

# Consolidated Financial Results for the 1st Half of Fiscal Year ending March 31, 2005

(Six months ended September 30, 2004)

(All financial information has been prepared in accordance with generally accepted accounting principles in Japan)  
English translation from the original Japanese document

November 17, 2004

Company name : JFE Holdings, Inc.  
Stock exchange on which the shares are listed : Tokyo, Osaka, and Nagoya  
Stock Exchanges in Japan  
Code number : 5411  
Location of the head office : 1-1-2, Marunouchi, Chiyoda-ku, Tokyo  
URL : <http://www.jfe-holdings.co.jp/en/index.html>

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Date of the board meeting for the financial results of the six months ended Sept. 30, 2004 : November 17, 2004

## 1. Highlights of Consolidated Results for the Six months ended Sept. 30, 2004

### (1) Statements of Income

|                                  | Net sales         | (% of change from previous year) | Operating income  | (% of change from previous year) | Ordinary income   | (% of change from previous year) |
|----------------------------------|-------------------|----------------------------------|-------------------|----------------------------------|-------------------|----------------------------------|
|                                  | (Millions of yen) | %                                | (Millions of yen) | %                                | (Millions of yen) | %                                |
| Six months ended Sept. 30, 2004  | 1,237,004         | 10.4                             | 186,110           | 69.2                             | 185,737           | 100.2                            |
| Six months ended Sept. 30, 2003  | 1,120,391         | △1.0                             | 109,983           | 119.9                            | 92,786            | 254.0                            |
| Fiscal Year ended March 31, 2004 | 2,473,725         |                                  | 253,605           |                                  | 218,372           |                                  |

|                                  | Net income        | (% of change from previous year) | Net income per share | Net income per share (fully diluted) |
|----------------------------------|-------------------|----------------------------------|----------------------|--------------------------------------|
|                                  | (Millions of yen) | %                                | (yen)                | (yen)                                |
| Six months ended Sept. 30, 2004  | 34,158            | △24.2                            | 58.95                | 57.05                                |
| Six months ended Sept. 30, 2003  | 45,036            | 155.7                            | 78.48                | -                                    |
| Fiscal Year ended March 31, 2004 | 106,872           |                                  | 185.84               | -                                    |

Note1: Equity in earnings of affiliates (Millions of Yen) Six months ended Sept. 30, 2004 7,560  
Six months ended Sept. 30, 2003 5,398  
Fiscal Year ended March 31, 2004 6,498

Note2: Weighted average number of shares of common stock issued during  
Six months ended Sept. 30, 2004 579,405,734  
Six months ended Sept. 30, 2003 573,839,413  
Fiscal Year ended March 31, 2004 575,057,761

### (2) Balance Sheets

|                                  | Total assets      | Shareholders' equity | Ratio of shareholders' equity | Shareholders' equity per share |
|----------------------------------|-------------------|----------------------|-------------------------------|--------------------------------|
|                                  | (Millions of yen) | (Millions of yen)    | %                             | (yen)                          |
| Six months ended Sept. 30, 2004  | 3,597,848         | 774,844              | 21.5                          | 1,329.73                       |
| Six months ended Sept. 30, 2003  | 3,703,138         | 655,715              | 17.7                          | 1,142.80                       |
| Fiscal Year ended March 31, 2004 | 3,724,441         | 746,298              | 20.0                          | 1,289.54                       |

Note: Number of shares of common stock issued as of September 30, 2004 582,707,925  
September 30, 2003 573,782,212  
March 31, 2004 578,728,187

### (3) Statements of Cash Flows

|                                  | Net cash provided by operating activities | Net cash used in investing activities | Net cash used in financing activities | Cash and cash equivalents at end of this period |
|----------------------------------|---|---------------------------------------|---------------------------------------|---|
|                                  | (Millions of yen)                         | (Millions of yen)                     | (Millions of yen)                     | (Millions of yen)                               |
| Six months ended Sept. 30, 2004  | 128,446                                   | (44,863)                              | (89,600)                              | 71,442  |
| Six months ended Sept. 30, 2003  | 105,134                                   | (42,132)                              | (73,671)                              | 74,194  |
| Fiscal Year ended March 31, 2004 | 357,077                                   | (135,068)                             | (229,258)                             | 77,178  |

(4) Scope of consolidation and equity method

|  |               |
|--|---------------|
| Number of consolidated subsidiaries                                      | 235 companies |
| Number of unconsolidated subsidiaries accounted for by the equity method | 1 company     |
| Number of affiliates accounted for by the equity method                  | 43 companies  |

**2. Forecast of Consolidated Financial Results for Fiscal Year ending March 31, 2005**

|                                   | Net sales         | Operating income  | Ordinary income   | Net income        |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                   | (Millions of yen) | (Millions of yen) | (Millions of yen) | (Millions of yen) |
| Fiscal Year ending March 31, 2005 | 2,820,000         | 445,000           | 430,000           | 140,000           |

Reference: Estimated net income per share 240.26 yen

Above forecast is our best estimate based upon currently available information and includes uncertain factors.

