

Consolidated Six-Year Summary

Years ended March 31	Millions of yen						Thousands of U.S. dollars (Note 1)
	2002	2001	2000	1999	1998	1997	2002
FINANCIAL DATA:							
For the Year:							
Net sales	¥1,653,500	¥1,787,228	¥1,685,391	¥1,808,767	¥1,934,367	¥1,877,655	\$12,409,006
Gross profit	194,489	300,751	276,924	234,407	317,550	310,374	1,459,580
Operating (loss) income . .	(7,671)	80,586	61,922	(4,160)	76,503	94,419	(57,568)
(Loss) income before income taxes and minority interests	(100,587)	77,514	(43,390)	(155,884)	29,123	56,540	(754,874)
Net (loss) income	(67,589)	96,990	(45,928)	(108,557)	14,278	16,692	(507,235)
Capital expenditures	69,402	89,886	91,973	94,794	123,438	133,203	520,841
Depreciation and amortization	107,613	112,102	118,384	130,361	135,910	106,964	807,602
At Year-End:							
Total current assets	774,003	945,074	1,029,614	1,143,841	1,168,532	996,713	5,808,653
Property, plant and equipment, net	1,176,523	1,391,661	1,447,104	1,314,977	1,594,365	1,397,727	8,829,441
Total investments and other assets	276,870	294,452	181,491	207,491	183,782	211,236	2,077,824
Total assets	2,227,397	2,631,188	2,688,702	2,691,396	2,963,892	2,635,324	16,715,925
Total current liabilities . . .	961,177	986,166	1,147,601	1,201,494	1,302,402	1,139,413	7,213,336
Total long-term liabilities and reserves	922,209	1,200,101	1,173,238	1,076,602	1,100,351	959,455	6,920,893
Total shareholders' equity	320,545	376,410	285,402	327,957	465,064	463,738	2,405,591
Yen							
PER SHARE DATA:							
Net (loss) income	¥(19.84)	¥ 28.47	¥(13.48)	¥(31.59)	¥ 4.05	¥ 4.74	\$(0.149)
Shareholders' equity	94.09	110.48	83.77	96.26	131.99	131.61	0.706
OPERATING DATA:							
Number of employees	28,413	39,875	39,603	—	—	—	
Number of shareholders	232,847	254,615	266,800	256,198	245,073	235,683	
Production of raw steel (Millions of tons)	20.03	20.75	19.29	—	—	—	

Notes: 1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥133.25=US\$1.00, the approximate rate of exchange on March 31, 2002.
2. Consolidated number of employees and production of raw steel were not prepared prior to fiscal 2000.

Management's Discussion and Analysis

Background

Domestic business conditions continued to deteriorate in fiscal 2002, ended March 31, 2002. In Japan, the economic environment was impacted by sluggish capital investment activities, caused primarily by a slump in information technology (IT) -related demand. Exports dropped considerably, due to the slowing of the U.S. and Asian economies.

Consolidated Fiscal Performance

Sales

NKK's net sales fell 7.5%, to ¥1,653.5 billion, chiefly due to reduced shipping volume caused by retreating demand for steel as well as lower average prices on steel products.

Income and Expenses

Cost of sales decreased 1.8%, to ¥1,459.0 billion. Gross profit dropped 35.3%, to ¥194.5 billion, leading to a gross profit margin of 11.8%, a decline of 5.0 percentage points over fiscal 2001, as efforts to curtail costs were overshadowed by lower volumes and prices.

Cost of Sales and Gross Profit

	Millions of yen		Thousands of	Percentage
	2002	2001	U.S. dollars	
	2002	2001	2002	change
Net sales ..	¥1,653,500	¥1,787,228	\$12,409,006	(7.5)%
Cost of sales	1,459,010	1,486,477	10,949,418	(1.8)
Gross profit	¥ 194,489	¥ 300,751	\$ 1,459,580	(35.3)%
Gross profit margin ...	11.8%	16.8%		

Selling, general and administrative expenses were down 8.2%, to ¥202.2 billion. The reduction stems from a lighter burden of selling expenses paralleling reduced sales activity and from continued groupwide efforts to control costs.

Poor business conditions at home and abroad caused the operating environment for NKK to deteriorate. This situation was especially true for the Steel Division and was manifested in a ¥57.1 billion operating loss for consolidated subsidiary National Steel. As a result, the Corporation recorded an operating loss of ¥7.7 billion, a major reversal from operating income of ¥80.6 billion posted in fiscal 2001.

Selling, General and Administrative Expenses and

Operating (Loss) Income

	Millions of yen		Thousands of	Percentage
	2002	2001	U.S. dollars	
	2002	2001	2002	change
Selling, general and administrative expenses	¥202,160	¥220,165	\$1,517,148	(8.2)%
Operating (loss) income	(7,671)	80,586	(57,568)	

Net other expenses surged ¥89.8 billion, to ¥92.9 billion. This huge increase is principally due to three factors: a decrease in gain on sales or disposals of fixed assets; expenses totaling ¥28.6 billion from loss related to investments in subsidiaries and affiliates, etc., including losses connected to National Steel's filing for protection under Chapter 11 of the U.S. Federal Bankruptcy Code; and loss on writedowns of investments in securities, etc., of ¥21.9 billion.

Consequently, NKK posted a loss before income taxes and minority interests of ¥100.6 billion, and a net loss of ¥67.6 billion.

Other (Income) Expenses, and (Loss) Income before Income Taxes and Minority Interests

	Millions of yen		Thousands of	Percentage
	2002	2001	U.S. dollars	
	2002	2001	2002	change
Other (income) expenses:				
Interest income	¥ (1,758)	¥ (2,736)	\$ (13,193)	(35.7)%
Interest expenses	38,527	40,604	289,133	(5.1)
Dividends received	(2,387)	(2,239)	(17,914)	6.6
Equity in earnings of affiliates ..	599	1,970	4,495	(69.6)
Other, net	57,934	(34,525)	434,777	
	¥ 92,916	¥ 3,072	\$ 697,306	
(Loss) income before income taxes and minority interests	¥(100,587)	¥ 77,514	\$(754,874)	

Divisional Results

Steel Division

Total sales in the Steel Division fell 8.8%, to ¥1,184.5 billion, largely due to a 5.9% decrease in shipments of steel products, to 18.6 million tons, and faltering sales prices, despite the positive influence of exchange rates on sales overseas.

