

 **NIPPON YAKIN KOGYO CO., LTD.**

Annual Report 2003

PROFILE

Nippon Yakin Kogyo Co., Ltd. is one of the largest stainless steel producers in Japan and is the only company in Japan with an integrated production system, from the smelting of nickel ore to finished stainless steels.

The Company's principal stainless steel products are sheets, plates and forgings. The Company also produces processed stainless steel products and Fe-Ni alloys.

The Company has 15 subsidiaries and 5 affiliates in Japan and overseas that are engaged mainly in the manufacture of processed stainless steel products, including pipes and tubes, and wires.

The financial statements presented are partial unaudited translations of the Japanese annual securities reports, which have been prepared based on accounting principles generally accepted in Japan.

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FINANCIAL HIGHLIGHTS

Five years ended March 31

Consolidated Data	1999	2000	2001	2002	2003
<Millions of yen>					
Net sales	¥137,687	135,927	143,226	128,454	134,016
Ordinary income (loss)	(10,741)	(4,043)	1,618	(1,834)	360
Net loss	(13,654)	(6,184)	(819)	(6,063)	(42,546)
Shareholders' equity	17,029	11,193	34,892	31,089	2,730
Total assets	212,383	203,459	243,043	231,184	150,994
<Yen>					
Shareholders' equity per share	¥102.18	67.17	209.37	186.54	(147.72)
Net loss per share	(81.93)	(37.11)	(4.92)	(36.39)	(512.10)
<%>					
Shareholders' equity ratio	8.0	5.5	14.4	13.4	1.8
<Millions of yen>					
Cash flows from operating activities	—	¥3,178	8,384	6,383	4,103
Cash flows from investing activities	—	1,511	(889)	2,161	(1,951)
Cash flows from financing activities	—	(4,969)	(4,294)	(9,353)	(9,924)
Cash and cash equivalents at the term end	¥9,484	9,416	12,597	12,023	4,228
Number of employees	—	3,039	2,833	2,709	2,165
Non-Consolidated Data	1999	2000	2001	2002	2003
<Millions of yen>					
Net sales	¥65,066	67,082	77,220	70,440	77,343
Ordinary income (loss)	(7,925)	(3,275)	857	(793)	483
Net loss	(6,762)	(4,951)	(990)	(3,501)	(49,785)
Paid-in capital	20,945	20,945	20,945	20,945	12,736
Shareholders' equity	28,548	23,596	46,112	42,351	7,709
Total assets	155,369	146,800	185,824	177,340	120,184
<Thousands of shares>					
Total number of shares outstanding	166,660	166,660	166,660	166,660	158,330
<Yen>					
Shareholders' equity per share	¥171.30	141.59	276.68	254.14	(87.55)
Net loss per share	(40.57)	(29.71)	(5.94)	(21.01)	(597.68)
<%>					
Shareholders' equity ratio	18.4	16.1	24.8	23.9	6.4
Number of employees	1,176	1,109	1,054	965	895

Notes: 1. The figures for net sales do not include consumption tax.

2. The reporting company carried out 2-for-1 reverse stock split on February 25, 2003.

3. Diluted earnings per share are not available as the reporting company has posted net loss on a consolidated basis for the 5 consecutive terms ended March 31, 2003.

4. Diluted earnings per share are not available as the reporting company has posted net loss on a non-consolidated basis for the 5 consecutive terms ended March 31, 2003.

5. In the terms ended March 2001 and 2002, the Company and some of its domestic consolidated subsidiaries carried out revaluation of land for business purposes in accordance with the stipulations of the Land Revaluation Act (Law No. 34 promulgated on March 31, 1998) and the Revision to the Land Revaluation Act (Law No. 19 promulgated on March 31, 2001).

6. Beginning with the year ended March 31, 2000, "number of employees" refers to the actual number of persons working at the Company, irrespective of employee status.

7. Beginning with the term ended March 31, 2002, treasury stock is posted under shareholders' equity as exclusion and excluded from number of shares issued and outstanding for the calculation of shareholders' equity per share and earnings per share. Effective the term ended March 31, 2003, the reporting company has adopted new accounting standards for calculating earnings per share; that is, Corporate Accounting Standards No. 2 and Practical Guidelines for Corporate Accounting Standards No. 4.

ISSUES TO BE ADDRESSED

Basic Management Policy

The Nippon Yakin Group's management philosophy is to add to the progress and prosperity of society by supplying products of the highest quality produced by a combination of creativity and efficiency. The Company's objective is to achieve world-class excellence in all aspects of its business and to enhance corporate value, and through that to meet the expectations of its shareholders and all other stakeholders.

To cope with the significant changes that have occurred in the operating environment in recent years, in September 2002 the Company instituted a medium-term business reconstruction plan. To attain the objectives set out above, the Company is committed to unremitting and determined efforts to achieve the goals of this plan.

Management Strategy in the Medium to Long Term

The Group instituted a medium-term business improvement plan inaugurated in October 1998, and in September 2001 it formulated a supplementary action plan to deal with subsequent abrupt changes in the operating environment. Under these the Company and the Group worked in unison to bring about a recovery in performance. However, the persistent sluggishness of the Japanese economy has had the effect of causing demand to decline and product prices to undergo a prolonged downtrend, while fluctuations in international commodity prices have caused expenditure on materials to soar. This has deepened the deterioration of the operating environment for the stainless-steel industry, with the result that the Group's performance during the year under review inevitably fell below the plan targets.

Given this environment, it was concluded that it was essential to reconstruct the business and establish a sound financial position, in order to enable the Group to continue to provide stainless and special steel products to meet diverse customer needs, and thereby to contribute to the wider community as a creative corporate group working in tandem with its customers. In consequence, in September 2002 we formulated a new medium-term business reconstruction plan.

An outline of the plan is included in the notes to the consolidated financial statements.

Immediate Issues to be Addressed

The immediate task of the Group is to devote itself to ensuring that the goals of the medium-term business reconstruction plan are met. To that end, particular emphasis will be placed on carrying out the following priority measures.

1. To expand sales of high-performance materials and products developed from them in line with customer needs, backed by its technical prowess.
2. To carry out painstaking cost reduction through the spin-off of operations, and ensure stable procurement of nickel at reasonable prices.
3. To restore appropriate selling prices.
4. To take advantage of the move of its head-office functions to Kawasaki to strengthen the base of its operations across the entire Group by ensuring close collaboration between all divisions and Group companies.

The Nippon Yakin Kogyo Group will continue to contribute to society at large as a trusted manufacturer of stainless and special steels. In doing so, we look forward to the support and goodwill of all of our shareholders and other stakeholders.

REVIEW OF OPERATIONS

Business Results

Export growth and an improvement in IT-related market conditions raised hopes of a mild recovery by the Japanese economy at the outset of the term under review. However, capital investment and consumer spending lacked strength, owing to the persistence of deflation and to continuing anxiety about the future fueled by the bad-debt problem and the severe employment environment. As a result, the overall economic situation remained very difficult. What is more, toward the end of the term the uncertainties aroused by the Iraq situation caused share prices to fall, which had a strong impact on corporate earnings due to the huge valuation losses.

It was amid these circumstances that in September last year the Company instituted a medium-term business reconstruction plan, the principal components of which are business reconstruction to create a stable earnings base, and financial restructuring aimed at ensuring a strong financial position. Various measures have been implemented under the plan, including the reduction of capital, a reverse stock split, and additional measures based on the "Guidelines for Private Liquidation," including debt forgiveness, the conversion of debt to equity, the drastic elimination of affiliates engaging in business with little connection with the Company's core business, and the thorough disposal of losses to ensure corporate revival. In addition, in parallel with self-help measures that include further rationalization, the Company has sought to solidify and enhance its standing as a manufacturer of stainless steel and special steels by placing emphasis on high-performance materials, endeavoring both to increase order volume and to ensure efficient production.