Therefore, please be advised to refrain from investment decisions by depending solely on these figures.

## **2. Management Policy**

### **1. Basic Management Policy**

The JFE Group's corporate vision is to contribute to society with the world's most innovative technology. The Group seeks to achieve the highest standards of global competitiveness by capitalizing on its strong customer base, advanced technology and state-of-the-art steelworks and manufacturing plants, while creating an innovative corporate culture with a challenging spirit. Specific objectives include responding to global customer needs better and faster, enhancing credibility among shareholders and capital markets worldwide, providing employees with more challenges and opportunities, and contributing to local communities and global environmental conservation.

### **2. Basic Guidelines on Profit Distribution**

JFE Holdings considers the return of profits to shareholders to be one of its highest management priorities. It is committed to paying dividends in line with business results and needs for retained earnings to bolster the base of operations for the Group as a whole.

### **3. Medium- and Long-term Management Strategies and Tasks**

In January 2003, the JFE Group formulated its First Medium-Term Business Plan that sets operational guidelines for the entire Group through the fiscal year ending March 2006. The Group continues to make steady progress on the plan as it seeks to reinforce its base of operations. The largest financial challenge facing the Group is to establish a stable base of profitability at the earliest possible date. It is also trimming assets and carefully selecting capital expenditure programs to maximize free cash flow and aggressively reduce outstanding debts.

The JFE Group is working to build a robust operational structure by strengthening the competitiveness of each of its business sectors through appropriate execution of operations in light of specific challenges and requirements of individual business areas.

Each business sector is charged with implementing the policies and programs stated below, as warranted by the nature of their individual businesses, to meet financial targets.

### *Consolidated Financial Targets*

|                        | Fiscal year ending<br>March 31, 2006<br>(target) |
|------------------------|--|
| Ordinary income        | 250 billion yen                                  |
| JFE Steel              | 230 billion yen                                  |
| JFE Engineering        | 16 billion yen                                   |
| Return on sales (ROS)  | 10%  |
| JFE Steel              | 11%  |
| JFE Engineering        | 4%   |
| Return on assets (ROA) | 9%   |

|                                    |                   |
|------------------------------------|-------------------|
| Total assets                       | 3,460 billion yen |
| Interest-bearing debts outstanding | 1,600 billion yen |
| Total shareholders' equity         | 830 billion yen   |

### *Principal Policies and Programs for Individual Business Sectors*

#### Steel Business

Demand continues to be strong in both domestic and export markets. JFE will seek to improve profitability by expanding the percentages of sales accounted for by “Only one” and “Number one” products, which enjoy technological superiority. Globally, the strategy is to develop medium- and long-term partnerships with foreign steel companies and to place greater emphasis on the Chinese market, where demand is expected to increase, thereby assuring stable profitability. The company is also investing aggressively in the development of new mines to ensure stable, long-term supplies of raw materials, which will also help to further stabilize costs.

#### Engineering Business

The environment for securing orders will remain severe, but the company will continue to improve operations, reduce fixed costs and increase organizational efficiency, as well as redouble efforts to expand the sales share of mainline products, develop new markets and bring new products to market. The International Business Development Center, which was established in April 2004, is working aggressively to land large overseas projects while strictly managing risks in light of profit potential.

#### Urban Development Business

Efforts in the field of urban development continue to focus on offering distinctive, high-quality condominiums. Active sales promotions continue for Cotton Harbor Towers, a high-rise condominium building in the Yokohama Yamanouchi Development Project where the JFE Group owns a large tract of land.

## LSI Business

Declining sales volumes are anticipated in the digital consumer electronics market, but a concerted effort is being made to secure new development projects not only in Japan, but also other Asian markets and the Middle East.

In environmental protection and conservation, the JFE Group is combining its strengths in steel and engineering technologies to create synergies for the development of global environmental solutions in areas such as climate change, recycling and energy. The ultimate goal — to help realize an affluent society in harmonious coexistence with the environment — is one of the social responsibilities that JFE shoulders as a good corporate citizen, and it seeks wide-spread understanding and approval of its activities among the general public.