Concerted efforts to curtail costs were rewarded as the Steel Division bettered its medium-term goal a year ahead of schedule. The Corporation benefited with a profit improvement of about ¥40 billion. Despite this, the deteriorating business climate and the ¥57.1 billion operating loss incurred by National Steel precipitated a ¥32.3 billion operating loss for the Steel Division.

Engineering Division

Total sales in the Engineering Division inched up 0.4%, to ¥450.9 billion, while operating income jumped 15.2%, to ¥20.6 billion. Higher operating income for this division reflected improved groupwide profits through concerted cost-cutting measures implemented to ameliorate the effects of a challenging operating environment.

Other Fields

Total sales in Other Fields retreated 33.1%, to ¥81.6 billion, but operating income decreased only slightly, to ¥5.7 billion, owing to better earnings power. The recycling segment marked a favorable expansion in performance, but the improvement was insufficient to compensate for fewer sales of condominiums by the urban development segment, compared with the results achieved in fiscal 2001 when completion of units was concentrated, and for the exclusion of EXA CORPORATION's results from the consolidated total. This IT subsidiary became unconsolidated in the second half of fiscal 2002 and is now accounted for under the equity method.

Financial Position

Total assets stood at ¥2,227.4 billion as of March 31, 2002, shrinking 15.3% from a year earlier. The reduction is primarily due to the absence of National Steel's assets from the consolidated books and the reduction of inventories and receivables.

Total current liabilities and total long-term liabilities and reserves amounted to ¥1,883.4 billion, down 13.9% year-on-year. The decrease stems from the absence of National Steel's liabilities from the consolidated books and a reduction in indebtedness through the redemption of corporate bonds.

NKK squeezed outstanding debt 15.9%, to ¥1,109.3 billion. This was realized by using free cash flow generated in fiscal 2002 and cash accumulated in fiscal 2001 for the redemption of corporate bonds and other purposes. The exclusion of National Steel's liabilities from the consolidated books also limited consolidated interest-bearing liabilities.

Total shareholders' equity was eroded 14.8%, to ¥320.5 billion, largely because of the net loss recorded in fiscal 2002.

Shareholders' Equity

	Millions of yen		Thousands of	Percentage
	2002	2001	U.S. dollars	
Total assets	¥2,227,397	¥2,631,188	\$16,715,925	(15.3)%
Total shareholders' equity	320,545	376,410	2,405,591	(14.8)
Shareholders' equity ratio	14.4%	14.3%		

Capital Investment and Depreciation

Striving to keep capital investment within the range of depreciation and amortization, NKK maintained a prudent approach in its selection of areas where funds would be applied in fiscal 2002. The Corporation trimmed capital investment 22.8%, to ¥69.4 billion. Depreciation and amortization was down 4.0%, to ¥107.6 billion.

Capital Investment and Depreciation

	Millions of yen		Thousands of	Percentage change
	2002	2001	U.S. dollars	
Capital investment	¥ 69,402	¥ 89,886	\$520,841	(22.8)%
Depreciation and amortization	107,613	112,102	807,602	(4.0)

Cash Flow Analysis

Net cash provided by operating activities reached ¥130.2 billion, a decrease of 31.5%, or ¥59.9 billion, as the ¥67.6 billion net loss offset the merits of reduced inventories and receivables.

Net cash used in investing activities amounted to ¥51.3 billion, compared with net cash provided by investing activities of ¥95.3 billion in fiscal 2001. This is attributable to reductions in proceeds from sales of fixed assets, and in proceeds from sales of investment securities.

Free cash flow, which is the sum of net cash provided by operating activities and net cash used in investing activities, totaled ¥79.0 billion.

Net cash used in financing activities dropped 48.7%, or ¥120.2 billion, to ¥126.4 billion, because the Corporation used free cash flow as well as cash accumulated in fiscal 2001 for the redemption of corporate bonds and other purposes to repay indebtedness.

The balance of outstanding debt at March 31, 2002, came to ¥1,109.3 billion, owing to the repayment of the aforementioned indebtedness as well as the exclusion of National Steel's portion from the consolidated books.

Consequently, cash and cash equivalents at the end of the fiscal year reached ¥63.2 billion, down 41.8%, or

¥45.4 billion.

Reference

National Steel filed the petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code on March 6, 2002. National Steel's consolidated financial results are reflected in NKK's consolidated statement of operations and statement of cash flows through the end of fiscal 2002. Its year-end assets and liabilities are excluded from NKK's consolidated balance sheet.

If the income and expenses of National Steel were eliminated from NKK's consolidated financial statements, the Corporation's statement of operations and major financial indicators would be as follows:

	Billions of yen		
	2002		
	Consolidated	National Steel-related (Note 1)	Others
Net sales	¥1,653.5	¥302.9	¥1,350.6
Operating (loss) income	(7.7)	(57.1)	49.4
Other expenses	92.9	29.9 (Note 2)	63.0
Net (loss)	(67.6)	(60.2) (Note 3)	(7.4)

Notes: 1. The amounts in "National Steel-related" are after eliminations.
2. NKK's loss related to National Steel is included in this total.
3. NKK's loss related to National Steel, and National Steel's tax benefits, are included in this total.

	Billions of yen, %		
	2002		
	Consolidated	National Steel-related (Note 1)	Others
Return on assets	(0.1)%	(18.9)%	2.3%
Free cash flow	79.0	(34.3)	113.3
Balance of outstanding debt	¥1,109.3	—	¥1,109.3

Notes: 1. The amounts in "National Steel-related" are after eliminations.
2. The amount of outstanding debt excluded from NKK's consolidated balance sheet is ¥108.9 billion.

