Depreciation and Amortization

Depreciation and amortization for the years ended March 31, 2001 and 2000, amounted to ¥112,102 million (\$904,778 thousand) and ¥118,384 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
	2001	2000	2001
Investments valued:			
On an equity basis	¥19,396	¥19,568	\$156,546
At cost or less	12,878	20,676	103,939
	¥32,275	¥40,244	\$260,492

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
	2001	2000	2001
Long-term prepaid expenses	¥ 3,166	¥ 13,600	\$ 25,553
Deferred tax assets	48,739	42,907	393,374
Long-term loans	8,719	9,986	70,371
Allowance for doubtful receivables	(21,696)	(63,910)	(175,109)
Intangible assets	24,504	28,631	197,772
Other	55,227	87,057	445,738
	¥118,660	¥118,271	\$ 957,708

9. Long-Term Indebtedness

Long-term indebtedness at March 31, 2001 and 2000 was summarized as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
6.5% reverse dual currency yen/Australian dollar notes, due 2001	¥ 13,000	¥ 13,000	\$ 104,923
6.2% yen bonds, due 2002	40,000	40,000	322,841
2.3% yen bonds, due 2001	30,000	30,000	242,131
2.15% yen bonds, due 2000	—	20,000	—
2.35% yen bonds, due 2001	30,000	30,000	242,131
2.85% yen bonds, due 2003	20,000	20,000	161,421
2.1% yen bonds, due 2000	—	15,000	—
1.6% yen bonds, due 2001	—	15,000	—
2.175% yen bonds, due 2003	10,000	10,000	80,710
2.65% yen bonds, due 2005	10,000	10,000	80,710
1.55% yen bonds, due 2000	—	10,000	—
3.1% yen bonds, due 2007	20,000	20,000	161,421
3.5% yen bonds, due 2012	20,000	20,000	161,421
2.8% yen bonds, due 2004	10,000	10,000	80,710
3.225% yen bonds, due 2007	10,000	10,000	80,710
2.5% yen bonds, due 2008	10,000	10,000	80,710
2.075% yen bonds, due 2005	10,000	10,000	80,710
2.0% yen bonds, due 2003	20,000	20,000	161,421
1.6% yen bonds, due 2001	30,000	30,000	242,131
2.2% yen bonds, due 2004	10,000	10,000	80,710
2.05% yen bonds, due 2004	10,000	10,000	80,710
2.25% yen bonds, due 2004	10,000	10,000	80,710
3.27% yen bonds, due 2009	10,000	10,000	80,710
1.92% yen bonds, due 2005	10,000	—	80,710
2.1% yen bonds, due 2006	10,000	—	80,710
1.89% yen bonds, due 2005	10,000	—	80,710
2.0% yen bonds, due 2005	10,000	—	80,710
2.0% yen bonds, due 2005	1,000	—	8,071
1.5% yen bonds, due 2004	10,000	—	80,710
1.25% yen bonds, due 2006	10,000	—	80,710
1.6% yen bonds, issued by subsidiary, due 2004	500	500	4,036
Euro medium-term notes issued by subsidiary, at floating interest rates from 4.96% to 8.70%, due through 2003	20,792	20,751	167,813
7.49% bonds issued by subsidiary, due 2003	5,760	5,147	46,489
Bonds issued by subsidiary, at interest rates from 8.375% to 9.875%, due through 2009	41,380	38,395	333,979
Bonds issued by subsidiary, at interest rates from 4.5% to 9.15%, due through 2011	1,951	1,759	15,747
Loans, principally from banks and insurance companies, due through 2015	721,904	632,911	5,826,505
Less current portion included in current liabilities	(220,020)	(155,921)	(1,775,787)
	¥ 956,268	¥ 926,542	\$ 7,718,063

The Company and its domestic consolidated subsidiaries have concluded commitment line contracts to enhance efficiency and stability in fund procurement.

Components of commitment line contracts at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Total commitment line contracts	¥125,100	\$1,009,685
Net borrowings	2,000	16,142

10. Other Long-Term Liabilities

Other long-term liabilities were composed of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Long-term pension liabilities	¥ 19,206	¥ 16,396	\$ 155,012
Postretirement benefits other than pensions . . .	51,935	44,339	419,169
Deferred tax liabilities . . .	436	17,263	3,519
Other long-term liabilities	52,716	54,504	425,472
	¥124,294	¥132,502	\$1,003,180

11. Retirement and Severance Benefits and Pension Costs

Pension Plan System

The Company and its domestic consolidated subsidiaries maintain as defined-benefit plans lump-sum payment programs and tax-qualified pension schemes. In addition, fulltime employees taking early retirement may be provided with supplementary severance amounts when these employees end their service to said companies.