### 4. Corporate Governance Concepts and Status of Policy Implementation

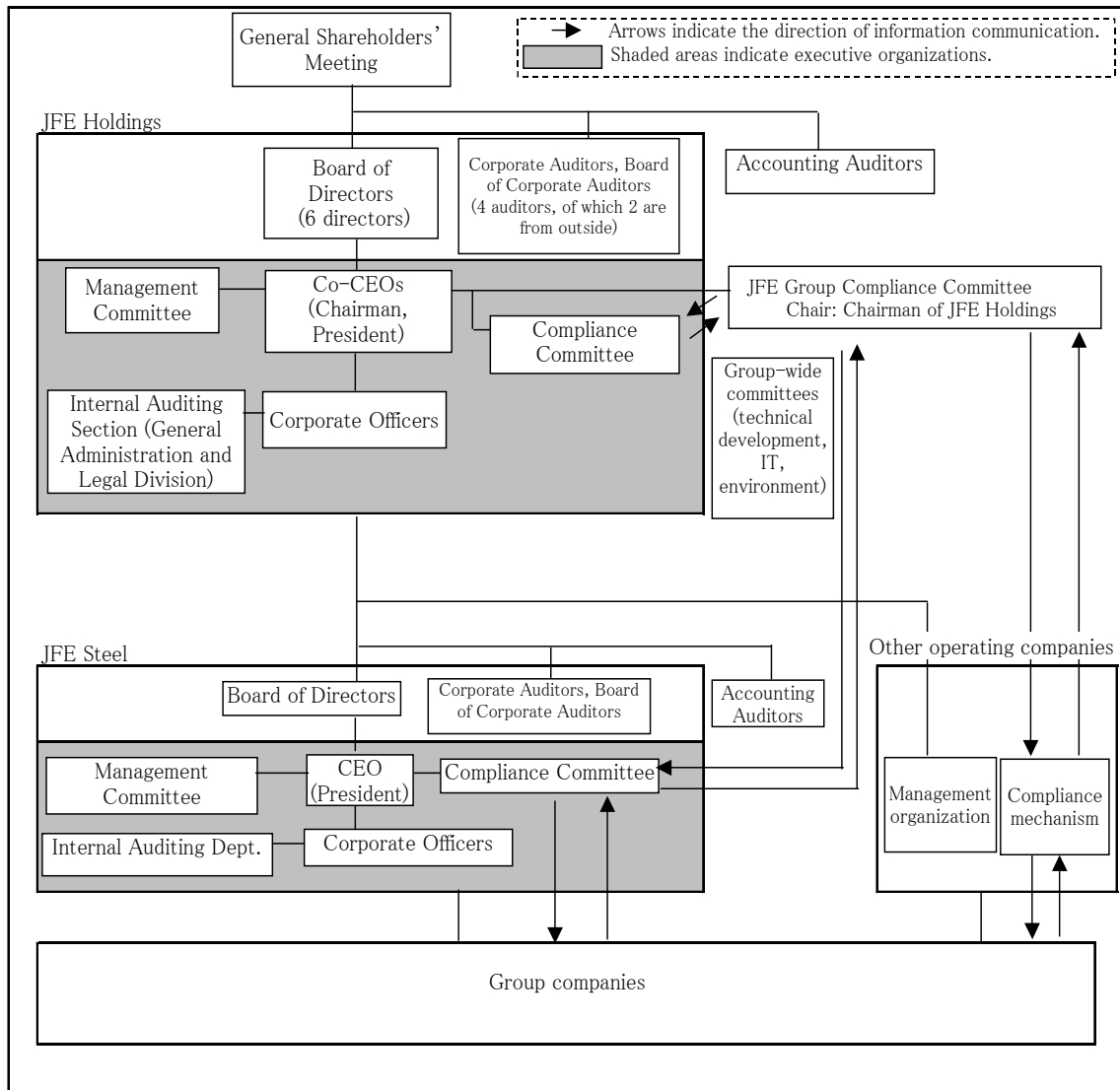
#### 1) Corporate Governance Concepts

JFE uses the holding-company structure to strengthen the consolidated management of the Group by providing the entire Group with centralized governance and compliance management and also by providing individual operating companies with management that is suited to the specific nature of their businesses.

As the Group holding company, JFE Holdings, Inc. is responsible for group-wide strategic functions, risk management and external accountability. This organization gives JFE a streamlined Group head office.