Consolidated Balance Sheets

ASSETS

March 31	Millions of yen		Thousands of U.S. dollars (Note 4)
	2002	2001	2002
CURRENT ASSETS:			
Cash and deposits	¥ 63,312	¥ 108,845	\$ 475,137
Accounts receivable	329,432	405,535	2,472,285
Allowance for doubtful receivables	(1,253)	(2,956)	(9,403)
Inventories:			
Finished goods	58,595	78,407	439,737
Work in process	135,843	154,116	1,019,460
Raw materials and supplies	113,977	143,221	855,362
Other current assets	74,095	57,904	556,060
TOTAL CURRENT ASSETS	774,003	945,074	5,808,653
PROPERTY, PLANT AND EQUIPMENT (Notes 3 and 5):			
Land	318,202	324,193	2,388,008
Buildings	885,397	958,783	6,644,630
Machinery and equipment	2,455,219	2,824,005	18,425,659
Construction in progress	21,146	10,747	158,694
Accumulated depreciation	(2,503,443)	(2,726,068)	(18,787,565)
PROPERTY, PLANT AND EQUIPMENT, NET	1,176,523	1,391,661	8,829,441
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and affiliates (Note 6) . . .	32,995	32,275	247,617
Investments in other securities (Note 7)	124,478	143,517	934,169
Other assets (Note 8)	119,396	118,660	896,030
TOTAL INVESTMENTS AND OTHER ASSETS	276,870	294,452	2,077,824
TOTAL ASSETS	¥ 2,227,397	¥ 2,631,188	\$ 16,715,925

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)
	2002	2001	2002
CURRENT LIABILITIES:			
Short-term bank borrowings and commercial paper	¥ 125,200	¥ 142,892	\$ 939,587
Current portion of long-term indebtedness (Note 9).....	218,683	220,020	1,641,148
Advances from customers on contracts	51,163	47,891	383,962
Accounts payable.....	410,646	387,472	3,081,771
Accrued expenses	112,580	154,454	844,878
Accrued income taxes	14,338	19,511	107,602
Other current liabilities.....	28,564	13,923	214,364
TOTAL CURRENT LIABILITIES	961,177	986,166	7,213,336
LONG-TERM LIABILITIES AND RESERVES:			
Indebtedness (Note 9)	765,421	956,268	5,744,248
Employees' termination allowances	81,904	79,582	614,664
Reserve for rebuilding furnaces.....	33,511	39,955	251,490
Other long-term liabilities (Note 10)	41,371	124,294	310,477
TOTAL LONG-TERM LIABILITIES AND RESERVES	922,209	1,200,101	6,920,893
CONTINGENT LIABILITIES (Note 15)			
MINORITY INTERESTS	23,465	68,510	176,098
SHAREHOLDERS' EQUITY:			
Common stock:			
Authorized—			
5,883,584,000 shares as of March 31, 2002			
5,883,584,000 shares as of March 31, 2001			
Issued and outstanding—			
3,407,165,634 shares as of March 31, 2002	233,731	—	1,754,079
3,407,165,634 shares as of March 31, 2001	—	233,731	
Additional paid-in capital	95,509	95,509	716,765
(Deficit) retained earnings.....	(10,999)	56,168	(82,544)
Treasury common stock, at cost:			
217,133 shares at March 31, 2002, and	(20)	—	(150)
16,750 shares at March 31, 2001	—	(1)	
Unrealized gain on revaluation of securities	5,404	4,554	40,555
Translation adjustments	(3,080)	(13,551)	(23,114)
TOTAL SHAREHOLDERS' EQUITY	320,545	376,410	2,405,591
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY ...	¥2,227,397	¥2,631,188	\$16,715,925

Consolidated Statements of Operations

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 4)
	2002	2001	2000	2002
NET SALES	¥1,653,500	¥1,787,228	¥1,685,391	\$12,409,006
COST OF SALES	1,459,010	1,486,477	1,408,467	10,949,418
Gross profit	194,489	300,751	276,924	1,459,580
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	202,160	220,165	215,002	1,517,148
Operating (loss) income	(7,671)	80,586	61,922	(57,568)
OTHER (INCOME) EXPENSES:				
Interest income	(1,758)	(2,736)	(3,434)	(13,193)
Interest expenses	38,527	40,604	40,216	289,133
Dividends received	(2,387)	(2,239)	(2,092)	(17,914)
Equity in earnings of affiliates	599	1,970	(739)	4,495
Other, net (Note 12)	57,934	(34,525)	71,361	434,777
	92,916	3,072	105,312	697,306
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	(100,587)	77,514	(43,390)	(754,874)
INCOME TAXES (CREDIT):				
Current	17,530	17,888	7,434	131,557
Deferred	(13,737)	(31,406)	(1,410)	(103,092)
	3,792	(13,517)	6,024	28,458
(LOSS) INCOME BEFORE MINORITY INTERESTS	(104,380)	91,031	(49,414)	(783,340)
MINORITY INTERESTS	36,790	5,958	3,486	276,098
NET (LOSS) INCOME	¥ (67,589)	¥ 96,990	¥ (45,928)	\$ (507,235)
		Yen		U.S. dollars (Note 4)
AMOUNTS PER SHARE OF COMMON STOCK:				
Net (loss) income	¥(19.84)	¥28.47	¥(13.48)	\$ (0.149)

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)
	2002	2001	2000	2002
COMMON STOCK:				
Beginning balance	¥233,731	¥233,731	¥233,731	\$ 1,754,079
Ending balance	¥233,731	¥233,731	¥233,731	\$ 1,754,079
ADDITIONAL PAID-IN CAPITAL:				
Beginning balance	¥ 95,509	¥ 95,509	¥ 95,509	\$ 716,765
Ending balance	¥ 95,509	¥ 95,509	¥ 95,509	\$ 716,765
(DEFICIT) RETAINED EARNINGS:				
Beginning balance	¥ 56,168	¥(43,838)	¥ (1,283)	\$ 421,523
Adjustment to reflect NSC's restatement (Note 13)	—	1,183	—	—
Add:				
Net income	—	96,990	—	—
Application of the equity method for certain affiliates and initial consolidation of previously unconsolidated subsidiaries	834	1,438	490	6,259
Exclusion from consolidation	—	523	165	—
Gain on purchase by NSC of its own stock	—	—	768	—
Adjustment to recognize minimum pension liability (Note 14) ..	—	181	2,634	—
Deduct:				
Net loss	(67,589)	—	(45,928)	(507,235)
Directors' bonuses	(15)	(21)	(29)	(113)
Writedown of asset revaluation at Thai subsidiary/affiliate	(398)	(288)	(336)	(2,987)
Adjustment to beginning balance following revision to financial statements prepared by Thai affiliate (Note 13)	—	—	(319)	—
Ending balance	¥ (10,999)	¥ 56,168	¥(43,838)	\$ (82,544)
TREASURY COMMON STOCK, AT COST:				
Beginning balance	¥ (1)	¥ (0)	¥ (0)	\$ (8)
Deduct:				
Net increase in treasury stock	(19)	(1)	—	(143)
Ending balance	¥ (20)	¥ (1)	¥ (0)	\$ (150)
UNREALIZED GAIN ON REVALUATION OF SECURITIES:				
Beginning balance	¥ 4,554	¥ —	¥ —	\$ 34,176
Add	850	4,554	—	6,379
Ending balance	¥ 5,404	¥ 4,554	¥ —	\$ 40,555
TRANSLATION ADJUSTMENTS:				
Beginning balance	¥ (13,551)	¥ —	¥ —	\$ (101,696)
Add	10,470	—	—	78,574
Deduct	—	(13,551)	—	—
Ending balance	¥ (3,080)	¥(13,551)	¥ —	\$ (23,114)