As a result of these efforts the Company was able to achieve net sales totaling ¥134,016 million, up by 4.3% from the previous year. Because of the implementation of the management measures referred to above, the net loss for the term was ¥42,546 million, which was substantially larger than the preceding term's net loss of ¥6,063 million. However, ordinary income totaled ¥360 million, which represented a significant improvement from the loss of ¥1,834 million posted a year earlier.

1. Results by Segment

(1) Stainless Steel Sheets and Plates, and Processed Products

In the stainless-steel industry the domestic market was impacted by the sluggishness of the economy in the first half, and demand remained lackluster as a result, as was the case in the previous year. During the second half there were moves toward a recovery in demand in the automotive and construction fields, and progress with inventory adjustments caused selling prices to trend upward, but in terms of profitability the sharp rise in the price of nickel, a principal material, proved to be a major stumbling block. In contrast in the export market there were fluctuations during the term, but overall there was an increase in demand in China and Southeast Asia. Buoyed by inventory adjustments, prices underwent a substantial improvement.

The sphere of high-performance materials is the main pillar of the rebuilding of business under the medium-term business reconstruction plan. Here the Company took advantage of the distinctive characteristics of its plant and

equipment and its processing technologies, two areas in which it excels, to achieve an increase in order volume in the field of electronics materials, and also secured orders for materials such highly corrosion-resistant alloys.

As a result, in this segment net sales in the term rose by 10.0% year-on-year, to ¥110,103 million. There was also a substantial improvement in operating income, which leapt to ¥4,070 million, compared with ¥1,515 million in the previous year.

(2) Kitchen and Bath Products

In the housing market, housing starts remained at a low level during the year, as although demand for houses for rent remained at around the previous year's level, demand for condominiums and owner-occupied housing slipped. Given the persistently harsh environment for employment and disposable incomes, consumers were less inclined to purchase homes, and demand for refurbishment did not increase sufficiently to compensate for the sluggishness of home-buying demand. In consequence, selling prices in the housing market continued to slide, reflecting the continuation of a difficult situation in which the bottom is not yet in sight.

As a result, sales in this segment fell by 15.6% from the previous year, to ¥23,913 million. This was accompanied by an operating loss of ¥504 million, which represented a substantial retreat from the ¥317 million profit achieved in the previous year.

On March 28, 2003, this business was transferred to a third party outside the Group.

2. Segment Results by Area

Segment results broken down by geographical area are not reported, as more than 90% of the combined sales of all segments are generated in Japan.

Cash Flows

Cash flow from operating activities

Owing to factors such as the focus on the reduction of inventories, the cash inflow from operating activities totaled ¥4,103 million. This was ¥2,279 million lower than in the previous year, but after adjustments for holidays it represented a decrease of ¥2,579 million.

Cash flow from investing activities

During the term under review there was a cash outflow from investing activities totaling ¥1,951 million, compared with a cash inflow of ¥2,161 million in the previous year. The principal factors in this were disbursements associated with the disposal of affiliates under the medium-term business reconstruction plan, and a reduction in proceeds from the sale of idle assets.

Cash flow from financing activities

As a result of the maximum possible reduction of interest-bearing liabilities in the course of implementing the medium-term business reconstruction plan, there was a cash outflow from financing activities totaling ¥9,924 million, which was ¥570 million higher than the outflow in the previous year.

As a net result of the above, cash and cash equivalents declined by ¥7,804 million, including effects of exchange rate changes, to a year-end balance of ¥4,228 million.

CONSOLIDATED BALANCE SHEETS

As of March 31, 2002 and 2003	2002		2003	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
Assets				
I. Current assets				
1. Cash and deposits	12,613		4,354	
2. Notes and accounts receivable *3 and *5	31,845		25,378	
3. Marketable securities	50		70	
4. Inventories	36,636		23,955	
5. Deferred tax assets	172		308	
6. Other current assets	2,235		911	
7. Allowance for doubtful receivables	(494)		(437)	
Total current assets	83,057	35.9	54,540	36.1
II. Fixed Assets				
(1) Tangible fixed assets				
1. Buildings and structures *3	52,253		47,433	
Accumulated depreciation	25,221	27,031	30,948	16,485
2. Machinery, equipment and vehicles *3	131,729		128,491	
Accumulated depreciation	90,629	41,099	104,237	24,253
3. Land *2 and *3	67,067		45,413	
4. Construction in progress	419		446	
5. Other tangible fixed assets	9,620		7,162	
Accumulated depreciation	8,285	1,334	6,263	899
Total tangible fixed assets	136,952	59.2	87,497	57.9
(2) Intangible assets				
1. Consolidated adjustment	564		339	
2. Other intangible assets	521		411	
Total intangible assets	1,085	0.5	751	0.5
(3) Investments and other assets				
1. Investment securities *1 and *3	6,865		6,111	
2. Deferred tax assets	682		884	
3. Other investments and other assets	3,183		1,932	
4. Allowance for doubtful receivables	(642)		(723)	
Total investments and other assets	10,088	4.4	8,204	5.4
Total fixed assets	148,126	64.1	96,453	63.9
III. Deferred Assets				
Total assets	231,184	100.0	150,994	100.0

*1 to *3, *5, *6 and *7 above refer to the section, "Notes to Consolidated Balance Sheets," under the accompanying Notes to Consolidated Financial Statements.

	2002		2003	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
Liabilities				
I. Current liabilities				
1. Notes and accounts payable.....	30,436		13,269	
2. Short-term debt *3	111,382		73,607	
3. Current portion of long-term debt *3	18,846		11,015	
4. Accrued income taxes.....	102		397	
5. Accrued consumption taxes.....	434		395	
6. Reserve for employees' bonuses	859		850	
7. Provision for affiliate liquidation	—		149	
8. Other reserves	1		0	
9. Deferred tax liabilities	20		—	
10. Other current liabilities	4,542		3,700	
Total current liabilities	<u>166,625</u>	72.1	<u>103,387</u>	68.5
II. Long-term liabilities				
1. Corporate bonds	220		220	
2. Long-term debt *3	8,210		13,132	
3. Deferred tax liabilities	45		28	
4. Deferred tax liabilities on land revaluation *2.....	18,802		11,368	
5. Reserve for employees' retirement benefits.....	4,581		19,595	
6. Other long-term liabilities *3	1,246		97	
Total long-term liabilities	<u>33,106</u>	14.3	<u>44,442</u>	29.4
Total liabilities.....	199,732	86.4	147,830	97.9
Minority interests				
Minority interests	362	0.2	433	0.3
Shareholders' equity				
I. Capital stock				
II. Additional paid-in capital	11,819	5.1	—	—
III. Difference on land revaluation *2	27,076	11.7	—	—
IV. Deficit	28,473	12.3	—	—
V. Unrealized loss on available-for-sale securities.....	(313)	(0.1)	—	—
VI. Foreign exchange translation adjustment	35	0.0	—	—
VII. Treasury stock	<u>(0)</u>	<u>(0.0)</u>	<u>—</u>	<u>—</u>
I. Capital stock *6	—	—	12,736	8.4
II. Capital surplus	—	—	21,375	14.2
III. Retained earnings	—	—	(47,802)	(31.7)
IV. Difference on land revaluation *2	—	—	16,621	11.0
V. Unrealized loss on available-for-sale securities.....	—	—	(190)	(0.1)
VI. Foreign exchange translation adjustment	—	—	3	0.0
VII. Treasury stock *7	<u>—</u>	<u>—</u>	<u>(13)</u>	<u>(0.0)</u>
Total shareholders' equity	<u>31,089</u>	13.4	<u>2,730</u>	1.8
Total liabilities, minority interests, and shareholders' equity.....	231,184	100.0	150,994	100.0