#### 2) Status of Corporate Governance Policy Implementation

##### a) Management and Compliance Organizations



b) Management Organization and Internal Governance

Major decisions

The rules and bylaws of the companies comprising the JFE Group contain clear decision-making procedures covering substantive issues. JFE Holdings, Inc. has the final review and decision-making authority for major issues that affect the management of the entire Group.

More specifically, at each operating company, management committees discuss and boards of directors approve decisions on substantive issues for individual operating companies and their group companies, while JFE Holdings' management committee and board of directors are responsible for decisions affecting itself, the operating companies and other group companies.

(JFE Holdings, Inc., JFE Steel Corp. and JFE Engineering Corp. hold management committee meetings approximately twice a month; the Board of Directors meets one or two times per month.)

### Execution of business

JFE Holdings, Inc., JFE Steel Corp., JFE Engineering Corp. and Kawasaki Microelectronics, Inc. employ “corporate officer”[RW1] systems in order to separate decision-making and execution, clarify lines of authority and responsibility and accelerate the execution process itself.

JFE Steel Corp. uses a product-based management system in order to optimize its product offerings and operations by combining strategy-making and profit control/monitoring for individual product categories. JFE Engineering Corp. uses a consolidated-division (“virtual companies”) system for the same purposes. For areas that require a group-wide response—technology development, IT, environmental and other common issues—group-wide committee meetings provide a forum for discussion.

Corporate officers of each company are responsible for the execution of business within each section, including the identification of risk management issues, with management committees responsible for formulating response policies for significant risk management issues.

### Internal audit

JFE Holdings, Inc., JFE Steel Corp., JFE Engineering Corp., Kawasaki Microelectronics, Inc. and their major group companies have internal auditing organizations that create mechanisms for group-wide internal audits, share information with corporate auditors and provide monitoring and follow-up services for business execution.

The Group has strict provisions for the protection of confidential information, setting clear access categories within and among group companies, formulating explicit management criteria and reinforcing the management and protection of information within its computer systems.

### c) Compliance Mechanism

The JFE Group considers compliance to be a primary management priority and recognizes its responsibility to adhere to all social rules and maintain high standards of corporate ethics in all of its activities.

The Group has formed the JFE Group Compliance Committee to develop and implement concrete programs for compliance. In addition, JFE has established group-wide compliance mechanisms and the JFE Group Standards of Business Conduct to ensure group-wide adherence to all applicable laws, ordinances and JFE corporate ethical standards, as well as promote compliance-oriented corporate activities.

JFE has also established company-specific compliance mechanisms for JFE Steel, JFE Engineering and other operating companies. In addition, it has introduced “corporate ethics hotlines” to enable employees at all levels to directly inform senior executives of important compliance-related matters, further enhancing compliance throughout the group.

### 3. Business Results and Financial Position

#### 1. Performance in the first half of fiscal year ending March 31, 2005

The Japanese economy saw an increase in private-sector capital investment and modest gains in consumer spending during the interim period, leading to a solid recovery.

The JFE Group took advantage of the favorable economic climate to accelerate implementation of its First Medium-Term Business Plan (April 2003 to March 2006) and increase the profitability of the Group as a whole.

Below is an outline of results for the first half, broken down by business segment.

The steel business recorded net sales of 1,114.4 billion yen, representing a year-on-year increase. A strong global demand for steel led to high sales in volume terms. Improvement in sales prices, including increased sales of high value-added products on a total share basis, resulted in higher sales. Ordinary income improved substantially from a year earlier to 191.1 billion yen. Increased sales volume, higher sales prices and reduced costs enabled this to happen, despite rising raw materials prices.

In the engineering business, net sales came to 102.4 billion yen, a year-on-year decline that resulted in an ordinary loss of 7.0 billion yen. This occurred despite strong efforts to reduce costs, particularly fixed costs, and improve profitability. In addition to a weak market, however, performance also reflected the fact that engineering sales tend to be concentrated in the latter half of the year.

The urban development business posted net sales of 10.2 billion yen and ordinary income of 0.6 billion yen, both year-on-year increases, thanks to strong sales of condominiums.

In the LSI business, net sales declined year on year to 18.5 billion yen and ordinary income declined to 1.5 billion yen. Sales to the digital camera market were sluggish and the markets for liquid crystal display panels and mobile telephones entered a correction phase.

As a result, the company's overall consolidated results for the first half were net sales of 1,237.0 billion yen and ordinary income of 185.7 billion yen, both year-on-year gains.