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)
	2002	2001	2000	2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net (loss) income	¥ (67,589)	¥ 96,990	¥ (45,928)	\$ (507,235)
Depreciation and amortization	107,613	112,102	118,384	807,602
Increase (decrease) in reserves	11,155	(39,484)	(13,591)	83,715
Interest and dividend income	(4,145)	(4,976)	(5,526)	(31,107)
Interest expenses	38,527	40,604	40,216	289,133
Gain on sales or disposals of fixed assets	(5,231)	(73,574)	(8,975)	(39,257)
Loss (gain) on sales of investments in securities	1,913	(24,966)	—	14,356
Gain on sales of securities issued by subsidiaries and affiliates	(272)	(8,513)	—	(2,041)
Gain on sale of natural gas derivative contract	(3,185)	—	—	(23,902)
Gain on establishment of pension trust fund	—	(6,722)	—	—
Loss on writedowns of investments in securities, etc.	21,861	8,814	—	164,060
Liquidation loss related to investments in subsidiaries and affiliates, etc.	28,564	5,626	4,024	214,364
Past service cost of pension plan	—	—	1,491	—
Special charge arising from employees' termination benefits	9,066	11,396	46,538	68,038
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	—	—
Loss on reorganization of welfare and real estate functions	—	25,078	—	—
Decrease (increase) in trade receivables	30,740	(4,187)	(419)	230,694
Decrease in inventories	23,132	34,881	11,006	173,598
Increase in accounts payable	36,903	58,778	12,190	276,946
Others	(63,893)	(23,720)	43,033	(479,497)
Total adjustments	165,163	215,316	223,514	1,239,497
Interest and dividends received	4,271	5,632	4,895	32,053
Interest paid	(39,568)	(41,839)	(38,081)	(296,946)
Retirement and severance benefits paid	(12,061)	(12,030)	(63,852)	(90,514)
Others	12,431	23,021	(4,034)	93,291
NET CASH PROVIDED BY OPERATING ACTIVITIES	130,236	190,101	122,442	977,381
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(61,505)	(71,327)	(91,353)	(461,576)
Proceeds from sales of property, plant and equipment	23,977	134,067	35,474	179,940
Acquisition of investment securities	(15,626)	(38,939)	(5,707)	(117,268)
Proceeds from sales of investment securities	4,124	64,730	—	30,949
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	(9,718)	(15,049)	(39,884)	(72,931)
Proceeds from other investing activities	7,486	21,851	33,957	56,180
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(51,261)	95,332	(173,642)	(384,698)
CASH FLOWS FROM FINANCING ACTIVITIES:				
(Decrease) increase in short-term borrowings	(23,181)	(259,795)	60,262	(173,966)
Decrease in commercial paper	—	(58,000)	(122,000)	—
Proceeds from long-term borrowings	89,424	167,620	85,843	671,099
Repayment of long-term borrowings	(106,522)	(87,642)	(84,767)	(799,415)
Increase in bonds	40,000	80,596	79,099	300,188
Decrease in bonds	(118,689)	(83,915)	(62,300)	(890,724)
Cash dividends paid to minority shareholders	(393)	(770)	(1,165)	(2,949)
Proceeds from issuance of common stock to minority shareholders	—	—	131	—
Compensation to minority shareholders arising from redemption of common stock	(1,569)	—	—	(11,775)
Decrease in other financing activities	(5,458)	(4,688)	(3,510)	(40,961)
NET CASH USED IN FINANCING ACTIVITIES	(126,391)	(246,596)	(48,407)	(948,525)
Translation differences	2,191	2,205	(3,576)	16,443
Net (decrease) increase in cash and cash equivalents	(45,225)	41,043	(103,183)	(339,400)
Cash and cash equivalents at beginning of year	108,668	64,600	167,465	815,520
(Decrease) increase in cash or cash equivalents resulting from changes in consolidated subsidiaries	(222)	3,024	318	(1,666)
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 63,220	¥ 108,668	¥ 64,600	\$ 474,447

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 4)
	2002	2001	2000	2002
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Income taxes	¥ (21,841)	¥ (7,154)	¥ (9,153)	\$ (163,910)
Cash and cash equivalents at end of year consisted of the following balance sheet items:				
Cash and deposits	¥ 63,312	¥108,845	¥ 59,756	\$ 475,137
Time deposits with a maturity of more than three months	(92)	(180)	(720)	(690)
Short-term investments (includes bond investment trust funds maturing within three months)	—	2	5,564	—
Cash and cash equivalents	¥ 63,220	¥108,668	¥ 64,600	\$ 474,447
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: Supplemental information on the Chapter 11 filing of National Steel Corporation is stated in Note 2 in the Notes to Consolidated Financial Statements on page 32.

Notes to Consolidated Financial 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.

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 Unconsolidated Subsidiaries and Affiliates

The consolidated financial statements include the accounts of the Company and its 82 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The investments in 15 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.

National Steel Corporation ("NSC") filed the petition for reorganization under Chapter 11 of U.S. Bankruptcy Code on March 6, 2002. NSC's consolidated financial

results were reflected in the Company's consolidated statement of operations and statement of cash flows through the year ended March 31, 2002. Its year-end assets and liabilities were excluded from the Company's consolidated balance sheet.

The amounts included in the Company's consolidated statement of operations, and total assets and debt that were excluded from the Company's consolidated balance sheet are summarized as follows:

	Millions of yen
Net sales	¥302,917
Operating loss	57,130
Other expenses	29,891
Net loss	60,155
Total assets	304,381
Balance of outstanding debt	108,916

Notes: 1. The above amounts are after the adjustments for consolidation.
2. The losses related to NSC, included in liquidation loss related to investments in subsidiaries and affiliates, etc., are added to other expenses.