Components of retirement benefit obligation at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
a) Retirement benefit obligation	¥(266,003)	\$(2,146,917)
b) Fair value of plan assets	119,859	967,385
c) Unfunded retirement benefit obligation (a+b)	(146,143)	(1,179,524)
d) Unrecognized net retirement benefit obligation at transition . . .	55,517	448,079
e) Unrealized actuarial loss	12,029	97,086
f) Net amount posted to the balance sheets (c+d+e)	(78,597)	(634,358)
g) Prepaid pension costs	985	7,950
h) Employees' termination allowances (f-g)	(79,582)	(642,308)

Note: Some subsidiaries apply a simplified method to calculate retirement benefit obligation.

Components of accrued retirement benefit cost for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
a) Service cost (Note 1)	¥ 9,941	\$ 80,234
b) Interest expense	7,843	63,301
c) Expected return on plan assets	(4,336)	(34,996)
d) Amortization of unrecognized net retirement benefit obligation at transition (Note 2)	24,535	198,023
e) Accrued retirement benefit cost (a+b+c+d) (Note 3)	37,984	306,570

Note 1: Accrued retirement benefit cost incurred by consolidated subsidiaries applying a simplified method to calculate retirement benefit obligation is included under "service cost."

2: Amortization of net retirement benefit obligation at the transition associated with adoption of a new accounting standard for retirement benefits includes the one-time amortization of ¥10,603 million through the contribution of available-for-sale securities to retirement benefit trusts.

3: Other than the accrued retirement benefit cost noted above, the Company and its domestic consolidated subsidiaries processed supplementary severance amounts of ¥11,396 million as special charges.

The basis for calculation of retirement benefit obligation was as follows:

a) Term-allotment method for anticipated retirement benefits	Term-based straight-line method
b) Discount rate	Principally 3%
c) Expected return on plan assets	Principally 4%
d) Amortization period for net retirement benefit obligation at transition	5 years

National Steel Corp. and its consolidated subsidiaries maintain defined-benefit plans for nearly all fulltime employees, and because pension costs are reported in compliance with FAS 87 of the U.S. Financial Accounting Standards Board, the assets and liabilities associated with said pension plans are disclosed as "other assets" in investments and other assets, as "other long-term liabilities" in long-term liabilities and reserves, and in retained earnings. The major components of these assets and liabilities are presented below.

Projected pension benefit obligation at December 31, 2000 was composed of the following:

	Millions of yen	Thousands of U.S. dollars
a) Projected pension benefit obligation	¥(245,327)	\$(1,980,040)
b) Fair value of plan assets	240,356	1,939,919
c) Unfunded projected pension benefit obligation (a+b)	(4,970)	(40,113)
d) Unrecognized actuarial loss, etc.	(7,163)	(57,813)
e) Net amount posted in the balance sheets (c+d)	(12,134)	(97,934)

Net amount posted in the balance sheets at December 31, 2000 was as follows:

	Millions of yen	Thousands of U.S. dollars
a) Other assets in investments and other assets	¥ 6,807	\$ 54,939
b) Other long-term liabilities	(19,206)	(155,012)
c) Retained earnings	264	2,131

Recognized cost for the year ended December 31, 2000 was ¥3,763 million (\$30,371 thousand).

The basis for calculation of projected pension benefits obligation was as follows:

a) Discount rate	8.0%
b) Expected return on plan assets	9.75%

12. 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
	2001	2000	2001
(Gain) loss on sales or disposals of fixed assets	¥(73,574)	¥ (8,975)	\$(593,818)
Loss on sales of disposal of inventory	—	2,574	—
(Gain) loss on sales of securities issued by subsidiaries and affiliates	(8,513)	—	(68,709)
(Gain) loss on sales of investments in securities	(24,966)	(330)	(201,501)
(Gain) on establishment of pension trust fund	(6,722)	—	(54,253)
Past service cost of pension plan	—	1,491	—
Amortization of transitional obligations for employees' retirement benefits	24,535	—	198,023
Liquidation loss related to investments in affiliates, etc.	5,626	4,024	45,408
Special charge arising from employees' termination benefits	11,396	46,538	91,977
Loss on writedowns of marketable securities	—	9,789	—
Loss on writedowns of investments in securities, etc.	8,814	—	71,138
Special charge on reorganization of electronic devices business operation	—	11,282	—
Loss on transfer of assets incurred from establishment of seamless pipe joint venture	7,189	—	58,023
Loss on reorganization of welfare and estate functions	25,078	—	202,405
Other, net	(3,389)	4,968	(27,353)
	¥(34,525)	¥71,361	\$(278,652)

"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.

Loss on the transfer of assets incurred from the establishment of a seamless pipe joint venture with Siderca S.A., represents losses incurred in the transfer of machinery and equipment to the joint venture.

Loss on the reorganization of welfare and estate functions represents losses incurred by the transfer of land, paralleling an operational reorganization through which the property and employee welfare functions of NKF Corp. were reassigned to NKK Facilities & Favor Co., Ltd.

13. Adjustment to Beginning Balance

National Steel Corporation ("NSC") restated its financial statements retroactively in fiscal 2000. This restatement increased NSC's retained earnings as of December 31, 1999 by \$19.8 million, and resulted in an increase in the Company's retained earnings of ¥1,183 million for the year ended March 31, 2001.