CONSOLIDATED STATEMENTS OF OPERATIONS

Terms ended March 31, 2002 and 2003	2002		2003	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
I. Sales	128,454	100.0	134,016	100.0
II. Cost of sales *2	105,954	82.5	111,704	83.4
Gross profit.....	22,500	17.5	22,312	16.6
III. Selling, general and administrative expenses				
*1 and *2	20,690	16.1	18,718	14.0
Operating income.....	1,810	1.4	3,593	2.7
IV. Non-operating income				
1. Interest income.....	55		53	
2. Dividend income.....	26		27	
3. Rent.....	194		84	
4. Insurance dividend income	67		91	
5. Insurance claims received.....	57		49	
6. Gain on investment in equity-method affiliates...	—		147	
7. Other non-operating income.....	145	546	153	607
V. Non-operating expenses				
1. Interest paid	3,050		2,833	
2. Loss in equity method subsidiaries.....	330		—	
3. Other non-operating expenses.....	810	4,190	1,007	3,840
Ordinary income	—	—	360	0.3
Ordinary loss.....	1,834	1.4	—	—
VI. Extraordinary profits				
1. Gain on sales of fixed assets *3	861		1,071	
2. Gain on debt forgiveness *5	—		20,000	
3. Other extraordinary profits	33	895	155	21,226
VII. Extraordinary losses				
1. Loss on disposal of tangible fixed assets.....	948		517	
2. Loss on sale of fixed assets *4	648		200	
3. Valuation loss on investment securities	1,388		309	
4. Amortization of consolidation account adjustment	65		—	
5. Restructuring loss *6.....	—		67,853	
6. Other extraordinary losses.....	1,176	4,227	1,609	70,490
Loss before income taxes and minority interests ...	5,165	4.0	48,904	36.5
Income taxes				
(corporate tax, residential tax and enterprise tax)	161		562	
Income tax adjustment	742	903	(7,001)	(6,439)
Minority interest-income	—	—	81	0.1
Minority interest-loss.....	5	0.0	—	—
Net loss.....	6,063	4.7	42,546	31.7

*1 to *6 above refer to the section, "Notes to Consolidated Statements of Operations," under the accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Terms ended March 31, 2002 and 2003	2002		2003	
	Amount (¥ million)		Amount (¥ million)	
I. Deficit at the beginning of term		22,368		—
II. Increase in deficit				
1. Increase resulting from transfer to legal capital reserve following the merger with subsidiary	21		—	
2. Increase resulting from change in equity stake	5		—	
3. Reversal of excess amounts generated from land revaluation	14	40	—	—
III. Net loss		6,063		—
IV. Deficit at the end of term		28,473		—
Capital surplus				
I. Capital surplus at beginning of term		—		11,819
II. Increase in capital surplus				
1. Gain on capital reduction	—		15,709	
2. Proceeds from share issuance	—	—	7,500	23,209
III. Reduction in capital surplus				
Transfer to retained earnings	—	—	13,653	13,653
IV. Capital surplus at end of term		—		21,375
Retained earnings				
I. Deficit at beginning of term		—		(28,473)
II. Increase in retained earnings				
1. Transfer from capital surplus	—		13,653	
2. Reversal of difference on land revaluation	—	—	9,598	23,251
III. Increase in deficit				
1. Decrease resulting from equity stake	—		34	
2. Net loss	—	—	42,546	42,581
IV. Deficit at end of term		—		(47,802)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2002	2003
	Amount (¥ million)	Amount (¥ million)
Terms ended March 31, 2002 and 2003		
I. Cash flows from operating activities		
Loss before income taxes and minority interests	(5,165)	(48,904)
Depreciation and amortization	7,486	7,245
Amortization of consolidation adjustment	284	224
Increase in reserve for employees' retirement benefits	1,073	15,014
Interest and dividends received	(81)	(80)
Interest expense	3,050	2,833
Income (loss) from equity-method affiliates	330	(147)
(Gain) loss on sale of investment securities	(4)	382
Loss on valuation of investment securities	1,388	309
Gain on sale of tangible fixed assets	(213)	(870)
Loss of disposal of tangible fixed assets	948	517
Gain on debt forgiveness	—	(20,000)
Restructuring loss	—	44,275
Decrease in trade notes receivable	4,504	1,547
(Increase) decrease in inventories	(2,283)	10,554
Decrease in trade accounts payable	(1,837)	(7,451)
Extraordinary retirement allowance	195	304
Other	59	1,576
Subtotal	9,734	7,330
Interest and dividends received	78	89
Interest paid	(2,893)	(2,875)
Extraordinary retirement allowance paid	(195)	(304)
Income taxes paid	(341)	(136)
Net cash provided by operating activities	6,383	4,103
II. Cash flows from investing activities		
Expenditures for deposit in time deposits	(566)	(252)
Proceeds from maturity of time deposits	1,285	676
Purchases of marketable securities	(20)	(0)
Proceeds from sale of marketable securities	225	19
Purchases of noncurrent assets	(3,499)	(3,927)
Proceeds from sale of noncurrent assets	4,721	2,360
Purchases of investment securities	(165)	(4)
Proceeds from sale of investment securities	149	208
Expenditure for sale of subsidiaries resulting in changes in the scope of consolidated	—	(1,208)
Other	31	176
Net cash provided by (used in) investing activities	2,161	(1,951)
III. Cash flows from financing activities		
Net decrease in short-term debt	(2,434)	(22,014)
Proceeds from long-term debt	213	10
Repayment of long-term debt	(7,352)	(2,918)
Proceeds from corporate bond issuance	220	—
Other	—	(2)
Net cash used in financing activities	(9,353)	(9,924)
IV. Foreign currency translation adjustment of cash and cash equivalents	37	(32)
V. Net decrease in cash and cash equivalents	(771)	(7,804)
VI. Cash and cash equivalents at the beginning of the term	12,597	12,023
VII. Balance of cash and cash equivalents of newly consolidated subsidiaries at the beginning of the term	197	10
VIII. Balance of cash and cash equivalents at the end of the term	12,023	4,228

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year to March 31, 2003 (April 1, 2002 to March 31, 2003)

Matters and circumstances that cast substantial doubt on the assumption that the company is a going concern

For the reporting term the Group reported an extraordinary loss of ¥70,490 million, including losses incurred as a result of structural reforms, and based on the "Guidelines for Multi-Creditor Corporate Workouts," gains from debt forgiveness to the value of ¥20 billion received from financial institutions with which the Company does business were reported as an extraordinary gain.

Given these circumstances, within the Group there exist matters that cast substantial doubt on the assumption that the company is a going concern. However, it is believed that the doubts relating to the following circumstances can be eliminated.

The Company has drawn up a medium-term business reconstruction plan, and is currently implementing various measures aimed at achieving its goals. One of the financial restructuring measures for the reporting term is the complete disposal of losses for the sake of corporate revival, and as part of the business reconstruction, the home-use kitchen and bath products business is to be transferred to a third party outside the Group. The principal components of the extraordinary loss of ¥70,490 million referred to above were in line with the medium-term business reconstruction plan, as was the ¥20 billion gain from debt forgiveness.

During the reporting term, which was the first of the reconstruction plan period, the depressed state of the home-use kitchen and bath products business caused ordinary income to fall slightly below the plan projection, but the performances of the stainless steel sheets and plates and processed products segment was above the projections. In addition, in spite of the difficult conditions that are forecast to persist next term, the Company believes that there is a strong possibility that the plan's targets will be attained.

The consolidated financial statements have been prepared on the assumption that the Company is a going concern, and therefore the impact of the doubts are not reflected in those consolidated financial statements.