The company began applying accounting standards for the impairment of fixed assets (impairment accounting) in the interim period to strengthen its financial position and improve the transparency of its balance sheet. An extraordinary loss of 74.0 billion yen was posted as an impairment loss on fixed assets, resulting in interim net income before income taxes and minority interests of 81.7 billion yen and net income of 34.1 billion yen.

In light of these results, the company will forego payment of an interim dividend this year.

Turning to cash flow for the first half, cash revenue from operating activities amounted to 128.4 billion yen, while net cash used in investing activities, primarily for the acquisition of fixed assets, totaled 44.8 billion yen. Total free cash flow came to 83.5 billion yen. Cash flow from financing activities recorded expenditures of 89.6 billion yen, because the company used free cash flow and a portion of cash and deposits on-hand to fund the repayment of borrowings, redemption of bonds and payment of dividends. The company issued convertible bonds during the term to accelerate the improvement of its financial position. The new bonds had a total issue value of 100 billion yen and outstanding bonds increased by 59.5 billion yen.

Outstanding debt at the end of the first half came to 1,739.7 billion yen, down 97.7 billion yen from the end of the previous year. Outstanding cash and cash equivalents decreased year on year by 5.7 billion yen to 71.4 billion yen.

## 2. Full-year forecast

While many uncertainties remain in the Japanese economy, including the influences of the Chinese economy, crude oil prices and foreign exchange fluctuations, domestic private-sector demand is showing steady gains and JFE anticipates that the current economic situation will continue for the foreseeable future.

In the full year, rising prices for raw materials will have a negative impact on the steel business, but improvements in steel sales prices and reductions in costs should lead to substantially increased earnings compared with last year. The engineering business is forecast to post higher full-year sales and earnings than last year thanks to reductions in fixed costs and increases in environmental sales. The urban development business projects year-on-year increases in both sales and earnings due to stronger sales of condominiums. The LSI business forecasts a decline in earnings compared to last year due to lower sales to the digital camera market.

JFE's consolidated full-year forecast is net sales of 2,820.0 billion yen and a significant year-on-year gain in ordinary income to 430.0 billion yen. While the company will post an extraordinary loss of 74.0 billion yen as an impairment loss on fixed assets, net income is projected to be 140.0 billion yen, representing a gain over last year.

In addition to operating cash flow, the company is working actively to maximize its cash flow through the disposal and trimming of assets. This is forecast to result in consolidated outstanding debt declining year on year by 360.0 billion yen to 1,480.0 billion yen at the fiscal year-end.

The JFE Group anticipates achieving most of the financial targets in its First Medium-Term Business Plan during the current fiscal year.

Reference: Consolidated Financial Targets

|                        | Fiscal year ending<br>March 31, 2006<br>(target) | Fiscal year ending<br>March 31, 2005<br>(forecast) |
|------------------------|--|--|
| Ordinary income        | 250 billion yen                                  | 430 billion yen                                    |
| JFE Steel              | 230 billion yen                                  | 420 billion yen                                    |
| JFE Engineering        | 16 billion yen                                   | 7.5 billion yen                                    |
| Return on sales (ROS)  | 10%  | 15.2%  |
| JFE Steel              | 11%  | 17.4%  |
| JFE Engineering        | 4%   | 2.0%   |
| Return on assets (ROA) | 9%   | 12.3%  |

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| Total assets                       | 3,460 billion yen | 3,600 billion yen |
| Interest-bearing debts outstanding | 1,600 billion yen | 1,480 billion yen |
| Total shareholders' equity         | 830 billion yen   | 900 billion yen   |

*Note: The forecasts in this document are based upon management's assumptions and beliefs in light of information available at the date of publication. Actual results may differ materially from these forecasts.*

### 3. Cash flow and other financial indicators

|   | FY ended<br>March 2001 | FY ended<br>March 2002 | FY ended<br>March 2003 | FY ended<br>March 2004 | First half of FY<br>ending Mar.2005 |
|---|------------------------|------------------------|------------------------|------------------------|-------------------------------------|
| Return on sales (ROS)                         |                        |                        | 4.3%                   | 8.8%                   | 15.0%                               |
| Return on assets (ROA)                        |                        |                        | 3.7%                   | 6.5%                   | 10.8%                               |
| Outstanding debt                              |                        |                        | 2,057.1 bil. yen       | 1,837.4 bil. yen       | 1,739.7 bil. yen                    |
| D/E ratio                                     |                        |                        | 346.0%                 | 246.2%                 | 224.5%                              |
| Shareholders' equity ratio                    |                        |                        | 15.5%                  | 20.0%                  | 21.5%                               |
| Shareholders' equity ratio<br>at market price |                        |                        | 22.5%                  | 44.2%                  | 50.9%                               |
| Debt redemption years                         |                        |                        | 8.5 years              | 5.1 years              | -                                   |
| Interest coverage ratio                       |                        |                        | 5.9 times              | 11.9 times             | 11.2 times                          |