Following the July 2001 sale of some of the Company's equity stake in EXA CORPORATION, the subsidiary moved out from under the Company's consolidated range and has been accounted for under the equity method in the second half of fiscal 2002.

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.

An 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 (\$823,977 thousand) were reclassified to investment securities as of April 1, 2000.

Major Subsidiaries and Affiliates

<i>Company</i>	<i>Line of business</i>	<i>NKK's shareholdings</i>
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	74.1
NKK PRECISION CO., LTD.	Manufacture and sale of forms and blanks	100.0
NKK TRADING INC.	Sales and purchase of steel products	71.6
Japan Casting Co., Ltd.	Manufacture and sale of iron and steel casting products	42.3
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	68.9
NKKTUBES	Manufacture and sale of seamless steel pipes	49.0
Nippon Kokan Light Steel Kabushiki Kaisha	Manufacture and sale of light gauge steel products	83.3
FUJI KAKO CO., LTD.	Manufacture and sale of synthetic resin pipes	60.0
Tokyo Shearing Co., Ltd.	Plate shearing and pressing and sale of steel products	49.6
OKUTAMA KOGYO CO., LTD.	Mining, processing and sale of lime	29.2
NIPPON KOKAN PIPE FITTING MFG. CO., LTD.	Manufacture and sale of pipe fittings	71.5
GALVATEX CORPORATION	Manufacture, processing 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	84.7
Nichiei Unyu Soko K.K.	Warehousing and transportation services	80.1
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
THAI COLD ROLLED STEEL SHEET PUBLIC CO., LTD.	Manufacture and sale of cold-rolled steel sheets	40.0
THAI COATED STEEL SHEET CO., LTD.	Manufacture and sale of zinc-coated steel products	81.4
Engineering Operations		
Nippon Kokan Koji K.K.	Civil construction services	68.7
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	100.0
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
EXA CORPORATION	Development and sale of computer systems	49.0
NK KANKYO CORPORATION	Recycling of used plastics for various use	80.0
NKK Credit Corporation	Group finance	100.0
NKK U.S.A. Corporation	Holding company	100.0

NSC filed for Chapter 11 bankruptcy protection and reorganization under the U.S. Bankruptcy Code on March 6, 2002.

NKK MARINE & LOGISTICS CORPORATION and Nichiei Unyu Soko K.K. plan to merge and reorganize in October 2002 in order to build a more comprehensive logistics company and create more flexible business organizations.

ADCHEMCO Corporation is studying the potential for consolidation with the chemicals division of Kawasaki Steel as part of the reorganization of chemicals operations within the JFE Group. The target date for reorganization is April 2003.

KOKAN DRUM COMPANY, LTD., has reached a basic agreement to merge with Kawasaki Container Co., Ltd., as part of the reorganization of container operations within the JFE Group. The target date for the merger is April 2003.

Nippon Kokan Light Steel Kabushiki Kaisha is studying the potential for merger with Kawasaki Kenzai Co., Ltd., as part of the reorganization of the building materials business within the JFE Group. The target date for the merger is April 2003.

The board of directors of NK HOME CO., LTD., passed a resolution on the policy of dissolving the company in a meeting held on April 25, 2002.

EXA CORPORATION is the new name of the NK-EXA CORPORATION. We have transferred a part of the shares held by the Company to IBM Japan, Ltd., reducing our equity in EXA from 51% to 49%.

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

(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 for 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

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

Out of the difference of ¥78,481 million (\$588,976 thousand) which arose at the time of transition, the amount of ¥10,603 million (\$79,572 thousand) was amortized for the year ended March 31, 2001, 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.

For the year ended March 31, 2001, in accordance with an accounting standard for retirement benefits, which became effective April 1, 2000, ¥6,722 million (\$50,447 thousand) of gain on establishment of pension trust fund was recorded from the stock contribution. The effect of the adoption of the accounting standard was to decrease income before income taxes and minority interests by ¥4,751 million (\$35,655 thousand). Due to this adoption, amounts of former employees' termination allowances and past service liability costs are included in employees' termination allowances.

NSC 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.

An accounting standard for foreign currency translation became effective April 1, 2000. The effect of the adoption of the 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.

(k) Reclassifications

Certain amounts in the consolidated financial statements of prior years have been reclassified to conform with the current year presentation.

4. U.S. Dollar Amounts

The translation of yen amounts as of and for the year ended March 31, 2002, into U.S. dollar amounts is stated solely for convenience, as a matter of arithmetic computation only, at the rate of ¥133.25=US\$1.00, the approximate rate of exchange on March 31, 2002. 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.

7. Securities

Market values of available-for-sale securities were as follows:

March 31	Millions of yen						Thousands of U.S. dollars		
	2002			2001			2002		
	Cost	Carrying amount	Unrealized gain (loss)	Cost	Carrying amount	Unrealized gain (loss)	Cost	Carrying amount	Unrealized gain (loss)
Cost lower than carrying amount:									
Stocks	¥63,872	¥ 82,923	¥19,051	¥ 64,251	¥ 91,389	¥ 27,137	\$479,340	\$622,311	\$142,972
Bonds	112	115	3	114	117	2	841	863	23
Subtotal	¥63,984	¥ 83,039	¥19,054	¥ 64,366	¥ 91,506	¥ 27,140	\$480,180	\$623,182	\$142,994
Cost exceeding carrying amount:									
Stocks	¥33,553	¥ 25,345	¥ (8,208)	¥ 53,572	¥ 36,575	¥(16,996)	\$251,805	\$190,206	\$ (61,598)
Bonds	24	24	(0)	17	17	(0)	180	180	(0)
Subtotal	¥33,578	¥ 25,370	¥ (8,208)	¥ 53,589	¥ 36,592	¥(16,996)	\$251,992	\$190,394	\$ (61,598)
Total	¥97,563	¥108,410	¥10,846	¥117,955	¥128,099	¥ 10,143	\$732,180	\$813,583	\$ 81,396

Other available-for-sale securities sold within the fiscal year were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Sales amount	¥1,761	¥52,810	\$13,216
Gain on sales	75	25,759	563
Loss on sales	1,988	794	14,919

Available-for-sale securities which were non-marketable were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Available-for-sale securities:			
Unlisted stocks, except OTC-traded stocks	¥16,057	¥15,035	\$120,503
Private placement municipal bonds	67	138	503
Subscription certificates	144	144	1,081

5. Depreciation and Amortization

Depreciation and amortization for the years ended March 31, 2002 and 2001, amounted to ¥107,613 million (\$807,602 thousand) and ¥112,102 million, respectively.