Summary of the Company's medium-term business reconstruction plan (Plan period: Three and a half years, from October 2002 to March 2006)

1. Objectives and measures of the medium-term business reconstruction plan

(1) Business reconstruction to create a stable earnings base

- Reorganization to create a manufacturing and sales structure that places emphasis on further enhancement of management efficiency and high-performance materials
- Selection and concentration on fields of particular strength
- Promotion of business tie-ups

(2) Financial restructuring to build a strong financial condition

- Complete disposal of losses to ensure corporate revival
- Exhaustive attention to asset allocation, and reduction of interest-bearing debt

2. Content of business reconstruction

(1) Reconstruction of manufacturing and sales structure: Spin-off of Kawasaki Plant and Oheyama Plant

- Spin-off of Kawasaki Plant, to strengthen development and manufacturing systems so as to increase sales of high-performance materials

- Spin-off of Oheyama Plant with the aim of enhancing plant efficiency and productivity

(Both completed in April 2003)

(2) Additional enhancement of management efficiency and cost reduction

- Cutting of 140 personnel (by March 31, 2004)
- Transfer of head office (scheduled for October 2003), to within YAKIN Kawasaki Co., Ltd.

(Combination with that company's administration division, for greater efficiency and cost reduction)

- Study of raising efficiency of affiliates through reorganization and amalgamation

(3) Selection and concentration on fields of particular strength

- Concentration of management resources on fields in which the Company excels, with focus on highly profitable high-performance materials and high-value-added materials

(Targeting sales ratio of above 40% by year to March 2006)

- Concentration of management resources on core businesses: Study and review businesses with little connection with stainless steel

(4) Business tie-up: Comprehensive tie-up with JFE Steel Corporation (announced July 2002)

- Effective reciprocal use of production lines
- Strengthening of sales channels: Meeting diverse materials needs in domestic and overseas large-scale projects
- Cooperation in sales of high-performance materials in overseas markets
- Cooperation in cost reduction in raw materials and other materials procurement and goods distribution
- Cooperation in product development and process development

3. Content of radical financial restructuring

(1) Complete disposal of losses to ensure corporate revival

- Lump-sum charge-off of total amount of ¥75.1 billion, including ¥32.3 billion upon restatement of plant facilities and land at fair value, a single charge-off of ¥12.4 billion for unrecognized obligations for retirement benefits, ¥6.8 billion upon the revision of the valuation method for inventories, and a single charge-off of ¥75.1 billion for valuation losses on real estate and securities and elimination of affiliates

(2) Sale of idle assets and large-scale reduction of interest-bearing debt

(¥96.9 billion on March 31, 2002 – ¥59.0 billion on March 31, 2006)

- Sale of assets with little connection with core businesses (unessential real estate, securities, golf-club memberships)

4. Requests to shareholders and financial institutions

- 75% capital reduction, and 1:2 reverse stock split (both effected February 2003)

- Based on Guidelines for Multi-Creditor Corporate Workouts, an aggregate amount of ¥20.0 billion of debt forgiveness and an aggregate amount of ¥15.0 billion of conversion of debt to equity (both effected in March 2003)

5. Profit/loss plan and plan for reduction of interest-bearing debt (Nonconsolidated basis)

	(Billions of yen)				
	FY 2002 plan	FY 2002 results	FY 2003 plan	FY 2004 plan	FY 2005 plan
Sales	75.4	77.3	77.9	77.8	77.4
Gross profit	9.7	9.3	13.2	13.2	13.1
Operating profit	2.5	2.6	6.4	6.7	6.7
Ordinary income	0.2	0.5	4.3	4.8	4.9
Net income (loss)	(49.1)	(49.8)	4.0	4.5	4.6
Interest-bearing debt	72.5	73.0	67.8	64.2	59.0
Amount of reduction	(24.4)	(23.9)	(4.6)	(3.7)	(5.1)

The expert advisers appointed pursuant to 'Guidelines for Multi-Creditor Corporate Workouts' have issued the opinion that execution of the Company's medium-term business reconstruction plan is feasible, and since the effects of the measures whose implementation was completed during this term can be estimated with certainty, it has been acknowledged that the feasibility of the plan's execution has been further enhanced.

A breakdown of the components of the loss arising from the execution of the medium-term business reconstruction plan is included in the notes to the consolidated and the nonconsolidated statements of operations.

6. YAKIN Kawasaki Co., Ltd. and YAKIN Oheyama Co., Ltd.

As approved at the extraordinary general meeting of shareholders held on January 23, 2003, the spin-off of the Company's Kawasaki Plant and Oheyama Plant took place on April 1, 2003. This is included in the Company's medium-term business reconstruction plan as a measure for business reconstruction. The three companies will work together toward the anticipated attainment of the plan targets.

The assets, liabilities, and capital of the Company and each of the newly establishment companies after the spin-offs are as shown below.

		(Millions of yen)		
		Assets	Liabilities	Capital
Before spin-offs (at March 31, 2003)	Nippon			
	Yakin Kogyo	120,184	112,475	7,709
After spin-offs (at April 1, 2003)	Nippon			
	Yakin Kogyo	77,455	69,746	7,709
	YAKIN Kawasaki Co., Ltd.	52,859	39,270	13,589
	YAKIN Oheyama Co., Ltd.	7,963	3,459	4,505

Basis for Preparing the Consolidated Financial Statements

1. Scope of consolidation

(a) Number of consolidated subsidiaries: 12 companies
Among them, 10 subsidiaries are listed in "Subsidiaries and Affiliates" on page 20.

One of the Company's subsidiaries, Nas Business Services Co., Ltd. has been included in the scope of consolidation since the reporting term due to increasing importance within the Group. Consolidated balance sheets as of the end of the reporting term do not include assets and liabilities of one of our subsidiaries, Nas Stainless Co., Ltd. and its wholly-owned subsidiary Living Net Co., Ltd., due to the selling off of shares of Nas Stainless during the term. Statements of operations and cash flows, however, reflect business results of these companies for the term.

(b) Significant nonconsolidated subsidiaries

There are no significant nonconsolidated subsidiaries.

Five subsidiaries are excluded from the scope of consolidation as each company is small in terms of assets, sales, net income (proportional amounts to the Company's equity stakes) and retained earnings, and the companies combined also have little effect on the consolidated financial statements of the Company.

2. Equity-method subsidiaries

Number of the equity-method subsidiaries: 1 company

Name of the company: Nippon Seisen Co., Ltd.

Five nonconsolidated subsidiaries and four affiliates are outside the scope of equity-method accounting, as each company has only a marginal effect on net income and retained earnings on a consolidated basis, and the companies combined have no significant effect on the consolidated financial statements.

3. Accounting periods of consolidated subsidiaries

Accounting periods for consolidated subsidiaries
Consolidated subsidiaries whose balance sheet dates differ from that of the parent company are as follows:

Company name	Balance sheet date
Clean Metals Co., Ltd.	February 28
Nas Business Service Co., Ltd.	January 31
Nas Toa (Thailand) Co., Ltd.	February 28

The financial statements of subsidiaries with the said balance sheet dates are used for preparing consolidated financial statements.

Adjustments have been made as necessary to account for significant transactions after the balance sheet dates.

4. Accounting standard

(1) Marketable securities

Specified marketable securities:

– Securities listed or traded over the counter are, in principle, stated at fair value based on the market price on the account settlement date, determined by the moving-average method (Unrealized loss is directly changed to shareholders' equity and cost of sale is, in principle, calculated by the moving-average method).

– Other securities than the above-mentioned are, in principle, stated at cost, determined by the moving-average method.

(2) Inventories

In principle, inventories are stated at cost using the moving-average method. At the beginning of the reporting term, the Company posted losses on inventories resulting from a thorough-going review of inventory valuation methods under the medium-term business reconstruction plan.

(3) Tangible fixed assets

Depreciated primarily by the straight-line method. Useful lives of tangible fixed assets are as follows:

Buildings and structures:	8 to 50 years
Machinery, equipment and vehicles:	7 to 15 years

(4) Intangible assets

In principle, straight-line methods are applied. Software for internal use is amortized by the straight-line method based on an estimated useful life of 5 years.

(5) Allowance for doubtful receivables

Allowances for doubtful accounts are generally provided based on historical default rates. Claims whose collectibility is deemed doubtful are provided for in the expected uncollectible amounts, under due consideration of the specific circumstances.