Notes:

- Return on sales (ROS) = Ordinary income/Net sales
- Return on assets (ROA) = (Ordinary income + Interest expense)/Total assets<sup>1)</sup>  
(ROA for the interim period is annualized.)
- Outstanding debt = Total amount of borrowings, bonds and commercial paper
- D/E ratio = Outstanding debt/Shareholders' equity
- Shareholders' equity ratio = Shareholders' equity/Total assets
- Shareholders' equity ratio at market price = Market capitalization<sup>2)</sup>/Total assets
- Debt redemption years = Outstanding debt/Operating cash flow<sup>3)</sup>
- Interest coverage ratio = Operating cash flow<sup>3)</sup>/Interest expense<sup>4)</sup>

- 1)  $(\text{Total assets at beginning of term} + \text{Total assets at end of term})/2$
- 2) Market capitalization is calculated as term-end market price X term-end outstanding shares.
- 3) Operating cash flow corresponds to cash flow from operating activities on the consolidated cash flow statement.
- 4) Interest expense corresponds to interest payment on the consolidated cash flow statement.

There are no indicators prior to the year ended March 2002, because the company was established on September 27, 2002.

# # #

## Consolidated Statements of Income

|  | Six months ended<br>Sept. 30, 2004 | Six months ended<br>Sept. 30, 2003 | (Millions of Yen)<br>Fiscal Year ended<br>Mar. 31, 2004 |
|--|------------------------------------|------------------------------------|---|
| Net sales  | 1,237,004                          | 1,120,391                          | 2,473,725   |
| Cost of sales  | (906,709)                          | (862,754)                          | (1,918,334)   |
| Selling, general and administrative expenses                           | (144,184)                          | (147,652)                          | (301,785)   |
| Operating income   | 186,110                            | 109,983                            | 253,605   |
| Non-operating income(loss):  |                                    |                                    |   |
| Interest income and dividends received                                 | 3,922                              | 3,491                              | 6,020   |
| Interest expense   | (11,433)                           | (15,772)                           | (28,296)  |
| Other, net   | 7,137                              | (4,917)                            | (12,956)  |
| Ordinary income  | 185,737                            | 92,786                             | 218,372   |
| Extraordinary profit:  |                                    |                                    |   |
| Profit on sales of investments in securities                           | 9,708                              | -                                  | 3,611   |
| Total  | 9,708                              | -                                  | 3,611   |
| Extraordinary loss:  |                                    |                                    |   |
| Loss on sales of property, plant and equipment                         | (8,944)                            | -                                  | (2,248)   |
| Loss on disposal of property, plant and equipment, etc.                | (17,041)                           | -                                  | (6,563)   |
| Loss on impairment of property, plant and equipment, etc.              | (74,010)                           | -                                  | -   |
| Write-down of investments in securities                                | (1,500)                            | (2,549)                            | (2,300)   |
| Amortization of transitional obligation on accrued retirement benefits | (11,077)                           | (11,333)                           | (22,828)  |
| Loss on settlement   | (1,160)                            | -                                  | -   |
| Loss on retirement of subsidiaries' pension fund                       | -                                  | (1,596)                            | (1,621)   |
| Total  | (113,733)                          | (15,478)                           | (35,562)  |
| Income before income taxes and minority interests                      | 81,712                             | 77,307                             | 186,422   |
| Income taxes:  |                                    |                                    |   |
| Current  | (64,938)                           | (10,663)                           | (23,721)  |
| Deferred   | 17,229                             | (20,759)                           | (53,532)  |
| Minority interests   | 155                                | (847)                              | (2,296)   |
| Net income   | 34,158                             | 45,036                             | 106,872   |