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.

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, 2001:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted with banks . . .	¥ 848	\$ 6,844
Trade notes endorsed	306	2,470
Guarantees of indebtedness	32,879	265,367

The above guarantees include ¥5,403 million (\$43,608 thousand) reguaranteed by other parties.

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, 2001	Millions of yen	Thousands of U.S. dollars
Acquisition cost equivalents:		
Buildings	¥ 13	\$ 105
Machinery and equipment	2,060	16,626
Other assets	18,831	151,985
	¥20,906	\$168,733
Accumulated depreciation equivalents:		
Buildings	¥ 8	\$ 65
Machinery and equipment	1,102	8,894
Other assets	9,930	80,145
	¥11,041	\$ 89,112
Balance equivalents:		
Buildings and structures	¥ 4	\$ 32
Machinery and equipment	958	7,732
Other assets	8,901	71,840
	¥ 9,864	\$ 79,613

Lease commitment equivalents as of March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Within one year	¥3,509	\$28,321
More than one year	6,354	51,283
	¥9,864	\$79,613

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, 2001	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Employees' termination allowances	¥ 27,515	\$ 222,074
Loss carried forward	4,274	34,496
Elimination of unrealized profits . . .	5,957	48,079
Deferred tax assets recorded at subsidiaries in the United States . .	66,411	536,005
Reserve for loss on guarantees . . .	14,918	120,404
Other	40,893	330,048
Total deferred tax assets	¥159,969	\$1,291,114
Valuation allowance	(4,356)	(35,157)
Valuation allowance at subsidiaries in the United States . . .	¥ (20,666)	\$ (166,796)
Deferred tax assets net of valuation allowances	¥134,946	\$1,089,153
Deferred tax liabilities:		
Reserve of Special Taxation Measures Law	(22,990)	(185,553)
Deferred tax liabilities recorded at subsidiaries in the United States . .	(23,568)	(190,218)
Other	(5,048)	(40,743)
Total deferred tax liabilities	(51,608)	(416,529)
Net deferred tax assets	¥ 83,338	\$ 672,623

18. Segment Information

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

(a) Information by Business Segment

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Sales to customers:			
Steel Division	¥1,267,572	¥1,211,369	\$10,230,605
Engineering Division . .	416,523	404,498	3,361,768
Other Fields	103,133	69,524	832,389
Consolidated net sales	¥1,787,228	¥1,685,391	\$14,424,762
Inter-segment sales:			
Steel Division	¥ 30,846	¥ 24,544	\$ 248,959
Engineering Division . .	32,466	31,201	262,034
Other Fields	18,690	20,012	150,847
.....	¥ 82,003	¥ 75,757	\$ 661,848
Total sales:			
Steel Division	¥1,298,419	¥1,235,913	\$10,479,572
Engineering Division . .	448,989	435,699	3,623,801
Other Fields	121,823	89,536	983,236
Eliminations	(82,003)	(75,757)	(661,848)
Consolidated net sales	¥1,787,228	¥1,685,391	\$14,424,762
Operating expenses:			
Steel Division	¥1,238,281	¥1,179,190	\$ 9,994,197
Engineering Division . .	431,139	424,526	3,479,734
Other Fields	115,558	91,437	932,672
Corporate and eliminations	(78,336)	(71,684)	(632,252)
Consolidated operating expenses	¥1,706,642	¥1,623,469	\$13,774,350
Operating income:			
Steel Division	¥ 60,138	¥ 56,723	\$ 485,375
Engineering Division . .	17,850	11,173	144,068
Other Fields	6,265	(1,901)	50,565
Corporate and eliminations	(3,667)	(4,073)	(29,596)
Consolidated operating income . .	¥ 80,586	¥ 61,922	\$ 650,412

(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
	2001	2000	2001
Overseas sales	¥545,082	¥588,567	\$4,399,370
Percentage of overseas sales to consolidated net sales	30.5%	34.9%	

19. Subsequent Events

In April 2001, NKK and Kawasaki Steel Corporation reached a basic agreement on the consolidation of their entire operations. Following approval by their shareholders and Japan's regulatory authorities, the two companies will implement a full-scale business consolidation on equal terms, as follows:

- In the first stage, the two companies will establish a joint holding company by a stock-for-stock deal, and will become wholly owned subsidiaries of this company by October 2002. In the second stage, working under the holding company, the companies will form all-new business entities in respective business segments.
- The name, location, board members and other details of the holding company will be decided based on discussion between the two companies.
- The stock swap ratio will be decided based on discussion between the two companies and consideration of the opinions of professional institutions.

On March 23, 2001, the Company decided the issuance of bonds with the following conditions:

Bonds	No. 38 unsecured bonds
Date of issue	June 26, 2001
Amount of issue	¥10 billion
Issue price	Issued at par of ¥100
Yield	0.87%
Maturity	June 26, 2006
Collateral	Unsecured
Use of procured funds	Refinancing