(6) Reserve for employees' bonuses

To pay employees' bonuses, the reserve is provided for based on an estimated amount to be paid during that period.

(7) Reserve for employees' retirement benefits

An amount deemed necessary for employees' retirement benefits at the term-end is provided based on the expected amount of employees' prior service obligations and the estimated amount of pension assets at the term-end.

Employees' prior service obligations recognized during the term are amortized in lump-sum when incurred.

Actuarial loss will be amortized using the straight-line method over 8 to 10 years, which is shorter than the average remaining service period of employees beginning with the term following that in which the obligations are recognized.

Under the medium-term business reconstruction plan, pension obligations recognized during the reporting term by the Company and those generated by changes in accounting standards at the beginning of the term recognized by the consolidated subsidiaries are amortized in lump-sum.

(8) Reserve for loss on liquidation of affiliates

An amount deemed necessary is provided for liquidation of affiliated companies outside of the scope of equity-method accounting based on estimated losses charged to the Company and some consolidated subsidiaries.

(9) Foreign currency-denominated assets and liabilities

Foreign currency-denominated claims and obligations are translated at the prevailing exchange rate at the balance sheet date of the term under review, and difference on foreign exchange translation is directly charged to income. Assets and liabilities of overseas subsidiaries were translated at the book-closing dates of each subsidiary, and income and expenses were translated at the average rate during the term. Net gain/loss on foreign exchange translation is also posted under foreign exchange translation adjustment in minority interests and shareholders' equity.

(10) Lease transactions

Finance leases in which ownership is not transferred to the lessee are accounted for as operating leases.

(11) Material hedge accounting transactions

1) Hedge accounting

The deferral hedge accounting method is adopted in principle. Exchange contracts are stated in accordance with appropriation treatment as long as they meet the requirement. Interest-rate swaps and interest-rate option transactions are stated in accordance with the regulations for extraordinary treatment, as they meet the requirement stipulated in the regulations.

2) Hedging method and objectives

Hedging instruments	Objectives
Foreign exchange contracts:	Foreign currency denominated transactions, including probable future transactions
Interest-rate swap transactions:	Borrowed money
Interest-rate option transactions:	Borrowed money

3) Hedging policy

Based on the basic hedging policy determined by the executive committee, the Company engages in hedging transactions with the aims of fixing the yen-denominated amount on foreign currency denominated transactions including probable future transactions and hedging interest-rate fluctuation risk.

4) Valuation of hedge effectiveness

Hedge effectiveness is evaluated through a cumulative approach by comparing the cumulative changes in the hedging instruments' cash flows or market value fluctuation to the cumulative changes in the hedging objectives' cash flows or market value fluctuation attributable to the risk hedged for every six months. Valuation of interest-rate swap effectiveness, however is omitted as the swaps come under the stipulations relating to extraordinary treatment.

(12) Consumption tax

1) Consumption tax is excluded from calculations

2) Application of consolidated tax payment system

A consolidated tax payment system is being applied as of the reporting term.

5. Valuation of assets and liabilities belonging to consolidated subsidiaries

Assets and liabilities of all consolidated subsidiaries are stated at fair market value.

6. Amortization of consolidation adjustment

The consolidation adjustment is amortized over five years by the straight-line method.

7. Appropriation of retained earnings

The consolidated statements of shareholders' equity is prepared in accordance with the appropriation of profits and disposal of losses of consolidated companies determined during the reporting term.

8. Scope of funds in the consolidated statement of cash flows

Funds (cash and cash equivalents) listed in the consolidated statement of cash flows include cash on hand, deposits that can be withdrawn at anytime, and approaching short-term investments with a maturity of three months or less that can be readily converted to cash and bear only a slight risk for price fluctuation.

9. Changes in accounting standards

(1) Material assets

1) Inventories

Hitherto the valuation of merchandise, finished products, metal scrap, work in process, and raw materials has been by the last-in, first-out method, but as of the reporting term the method has been changed to the moving-average method.

This change in the valuation method has been made to reduce the linkage between the selling prices of stainless steel sheets and plates, the Company's mainstay products, and the price of nickel, a raw material thereof, which will tend to make product prices more stable, thereby indicating the company's profit situation more accurately. As a result of this change, operating income and ordinary income is ¥578 million higher than it would have been if the previous method had been used, and the loss before income taxes is reduced by the same amount.

The impact on segment information is included in the "Segment Information" section on page 15.

(2) Other significant matters affecting the consolidated financial statements

1) Accounting standards for disposition of treasury stock and legal reserve

As of the reporting term under review, the Company is applying Financial Accounting Standard No. 1, Accounting Standard for Treasury Stock and Reduction of Legal Reserve (Accounting Standards Board of Japan, February 21, 2002). This change has no material effect on profit or loss.

2) Accounting standard for earnings per share

As of the reporting term, the Company is applying Financial Accounting Standard No. 2, Accounting Standard for Earnings per Share (Accounting Standards Board of Japan, September 25, 2002), and Financial Accounting Standard Implementation Guidance No. 4, Practical Guidelines for Accounting Standard for Earnings per Share (Accounting Standards Board of Japan, September 25, 2002).

The effect of the application of this Financial Accounting Standard and Practical Guidelines are described in the note to Per Share Information on page 16.

Changes in accounting titles

Consolidated balance sheet

As a result of the revision of the Consolidated Financial Statement Rules, as of the reporting term, "Additional paid-in capital" is stated as "Capital surplus."

Consolidated statements of shareholders' equity

1. As a result of the revision of the Consolidated Financial Statement Rules, as of the reporting term the consolidated statements of retained earnings are separated into two sections: "Capital surplus" and "Retained earnings."

2. Net loss, which in the previous term's consolidated financial statements was stated independently, is herein stated as a component of "Increase in deficit."

Notes to Consolidated Balance Sheets***1. Investment in nonconsolidated subsidiaries and affiliates**

Investment securities (equity shares): ¥4,560 million

***2. Revaluation of land for business purposes**

An amount equivalent to the tax payable on the difference resulting from valuation of land for business purposes is posted under Deferred Tax Liabilities in accordance with the stipulations of the Land Valuation Act (Law No. 34, promulgated on March 31, 1998) and the Revision to the Land Valuation Act (Law No. 19, promulgated on March 31, 2001). An amount equivalent to the said difference less an amount equivalent to the tax payable is posted under shareholders' equity under "Difference on land revaluation."

The Company

•Land revaluation method: Two methods stipulated in Article 2 of the Detailed Enforcement of the Land Revaluation Act (Detailed Enforcement Regulations No. 119, promulgated on March 31, 1998) were applied to the land revaluation in question. The first method, stipulated in Article 2, Clause 3 of the Regulations, is based on the land price announced by the National Tax Administration Agency for land tax purposes, after reasonable adjustments. The second method, stipulated in Clause 5 of the Article, is based on the appraisal price of land calculated by a real estate appraiser.

•Dates of land revaluation:

The Company: March 31, 2001

Some domestic consolidated subsidiaries: March 31, 2002

•Difference between the market price of the land at the end of the term and the book value after land revaluation: ¥1,796 million

Under the medium-term business reconstruction plan, the Company has carried out a thorough-going review of book-value prices.

***3. Assets pledged as collateral and corresponding liabilities**

Assets pledged as collateral	Corresponding liabilities
(Details)	
Buildings and structures: ¥8,918 million <¥8,341 million>	Current portion of long-term debt: ¥10,925 million
Machinery, equipment, and vehicles: ¥20,531 million <¥20,531 million>	Long-term debt: ¥13,027 million
Land: ¥40,593 million <¥35,431 million>	Short-term debt: ¥63,078 million
Tangible fixed assets: ¥70,044 million <¥64,304 million>	Notes discounted: ¥6,131 million
(Figures with brackets < > indicate factory mortgage.)	
Notes receivable: ¥792 million	Short-term debt: ¥338 million*
Marketable securities: ¥254 million	
Total: ¥71,091 million	Total: ¥93,501 million

*Foreign currency: Bt66,800,000

4. Contingent liabilities

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥494 million
Total	¥494 million

***5. Notes discounted and endorsed**

Notes discounted:	¥10,479 million
Notes endorsed:	¥61 million

*6. The total numbers of the Company's ordinary shares issued and outstanding are 83,330,000 at the term-end and relevant figures for preferred shares are 75,000,000.