## Consolidated Balance Sheets

| (Assets)  | (Millions of Yen)       |                        |                         |
|---|-------------------------|------------------------|-------------------------|
|   | As of<br>Sept. 30, 2004 | As of<br>Mar. 31, 2004 | As of<br>Sept. 30, 2003 |
| <b>Current assets:</b>                            |                         |                        |                         |
| Cash and deposits                                 | 71,665                  | 77,388                 | 74,334                  |
| Notes and accounts receivable                     | 401,960                 | 447,315                | 351,190                 |
| Inventories                                       | 530,530                 | 457,493                | 528,321                 |
| Deferred tax assets                               | 38,896                  | 40,204                 | 68,113                  |
| Other current assets                              | 86,575                  | 84,077                 | 83,890                  |
| Allowance for doubtful accounts                   | (1,457)                 | (1,676)                | (2,713)                 |
| Total current assets                              | <b>1,128,171</b>        | <b>1,104,803</b>       | <b>1,103,136</b>        |
| <b>Property, plant and equipment, net:</b>        |                         |                        |                         |
| Land  | 524,783                 | 591,532                | 593,212                 |
| Buildings and structures                          | 513,426                 | 540,826                | 555,566                 |
| Machinery and equipment                           | 810,827                 | 846,226                | 852,482                 |
| Construction in progress                          | 30,321                  | 35,052                 | 37,796                  |
| Total property, plant and equipment, net          | <b>1,879,360</b>        | <b>2,013,638</b>       | <b>2,039,058</b>        |
| <b>Intangible assets</b>                          | <b>60,442</b>           | <b>61,431</b>          | <b>56,293</b>           |
| <b>Investments and other assets:</b>              |                         |                        |                         |
| Investments in securities                         | 341,849                 | 357,645                | 302,116                 |
| Deferred tax assets                               | 87,230                  | 77,429                 | 93,276                  |
| Other assets                                      | 120,866                 | 133,330                | 136,424                 |
| Allowance for doubtful accounts                   | (20,134)                | (23,842)               | (27,176)                |
| Total investments and other assets                | <b>529,811</b>          | <b>544,562</b>         | <b>504,641</b>          |
| <b>Deferred assets</b>                            | <b>62</b>               | <b>5</b>               | <b>8</b>                |
| <b>Total assets</b>                               | <b>3,597,848</b>        | <b>3,724,441</b>       | <b>3,703,138</b>        |
| (Liabilities and shareholders' equity)            |                         |                        |                         |
| <b>Current liabilities:</b>                       |                         |                        |                         |
| Notes and accounts payable                        | 372,028                 | 463,714                | 396,672                 |
| Short-term borrowings                             | 382,934                 | 444,033                | 369,541                 |
| Commercial paper                                  | 79,000                  | -                      | 110,000                 |
| Current portion of corporate bonds                | 100,000                 | 70,500                 | 60,500                  |
| Other current liabilities                         | 377,850                 | 346,051                | 311,401                 |
| Total current liabilities                         | <b>1,311,813</b>        | <b>1,324,298</b>       | <b>1,248,115</b>        |
| <b>Long-term liabilities:</b>                     |                         |                        |                         |
| Corporate bonds                                   | 511,000                 | 481,000                | 441,000                 |
| Long-term borrowings                              | 666,793                 | 841,871                | 1,014,413               |
| Accrued retirement benefits                       | 137,987                 | 130,795                | 125,975                 |
| Reserve for rebuilding furnaces                   | 46,724                  | 51,002                 | 54,812                  |
| Other liabilities                                 | 112,426                 | 115,116                | 118,555                 |
| Total long-term liabilities                       | <b>1,474,932</b>        | <b>1,619,785</b>       | <b>1,754,757</b>        |
| <b>Minority interests</b>                         | <b>36,257</b>           | <b>34,058</b>          | <b>44,549</b>           |
| <b>Shareholders' equity:</b>                      |                         |                        |                         |
| Common stock                                      | 100,000                 | 100,000                | 100,000                 |
| Capital surplus                                   | 606,363                 | 600,497                | 581,083                 |
| Retained earnings (Deficit)                       | 72,856                  | 53,558                 | (12,154)                |
| Revaluation reserve for land, net of tax          | 14,331                  | 16,273                 | 15,669                  |
| Net unrealized gains on securities                | 38,592                  | 35,623                 | 18,070                  |
| Translation adjustments                           | (51,901)                | (52,304)               | (45,471)                |
| Treasury stock, at cost                           | (5,398)                 | (7,349)                | (1,481)                 |
| Total shareholders' equity                        | <b>774,844</b>          | <b>746,298</b>         | <b>655,715</b>          |
| <b>Total liabilities and shareholders' equity</b> | <b>3,597,848</b>        | <b>3,724,441</b>       | <b>3,703,138</b>        |