6. 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
	2002	2001	2002
Investments valued:			
On an equity basis	¥25,574	¥19,396	\$191,925
At cost or less	7,420	12,878	55,685
	¥32,995	¥32,275	\$247,617

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.

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

March 31	Millions of yen				Thousands of U.S. dollars	
	2002		2001		2002	
	Due in one year or less	Due between one and five years	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.	¥98	¥81	¥67	¥183	\$735	\$608

8. Other Assets

Other assets were composed of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Long-term prepaid expenses	¥ 2,760	¥ 3,166	\$ 20,713
Deferred tax assets	47,821	48,739	358,882
Long-term loans	8,918	8,719	66,927
Allowance for doubtful receivables	(31,213)	(21,696)	(234,244)
Intangible assets	23,541	24,504	176,668
Other	67,566	55,227	507,062
	¥119,396	¥118,660	\$ 896,030

9. Long-Term Indebtedness

Long-term indebtedness was summarized as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
6.5% reverse dual currency yen/Australian dollar notes, due 2001	¥ —	¥ 13,000	\$ —
6.2% yen bonds, due 2002	40,000	40,000	300,188
2.3% yen bonds, due 2001	—	30,000	—
2.35% yen bonds, due 2001	—	30,000	—
2.85% yen bonds, due 2003	20,000	20,000	150,094
2.175% yen bonds, due 2003	10,000	10,000	75,047
2.65% yen bonds, due 2005	10,000	10,000	75,047
3.1% yen bonds, due 2007	20,000	20,000	150,094
3.5% yen bonds, due 2012	20,000	20,000	150,094
2.8% yen bonds, due 2004	10,000	10,000	75,047
3.225% yen bonds, due 2007	10,000	10,000	75,047
2.5% yen bonds, due 2008	10,000	10,000	75,047
2.075% yen bonds, due 2005	10,000	10,000	75,047
2.0% yen bonds, due 2003	20,000	20,000	150,094
1.6% yen bonds, due 2001	—	30,000	—
2.2% yen bonds, due 2004	10,000	10,000	75,047
2.05% yen bonds, due 2004	10,000	10,000	75,047
2.25% yen bonds, due 2004	10,000	10,000	75,047
3.27% yen bonds, due 2009	10,000	10,000	75,047
1.92% yen bonds, due 2005	10,000	10,000	75,047
2.1% yen bonds, due 2006	10,000	10,000	75,047
1.89% yen bonds, due 2005	10,000	10,000	75,047
2.0% yen bonds, due 2005	10,000	10,000	75,047
2.0% yen bonds, due 2005	1,000	1,000	7,505
1.5% yen bonds, due 2004	10,000	10,000	75,047
1.25% yen bonds, due 2006	10,000	10,000	75,047
0.87% yen bonds, due 2006	10,000	—	75,047
0.70% yen bonds, due 2005	10,000	—	75,047
0.94% yen bonds, due 2006	10,000	—	75,047
Yen bonds, due 2005 (Note 1)	10,000	—	75,047
1.6% yen bonds, issued by subsidiary, due 2004	500	500	3,752

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Euro medium-term notes issued by subsidiary, at floating interest rates from 0.884% to 1.500%, due through 2003	6,062	20,792	45,493
5.85% bonds issued by subsidiary, due 2003	6,231	5,760	46,762
Bonds issued by subsidiary, at interest rates from 8.375% to 9.875%, due through 2009 (Note 2)	—	41,380	—
Bonds issued by subsidiary, at interest rates from 4.5% to 9.15%, due through 2011 (Note 2)	—	1,951	—
Loans, principally from banks and insurance companies, due through 2015	650,310	721,904	4,880,375
Less current portion included in current liabilities	(218,683)	(220,020)	(1,641,148)
	¥ 765,421	¥ 956,268	\$ 5,744,248

Notes: 1. An interest rate for each interest calculation period is determined by six-month TIBOR two banking days prior to the latest interest due date (the issue date for the first period) plus 0.35%.
2. These bonds at the end of the previous fiscal year were issued by overseas subsidiary NSC.

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

Components of commitment line contracts were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Total commitment line contracts	¥125,100	¥125,100	\$938,837
Net borrowings	—	2,000	—

10. Other Long-Term Liabilities

Other long-term liabilities were composed of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Long-term pension liabilities	¥ —	¥ 19,206	\$ —
Postretirement benefits other than pensions	—	51,935	—
Deferred tax liabilities	4,869	436	36,540
Other long-term liabilities ..	36,502	52,716	273,936
	¥41,371	¥124,294	\$310,477

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 were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
a) Retirement benefit obligation	¥(246,014)	¥(266,003)	\$(1,846,259)
b) Fair value of plan assets	115,664	119,859	868,023
c) Unfunded retirement benefit obligation (a+b)	(130,349)	(146,143)	(978,229)
d) Unrecognized net retirement benefit obligation at transition	38,927	55,517	292,135
e) Unrealized actuarial loss	16,889	12,029	126,747
f) Unrecognized past service cost of pension plan (Note 2)	(6,076)	—	(45,598)
g) Net amount posted to the balance sheets (c+d+e+f)	(80,609)	(78,597)	(604,946)
h) Prepaid pension costs	1,294	985	9,711
i) Employees' termination allowances	(81,904)	(79,582)	(614,664)

- Notes: 1. Some subsidiaries apply a simplified method to calculate retirement benefit obligation.
2. The Company posted a reduction in past service obligations, owing to amendments, effective April 10, 2002, regarding provisions for lower yields on pension benefits and lower assumed rates of interest on pension funds under tax-qualified pension plans.

Components of accrued retirement benefit cost were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
a) Service cost (Note 1)	¥ 9,648	¥ 9,941	\$ 72,405
b) Interest expense	7,676	7,843	57,606
c) Expected return on plan assets	(4,526)	(4,336)	(33,966)
d) Amortization of unrecognized net retirement benefit obligation at transition (Note 2)	13,801	24,535	103,572
e) Recognized actuarial loss	1,205	—	9,043
f) Accrued retirement benefit cost (a+b+c+d+e) (Note 3)	27,806	37,984	208,675

- Notes: 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 an accounting standard for retirement benefits includes the one-time amortization of ¥10,603 million (\$79,572 thousand) through the contribution of available-for-sale securities to retirement benefit trust for the year ended March 31, 2001.
3. Other than the accrued retirement benefit cost noted above, the Company and its domestic consolidated subsidiaries processed supplementary severance amounts of ¥9,066 million (\$68,038 thousand) and ¥11,396 million for the years ended March 31, 2002 and 2001, respectively.