*7. The Company holds 55,000 ordinary shares in treasury at the term-end and the relevant number of shares held by consolidated subsidiaries and equity-method affiliates is 550,000.

Notes to Consolidated Statements of Operations***1. Main items and amounts of selling, general, and administrative expenses**

Shipping expenses and storage fees:	¥4,985 million
Salary and bonuses:	¥4,433 million
Provision to reserve for employees' bonuses:	¥260 million
Provision for reserve for retirement allowance:	¥918 million
Amortization of consolidation adjustment:	¥224 million

***2. Research and development expenses**

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥753 million.

***3. Details**

Land:	¥1,022 million
Structures and others:	¥48 million

***4. Details**

Land:	¥193 million
Machinery and equipment:	¥6 million

***5. Gain on debt forgiveness**

The Company has received debt forgiveness from financial institutions in line with "Guidelines for Multi-Creditor Corporate Workouts."

***6. Restructuring loss**

Losses generated by implementation of measures stipulated in the medium-term business reconstruction plan of the Company are shown under "Restructuring Loss," details of which are as follows:

Revisions of prices for fair value of plants and equipment as well as business-purpose land:	¥32,170 million
Loss on restructuring of the home-use kitchen and bath products business:	¥8,797 million
Lump-sum amortization of unrealized pension obligations:	¥15,873 million
Revision on valuation methods for inventories:	¥6,693 million
Revision on valuation methods for land held for sale:	¥3,307 million
Others:	¥1,011 million

Notes to Consolidated Statements of Cash Flows**I. Reconciliation of amounts reported in the balance sheets to cash and cash equivalents as of March 31, 2003**

Cash and deposits:	¥4,354 million
Time deposits with a maturity over three months:	(¥195 million)
Investment securities with a maturity within three months:	¥70 million
Cash and Cash equivalents:	¥4,228 million

2. Significant assets and liabilities of the companies excluded from the scope of consolidation

Details of significant assets and liabilities held by Nas Stainless Co., Ltd. whose shares the Company no longer holds as a result of Share Transfer, and Living Net Co., Ltd. all of whose shares are held by Nas Stainless are as follows:

Current assets	¥9,915 million
Noncurrent assets	¥15,163 million
Total assets	¥25,078 million

Current liabilities	¥17,528 million
Long-term liabilities	¥21 million
Total liabilities	¥17,550 million

Note:

Consolidation adjustments are made for Nas Stainless Co., Ltd. and Living Net Co., Ltd.

3. Significant non-fund transactions

Short-term debt subject to debt forgiveness:	¥20,000 million
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4. Restructuring Loss

Revisions on prices for fair value of plants and equipment as well as business-purpose land:	¥32,170 million
Loss on restructuring of the home-use kitchen and bath products business:	¥8,797 million
Revision on valuation methods for land held for sale:	¥3,307 million

Notes to Lease Transactions**I. Finance lease transactions in which ownership is not transferred to the lessee (Lessee)****(1) Acquisition cost, accumulated depreciation and net leased property**

	Acquisition cost	Accumulated depreciation	Net leased property (¥ million)
(Tangible fixed assets)			
Machinery, equipment, and vehicles	605	411	193
Other tangible fixed assets	1,409	788	620
(Intangible assets)			
Other intangible assets	193	116	76
Total	2,207	1,317	890

Note:

Acquisition costs are calculated with interest expenses because of the low ratio of term-end unexpired leases to term-end tangible fixed assets.

(2) Term-end unexpired leases

	(¥ million)
Within one year	322
Over one year	567
Total	890

Note:

Unexpired leases are calculated with interest expenses because of the low ratio of term-end unexpired leases to term-end intangible assets.

(3) Lease payments and depreciation expense

	(¥ million)
Lease payments:	514
Depreciation expense:	514

(4) Calculation of depreciation expense

Calculated by the straight-line method with lease periods used as useful lives and with no residual value.

Market Value of Available-for-Sale Securities

Term under review (as of March 31, 2003)

1. Available-for-sale securities with market quotation

	Acquisition cost	Balance sheet accounts	Unrealized gain (loss) (¥ million)
(The figure in the Balance Sheet is larger than acquisition cost.)			
Stock	42	69	27
Securities	50	50	0
Total	92	120	27
(The figure in the Balance Sheet is not larger than the acquisition cost.)			
Stock	1,086	912	(173)
Securities	44	38	(6)
Total	1,130	950	(179)
Total	1,222	1,070	(151)

2. Available-for-sale securities sold during the term under review

	Sales price	Gain on sale	Loss on sale (¥ million)
	227	2	385

3. Amounts of available-for-sale securities without market quotation as posted in the consolidated balance sheet

Available-for-sale securities without market quotation

Unlisted stock (excluding over-the-counter trading stock):

¥374 million

Unlisted overseas stock:

¥105 million

Derivatives Transactions**1. Notes to transactions****(1) Derivatives transactions**

Group companies enter into foreign exchange contracts, interest-rate options, and interest-rate swaps.

(2) Scope of derivatives use

The basic policy for Group companies is to limit the use of derivatives to within the balance of receivables and payables, and not engage in speculative derivative transactions.

(3) Reason for use

For foreign currency denominated receivables and payables, Group companies enter into foreign exchange contracts to manage market risks from changes in foreign exchange rates. Group companies also enter into interest-rate cap options to hedge against the risk of an increased burden of interest rate payments due to a future increase in interest rates. As a further hedge against the risk of future interest rate increases, Group companies enter into interest-rate swap agreements, receiving a floating rate and paying a fixed rate.

Hedge accounting is applied to derivatives transactions of the Group and hedging method: transactions and policies are as follows.

1) Hedge accounting

The deferral hedge accounting method is adopted in principle. Exchange contracts are stated in accordance with appropriation treatment as long as they meet the requirement. Interest-rate swaps and interest-rate option transactions are stated in accordance with the regulations for extraordinary treatment, as they meet the requirement stipulated in the regulations.

2) Hedging method and objectives

Hedging instruments	Objectives
Foreign exchange contracts:	Foreign currency denominated transactions, including option contracts
Interest-rate swap transactions:	Borrowed money
Interest-rate option transactions:	Borrowed money

3) Hedging policy

Based on the basic hedging policy determined by the executive committee, the Company engages in hedging transactions with the aims of fixing the yen-denominated amount on foreign currency denominated transactions including probable future transactions and hedging interest-rate fluctuation risk.

(4) Information on risk

The foreign exchange contracts used by Group companies carry a risk from changes in foreign exchange rates. Interest-rate option transactions carry a risk of paying option premiums.

The risk involved in interest-rate swap transactions is considered to be negligible because the transaction exchanges a floating rate for a fixed rate.

Further, the counterparts to these foreign exchange contracts, interest-rate option and swap transactions are all highly reputable Japanese banks, so we believe that there is virtually no risk of default.

(5) Risk management system

The basic policies governing derivatives transactions are determined by the executive committee of each Group company, and the management and execution of transactions are performed with the approval of the person sanctioned by the pertinent financial division as stipulated by internal company rules.

Foreign exchange contracts are entered into within the position limit established by the pertinent financial division based on regular division reports. No specific risk management provisions have been established.

2. Market value information

This is not applicable as the Group adopts hedge accounting for derivative transactions.