## Consolidated Statements of Cash Flows

(Millions of Yen)

|   | Six months ended<br>Sept. 30, 2004 | Six months ended<br>Sept. 30, 2003 | Fiscal Year ended<br>Mar. 31, 2004 |
|---|------------------------------------|------------------------------------|------------------------------------|
| <b>Cash flows from operating activities:</b>  |                                    |                                    |                                    |
| Income before income taxes and minority interests   | 81,712                             | 77,307                             | 186,422                            |
| Adjustments for:  |                                    |                                    |                                    |
| Depreciation and amortization   | 86,806                             | 92,972                             | 185,684                            |
| Changes in reserves   | 1,672                              | 1,114                              | (2,364)                            |
| Interest and dividend income  | (3,922)                            | (3,491)                            | (6,020)                            |
| Interest expense  | 11,433                             | 15,772                             | 28,296                             |
| Profit on sales of investments in securities  | (9,708)                            | -                                  | (3,611)                            |
| Loss on sales of property, plant and equipment  | 8,944                              | -                                  | 2,248                              |
| Loss on disposal of property, plant and equipment, etc.   | 17,041                             | -                                  | 6,563                              |
| Loss on impairment of property, plant and equipment, etc.   | 74,010                             | -                                  | -                                  |
| Write-down of investments in securities   | 1,500                              | 2,549                              | 2,300                              |
| Loss on settlement  | 1,160                              | -                                  | -                                  |
| Loss on retirement of subsidiaries' pension funds   | -                                  | 1,596                              | 1,621                              |
| Changes in operating receivables and trade liabilities  | (31,692)                           | 14,593                             | (22,872)                           |
| Changes in inventories  | (73,354)                           | (53,133)                           | 17,588                             |
| Other, net  | (10,054)                           | (27,415)                           | (13,860)                           |
| Sub total   | 155,548                            | 121,864                            | 381,993                            |
| Interest and dividend income received   | 6,001                              | 4,819                              | 7,690                              |
| Interest paid   | (11,497)                           | (16,618)                           | (29,954)                           |
| Income taxes paid   | (17,135)                           | (11,078)                           | (16,461)                           |
| Other, net  | (4,471)                            | 6,148                              | 13,809                             |
| <b>Net cash provided by operating activities</b>  | <b>128,446</b>                     | <b>105,134</b>                     | <b>357,077</b>                     |
| <b>Cash flows from investing activities:</b>  |                                    |                                    |                                    |
| Payments for purchase of property, plant and equipment  | (83,059)                           | (63,053)                           | (129,543)                          |
| Proceeds from sales of property, plant and equipment  | 6,690                              | 7,041                              | 12,340                             |
| Payments for purchase of investments in securities  | (264)                              | (5,592)                            | (38,468)                           |
| Proceeds from sales of investments in securities  | 28,180                             | 11,375                             | 16,837                             |
| Other, net  | 3,589                              | 8,096                              | 3,765                              |
| <b>Net cash used in investing activities</b>  | <b>(44,863)</b>                    | <b>(42,132)</b>                    | <b>(135,068)</b>                   |
| <b>Cash flows from financing activities:</b>  |                                    |                                    |                                    |
| Net change in short-term borrowings and commercial paper  | 67,608                             | 83,803                             | (23,342)                           |
| Proceeds from long-term borrowings  | -                                  | 144,812                            | 160,300                            |
| Repayments of long-term borrowings  | (207,403)                          | (219,411)                          | (330,025)                          |
| Issuance of corporate bond  | 102,500                            | 20,000                             | 90,000                             |
| Redemption of corporate bonds   | (40,500)                           | (90,000)                           | (110,000)                          |
| Payments for dividends by parent company  | (17,221)                           | (8,606)                            | (8,606)                            |
| Other, net  | 5,415                              | (4,268)                            | (7,583)                            |
| <b>Net cash used in financing activities</b>  | <b>(89,600)</b>                    | <b>(73,671)</b>                    | <b>(229,258)</b>                   |
| Effect of exchange rate change on cash and cash equivalents   | 1,379                              | (2,349)                            | (3,857)                            |
| Net decrease in cash and cash equivalents   | (4,637)                            | (13,018)                           | (11,107)                           |
| Cash and cash equivalents at beginning of this period   | 77,178                             | 87,304                             | 87,304                             |
| Changes in cash and cash equivalents at beginning of the period<br>by newly consolidated or deconsolidated subsidiaries | (1,098)                            | (91)                               | 980                                |
| <b>Cash and Cash equivalents at end of this period</b>  | <b>71,442</b>                      | <b>74,194</b>                      | <b>77,178</b>                      |