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) Recognition period of actuarial gain/loss (Note) Principally 10 years
e) Amortization period for net retirement benefit obligation at transition 5 years

Note: The Company and its subsidiaries expense amounts, determined proportionally by the straight-line method based on a fixed number of years within the average remaining years of service of employees, in the consolidated fiscal year following the term in which the expenses incurred.

NSC and its consolidated subsidiaries maintain defined-benefit plans for nearly all full-time 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)	\$(1,841,103)
b) Fair value of plan assets	240,356	1,803,797
c) Unfunded projected pension benefit obligation (a+b)	(4,970)	(37,298)
d) Unrecognized actuarial loss, etc	(7,163)	(53,756)
e) Net amount posted in the balance sheets (c+d)	(12,134)	(91,062)

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	\$ 51,084
b) Other long-term liabilities	(19,206)	(144,135)
c) Retained earnings	264	1,981

Recognized cost for the year ended December 31, 2000, was ¥3,763 million (\$28,240 thousand).

The assumptions used in the 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
	2002	2001	2002
Gain on sales or disposals of fixed assets	¥ (5,231)	¥(73,574)	\$ (39,257)
Loss (gain) on sales of investments in securities ...	1,913	(24,966)	14,356
Gain on sales of securities issued by subsidiaries and affiliates	(272)	(8,513)	(2,041)
Gain on sale of natural gas derivative contract	(3,185)	—	(23,902)
Gain on establishment of pension trust fund	—	(6,722)	—
Cumulative effect arising from pension fund	(2,100)	—	(15,760)
Gain on reversal of reserve for rebuilding furnaces	(7,140)	—	(53,583)
Amortization of transitional obligations for employees' retirement benefits	13,801	24,535	103,572
Loss on writedowns of investments in securities, etc.	21,861	8,814	164,060
Liquidation loss related to investments in subsidiaries and affiliates, etc.	28,564	5,626	214,364
Special charge arising from employees' termination benefits	9,066	11,396	68,038
Special charge on allowance for doubtful receivables ...	4,082	—	30,634
Loss on transfer of assets incurred from joint venturing of seamless pipes	—	7,189	—
Loss on reorganization of welfare and real estate functions	—	25,078	—
Other, net	(3,426)	(3,389)	(25,711)
	¥57,934	¥(34,525)	\$434,777

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

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

13. Adjustment to Beginning Balance

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:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Trade notes discounted with banks	¥ —	¥ 848	\$ —
Trade notes endorsed	260	306	1,951
Guarantees of indebtedness ...	26,548	32,879	199,235

The above guarantees included ¥3,871 million (\$29,051 thousand) and ¥5,403 million reguaranteed by other parties at March 31, 2002 and 2001, respectively.

16. Leases

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

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Acquisition cost equivalents:			
Buildings	¥ 13	¥ 13	\$ 98
Machinery and equipment ...	5,960	20,366	44,728
Other assets.....	304	526	2,281
	¥6,278	¥20,906	\$47,114
Accumulated depreciation equivalents:			
Buildings	¥ 4	¥ 8	\$ 30
Machinery and equipment ...	3,265	10,629	24,503
Other assets.....	252	403	1,891
	¥3,521	¥11,041	\$26,424
Balance equivalents:			
Buildings	¥ 9	¥ 4	\$ 68
Machinery and equipment ...	2,694	9,736	20,218
Other assets.....	52	123	390
	¥2,756	¥ 9,864	\$20,683

Lease commitment equivalents were as follows:

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Within one year.....	¥ 958	¥3,509	\$ 7,189
More than one year.....	1,797	6,354	13,486
	¥2,756	¥9,864	\$20,683

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	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Employees' termination allowances	¥ 29,886	¥ 27,515	\$ 224,285
Loss carried forward ...	5,706	4,274	42,822
Elimination of unrealized profits	11,738	5,957	88,090
Deferred tax assets recorded at subsidiaries in the United States ...	21,624	66,411	162,281
Loss on writedowns of securities issued by subsidiaries and affiliates, etc.....	25,814	—	193,726
Reserve for loss on guarantees	—	14,918	—
Other	34,406	40,893	258,206
Total deferred tax assets ..	¥129,177	¥159,969	\$ 969,433
Valuation allowance	(4,534)	(4,356)	(34,026)
Valuation allowance at subsidiaries in the United States.....	¥ (20,819)	¥(20,666)	\$(156,240)
Deferred tax assets net of valuation allowances ...	¥103,823	¥134,946	\$ 779,159
Deferred tax liabilities:			
Reserve of Special Taxation Measures Law	(7,069)	(22,990)	(53,051)
Deferred tax liabilities recorded at subsidiaries in the United States....	(1,094)	(23,568)	(8,210)
Other	(3,617)	(5,048)	(27,144)
Total deferred tax liabilities.....	(11,781)	(51,608)	(88,413)
Net deferred tax assets ...	¥ 92,042	¥ 83,338	\$ 690,747

Major items causing a difference between the statutory tax rate and effective tax rate were as follows:

Years ended March 31	Percentage	
	2002	2001
Statutory tax rate (adjusted).....	42.1%	42.1%
Change in valuation allowance.....	(52.2)	13.3
Elimination of unrealized gain and realized gain (nonbooked)	3.7	(28.8)
Disposal losses, including investments in subsidiaries and affiliates (booked)	5.1	(48.4)
Other	(2.5)	4.8
Effective tax rate	(3.8)	(17.4)