Retirement Benefits

(Term under review)

1. Outline of the current retirement benefits system**(1) Retirement benefits system of the Company and its consolidated subsidiaries**

The Company and its consolidated subsidiaries, together, have adopted a defined benefit plan system including an employees' pension fund which was established by the Company and its subsidiaries, and lump-sum retirement benefits. In addition, extra benefits may be paid on a case-by-case basis.

Some consolidated subsidiaries have adopted qualified retirement pension schemes under defined benefit pension plans. Overseas consolidated subsidiaries adopted retirement allowance fund schemes specified by their local governments.

(2) Supplement for each system**1) Lump-sum retirement benefits**

The Company and 11 consolidated subsidiaries adopted a lump-sum retirement benefit system.

2) Employees' pension fund

In April 1986, the companies of the Group jointly established an employees' pension fund. Accordingly, these companies modified the lump-sum retirement benefit system without exception, under which a part of the lump-sum benefits is paid in the form of a pension.

2. Retirement benefit obligations

(as of March 31, 2003)

(a) Retirement benefit obligations	(¥31,235 million)
(b) Fair value of plan assets	¥8,395 million
(c) Unfunded portion of retirement benefit obligations (a+b)	(¥22,839 million)
(d) Unrecognized actuarial loss (increased amount of obligations)	¥3,243 million
(e) Reserve for employee's retirement benefits (c+d)	(¥19,595 million)

Notes:

- These figures include the amounts retained for the public pension system for employees.
- Some consolidated subsidiaries have adopted a simplified method for calculating retirement benefit obligations only regarding the payment portion in lump-sum at employees' retirement.

3. Retirement benefit costs

(April 1, 2002 to March 31, 2003)

(a) Service cost	¥928 million
(b) Interest cost	¥1,096 million
(c) Expected return on plan assets	(¥457 million)
(d) Amortization of net transition obligation	¥10,271 million
(e) Amortization of actuarial losses	¥5,899 million
(f) Net retirement benefit costs (a+b+c+d+e)	¥17,737 million

Notes:

- An amount equivalent to contribution to the employees' pension fund by the employees was deducted.
- Expenses for employees' retirement benefits of consolidated subsidiaries that use a simplified method for calculating retirement benefit obligations only regarding the payment portion in lump-sum at employees' retirement regarding the said portion, are included in expenses for service cost.
- Amortization of net transition obligation represents the amount of lump-sum amortization of unrecognized obligations at the beginning of the reporting term.
- Amortization of actuarial losses includes expenses for lump-sum amortization of obligations of ¥5,602 million in question recognized during the reporting term.
- In addition to retirement benefit expenses mentioned above, the Company paid additional retirement allowances of ¥864 million, which was posted under extraordinary losses.

4. Basis for calculation for retirement benefit obligations

(a) Discount rate:	2.5%
(b) Long-term rate of return on plan assets:	4.0%
(c) Method of attributing benefit to period of service:	Straight-line method
(d) Amortization period for newly recognized prior service obligations:	1 year (Lump-sum amortization when recognized)
(e) Amortization period for actuarial losses:	8 to 10 years (will be amortized beginning with the following term, using the straight-line method over a certain period shorter than the average remaining service period for employees at the time of recognition of actuarial losses)

Tax-Effect Accounting**I. Significant components of deferred tax assets and deferred tax liabilities**

	(¥ million)
Deferred tax assets:	
Amounts exceeding the limit of non-taxable expenses	
for provision to reserve for employees' bonuses	279
Amount exceeding the limit of non-taxable expenses	
for provision to reserve for retirement allowances	7,398
Denial of valuation loss on tangible fixed assets	8,069
Denial of valuation loss on inventories	2,064
Denial of valuation loss on marketable securities	1,094
Loss carried forward	5,308
Unrealized gain/loss included in fixed assets	198
Others	693
Subtotal	25,108
Valuation allowance	(23,764)
Total deferred tax assets	1,343
Deferred tax liabilities:	
Difference on land revaluation	11,368
Preferred income tax on fixed assets	7
Others	171
Total deferred tax liabilities	11,548
Net deferred tax assets	1,164
Net deferred tax liabilities	11,368

Note:

Net deferred tax assets (liabilities) for the term under review were in the following accounting titles in Balance Sheets.

	(¥ million)
Current assets: Deferred tax assets	308
Fixed assets: Deferred tax assets	884
Long-term liabilities: Deferred tax liabilities	28
Long-term liabilities: Deferred tax liabilities on land revaluation	11,368

2. In line with the enactment of revisions on the local tax law (2003 Law No. 9) on March 31, 2003, statutory effective tax rates applied to calculation for deferred tax assets and liabilities (only for those which are expected to be cancelled out on and after April 1, 2004) are, in principle, changed to 40.64% from 42.00% for the previous term.

As a result, net deferred tax assets decreased ¥45 million and deferred tax liabilities on land revaluation decreased ¥122 million. Deferred income taxes increased ¥46 million and difference on land revaluation increased ¥122 million. Unrealized loss on available-for-sale securities, however, remained virtually unchanged.

Segment Information**I. Segment information by operations**

	April 1, 2002 to March 31, 2003				(¥ million)
	Stainless Steel Sheets and Plates, and Processed Products	Kitchen and Bath Products for Home Use	Total	Eliminations or Corporate Overhead	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to outside customers	110,103	23,913	134,016	—	134,016
(2) Intersegment sales and transfers	799	14	813	<813>	—
Total	110,902	23,927	134,829	<813>	134,016
Operating expenses	106,832	24,431	131,264	<840>	130,423
Operating income	4,070	(504)	3,565	<(27)>	3,593
II. Assets, depreciation and capital expenditures					
Assets	150,994	—	150,994	—	150,994
Depreciation expenses	6,792	453	7,246	<1>	7,245
Capital expenditures	2,237	298	2,536	<0>	2,536

Notes:

1. Business categories for similar product types, manufacturing methods and sales markets are listed below.

Stainless Steel Sheets and Plates, and Processed Products: Stainless steel sheets and plates, heat resisting steels, high nickel alloys, forged steel products, stainless steel building materials, stainless steel piping, stainless steel processed machinery, etc.

Kitchen and Bath Products for Home Use: Sinks, kitchen systems, bathtubs, dressing tables, etc.

Due to sell-off of businesses belonging to Kitchen and Bath Products for Home Use segment, figures for assets do not include those for assets in question. However, sales, operating expenses and operating income/loss, depreciation expenses and capital expenditures include relevant figures.

2. Changes in accounting standards

As mentioned above, merchandise, finished products, metal scrap, work in progress and raw materials are stated at cost using the moving-average method effective the term under review. As a result, operating expenses for Stainless Steel Sheets and plates, and the Processed Products segment decreased ¥578 million for the term compared with the figures calculated using the previous method and operating income increased by the same amount. No material effect is exerted on the home-use kitchen and bath products business.

2. Segment information by location

Segment information by location has been omitted, because over 90% of both total sales in all segments and total assets of all segments is located in Japan.

3. Overseas sales

	April 1, 2002 to March 31, 2003					(¥ million)
	Southeast Asia	Oceania	North America	Middle East	Other	Total
I. Overseas sales	19,351	903	553	15	792	21,616
II. Consolidated sales	—	—	—	—	—	134,016
III. Ratio of overseas sales to consolidated sales (%)	14.2	0.7	0.4	0.0	0.6	16.1

Notes:

1. Overseas sales are those by the Company and its consolidated subsidiaries in countries or regions other than Japan.

2. The method to classify countries and regions and the major countries and regions within the country and region classifications are as listed below.

(1) Method to classify countries and regions: Geographic proximity

(2) Major countries and regions belonging to each geographic categories:

Southeast Asia: South Korea, Thailand, Singapore, Taiwan, etc.

Oceania: Australia, New Zealand, etc.

North America: U.S.A., Canada, etc.

Near and Middle East: Saudi Arabia, U.A.E., Kuwait, Qatar, etc.

Other: Europe, Egypt and Columbia, etc.