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
	2002	2001	2002
Sales to customers:			
Steel Division	¥1,152,354	¥1,267,572	\$ 8,648,060
Engineering Division	432,101	416,523	3,242,784
Other Fields	69,044	103,133	518,154
Consolidated net sales	¥1,653,500	¥1,787,228	\$ 12,409,006
Inter-segment sales:			
Steel Division	¥ 32,134	¥ 30,846	\$ 241,156
Engineering Division	18,757	32,466	140,765
Other Fields	12,515	18,690	93,921
	¥ 63,406	¥ 82,003	\$ 475,842
Total sales:			
Steel Division	¥1,184,488	¥1,298,419	\$ 8,889,216
Engineering Division	450,858	448,989	3,383,550
Other Fields	81,559	121,823	612,075
Eliminations	(63,406)	(82,003)	(475,842)
Consolidated net sales	¥1,653,500	¥1,787,228	\$ 12,409,006
Operating expenses:			
Steel Division	¥1,216,752	¥1,238,281	\$ 9,131,347
Engineering Division	430,287	431,139	3,229,171
Other Fields	75,823	115,558	569,028
Corporate and eliminations	(61,692)	(78,336)	(462,979)
Consolidated operating expenses	¥1,661,171	¥1,706,642	\$ 12,466,574
Operating (loss) income:			
Steel Division	¥ (32,263)	¥ 60,138	\$ (242,124)
Engineering Division	20,571	17,850	154,379
Other Fields	5,735	6,265	43,039
Corporate and eliminations	(1,714)	(3,667)	(12,863)
Consolidated operating (loss) income	¥ (7,671)	¥ 80,586	\$ (57,568)

Years ended or as of March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Assets:			
Steel Division	¥1,693,368	¥2,036,015	\$12,708,203
Engineering Division	439,690	393,522	3,299,737
Other Fields	151,851	153,544	1,139,595
Corporate and eliminations	(57,513)	48,106	(431,617)
Consolidated total	¥2,227,397	¥2,631,188	\$16,715,925
Depreciation and amortization:			
Steel Division	¥ 96,895	¥ 99,415	\$ 727,167
Engineering Division	5,354	5,798	40,180
Other Fields	2,796	4,352	20,983
Corporate and eliminations	2,568	2,536	19,272
Consolidated total	¥ 107,613	¥ 112,102	\$ 807,602
Capital expenditures:			
Steel Division	¥ 61,003	¥ 77,674	\$ 457,809
Engineering Division	3,508	4,804	26,326
Other Fields	1,848	6,380	13,869
Corporate and eliminations	3,042	1,027	22,829
Consolidated total	¥ 69,402	¥ 89,886	\$ 520,841

(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
	2002	2001	2002
Overseas sales	¥548,597	¥545,082	\$4,117,051
Percentage of overseas sales to consolidated net sales	33.2%	30.5%	

19. Subsequent Events

1. In an operating environment characterized by the expansion of global procurement activities and continued realignment of the steel industry, including changes in worldwide demand, the Company and Kawasaki Steel Corporation formed an agreement for consolidation in the previous year that would facilitate the provision of products and services geared to the high-level needs of clients and thereby promote business activities.

On June 26, 2002, the Company and Kawasaki Steel received shareholder approval of the agreement at the companies' respective annual shareholders' meetings, paving the way for the establishment of JFE Holdings, Inc., a parent company under which the Company and Kawasaki Steel will become wholly owned subsidiaries through the transfer of shares, as stipulated in Article 364 of the Commercial Code of Japan.

A summary of the transfer of shares is as follows:

(1) Exchange Ratios

All shareholders of record, including real shareholders, listed in the shareholder registers of the Company and Kawasaki Steel, as of the day preceding the day on which shares will be transferred, will be given shares in JFE Holdings in the ratios shown below.

Shareholders of the Company

75 shares of JFE Holdings common stock for every 1,000 shares of the Company's common stock

Shareholders of Kawasaki Steel

100 shares of JFE Holdings common stock for every 1,000 shares of Kawasaki Steel common stock

(2) Capital and Additional Paid-In Capital for JFE Holdings Capital: ¥100 billion

Additional

Paid-In Capital: The amount remaining after the aforementioned capital is subtracted from the combined net assets of the Company and Kawasaki Steel on the day that the transfer of shares is executed.

(3) Date of Transfer of Shares

September 26, 2002

(Scheduled date for establishing JFE Holdings is September 27, 2002.)

(4) Conditions for Joint Establishment

The Company and Kawasaki Steel will jointly establish JFE Holdings, which will become the parent company.

About Kawasaki Steel (As of March 31, 2002)

Corporate Name: Kawasaki Steel Corporation

Location of

Headquarters: 1-28, Kitahonmachi-dori 1-chome, Chuo-ku, Kobe 651-0075, Japan

Date of

Establishment: August 7, 1950

Capital: ¥239,644 million

Major Businesses: 1. Manufacture and sale of steel products
2. Manufacture and sale of chemicals
3. Engineering

President and Representative

Director: Fumio Sudo

Number of

Employees: 9,269

2. The domestic shipbuilding industry faces several daunting challenges, particularly low prices for ships, caused by excessive supply, and fierce competition, paralleling the rise of the shipbuilding industry in other

nations, most notably South Korea. This situation is likely to persist in the medium-to-long term.

The Company and Hitachi Zosen Corporation came to the mutual conclusion that stronger competitive positions for both companies in this business would require such means as enhanced technology and product-development capabilities through the sharing of management resources, heightened cost competitiveness, greater economy of scale and the implementation of a more efficient operating structure.

To this end, the two companies agreed to transfer respective shipbuilding operations to a 50:50 joint venture, Universal Shipbuilding Corporation. The decision was approved at the annual shareholders' meeting held by the Company on June 26, 2002.

A summary of the business transfer is as follows:

(1) Operations

Business related to shipbuilding operations

(2) Date of Transfer

September 26, 2002

(3) Assets and Liabilities to be Transferred

Assets and liabilities that are related to shipbuilding operations and proposed for transfer, as of March 31, 2002, are as follows:

Current assets	¥ 7.4 billion
Fixed assets	¥14.0 billion
Current liabilities	¥ 5.2 billion

(4) Value, Method of Payment

The value of the assets and liabilities to be transferred will be determined by the market value on the date of transfer. The method and timing of payment will be determined in separate discussions.

(5) Summary of operations to be transferred for the most recent fiscal year (April 1, 2001 to March 31, 2002), is as follows:

Net sales	¥58.2 billion
Operating income	¥ 6.0 billion

(6) About the New Joint Venture

Corporate Name: Universal Shipbuilding Corporation

Location of

Headquarters: 28-1, Oi 1-chome, Shinagawa-ku, Tokyo 140-0014, Japan

Capital: ¥10 million

Major Businesses: Design, manufacture, sale and repair of ships, floating-type petroleum storage facilities, megafloats and other marine structures

Chairman and Representative

Director: Kenzo Tazawa

President and Representative

Director: Takehiko Kamijo

Percentage of

Ownership:	NKK	50%
	Hitachi Zosen	50%