China and Vietnam, which were previously classified in others, are reclassified to Southeast Asia for the term. No significant effect is exerted on the reclassification.

Per Share Information

	(¥)
Shareholders' equity per share	(147.72)
Net loss per share	512.10
Diluted earnings per share	—

Effective the reporting term, the Company has adopted new accounting standards for calculating earnings per share (Corporate Accounting Standards No. 2 and Practical Guidelines for Corporate Accounting Standards No. 4). On February 25, 2003, the Company carried out a 1-for-2 reverse stock-split of its ordinary shares. Equity and net loss per share for the previous term utilizing the said accounting standards and on the assumption of a stock split at the beginning of the previous term are as follows:

Shareholders' equity per share:	¥373.88
Net loss per share:	¥72.96
Diluted earnings per share:	not applicable

Notes:

1. Description for diluted per share is omitted as the Company has posted a net loss for the term.

2. Bases for calculating net loss per share are as follows.

	Term under review ended March 31, 2003
Net loss for the term (¥ million)	42,546
Net loss applicable to ordinary shares (¥ million)	42,546
Average numbers of ordinary shares during the term (in thousands)	83,083
Balance of latent warrants without dilution effects	Type I preferred share: 20,000,000 shares Type II preferred share: 25,000,000 shares Type III preferred share: 30,000,000 shares

Schedules of Liabilities Held by Consolidated Subsidiaries**a. Schedule of bonds payable**

Company name	Name of issuance	Date of issuance	Amount at the end of the previous term	Amount at the end of the term under review	Interest (%)	Collateral	Redemption
Nas Stainless Steel Strip Mfg Co., Ltd.	First unsecured bonds	October 25, 2001	220	220	1.520	Not applicable	October 24, 2008

Note:

No redemption is scheduled for the corporate bonds within 5 years after the reporting balance sheet date.

b. Breakdown of liabilities

Item	(¥ million)				
	Previous term-end balance	Term-end balance	Average interest rate (%)	Payment period	Remark
Short-term debt	111,382	73,607	1.299	—	—
Current portion of long-term debt	18,846	11,015	3.028	—	—
Long-term debt (Excluding current portion)	8,210	13,132	2.104	2004 to 2006	—
Other interest-bearing liabilities	—	—	—	—	—
Total	138,439	97,755	—	—	—

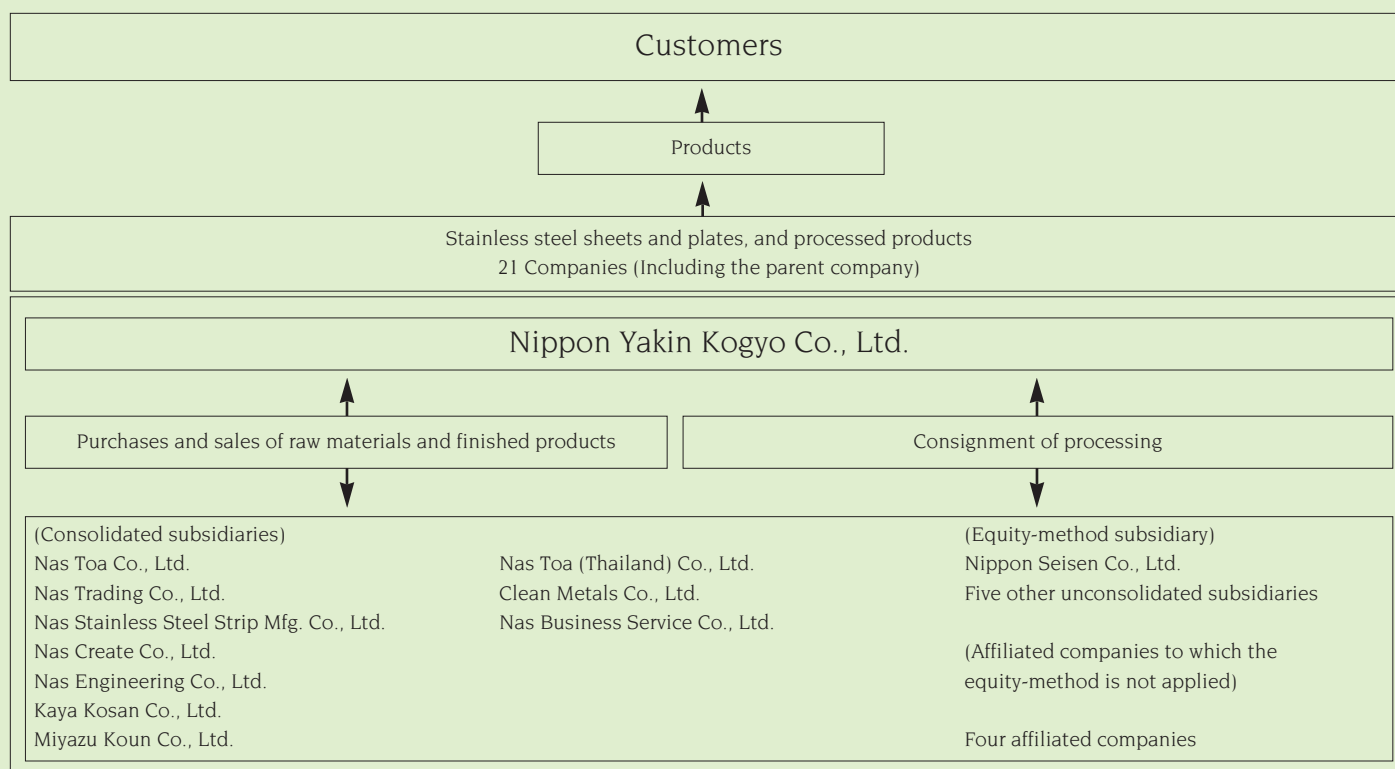
Notes:

1. Term-end interest rates and balances are used to calculate the "Average Interest Rate."

2. The annual maturities of long-term debt (excluding current portion) for the five years subsequent to the settlement date are as follows:

	More than 1 year, up to 2 years	More than 2 years, up to 3 years	More than 3 years, up to 4 years	More than 4 years, up to 5 years
Long-term debt	2,007	11,125	—	—

SUBSIDIARIES AND AFFILIATES



CORPORATE DIRECTORY

Board of Directors and Corporate Auditors

President

Yoichi Saji

Vice President

Yoshitsugu Sakata

Managing Directors

Soichi Inada

Shoji Inoue

Katsuyoshi Hirooka

Yuzo Kumazawa

Directors

Hideo Takada

Yoshio Okamoto

Akio Nonaka

Shizuho Kanazawa

Kazuta Sugimori

Standing Corporate Auditors

Kazuyuki Kobayashi

Hideyuki Sakakibara

Corporate Auditors

Shutaro Oi

Takeo Nakao

Corporate Data

Established in

August 1925

Main Line of Business

Production & Sales of:

– Ferro Nickel

– Stainless Steel & Heat Resisting Steels (Plates, Sheets, Coils, Pipes, Forgings)

– Super Alloys and other special steels

Head Office

Sanei Bldg.,

5-8, Kyobashi 1-chome, Chuo-ku,

Tokyo, Japan

Phone: +81-3-3272-1511

Facsimile: +81-3-3272-1510

Branches

Osaka, Kyushu, Nagoya, Hiroshima, Niigata

Manufacturing subsidiaries

YAKIN Kawasaki Co., Ltd.

YAKIN Oheyama Co., Ltd.

Singapore Office

Nippon Yakin Kogyo Co., Ltd.

Singapore Office

1 Shenton Way #16-08, Robina House, Singapore 0106, Republic of Singapore

Phone: +65-223-9233

Facsimile: +65-225-8659

Hong Kong Office

Nippon Yakin Kogyo Co., Ltd.

Hong Kong Office

Unit D-2, 13th Fl., United Center,

95 Queensway, Hong Kong

Phone: +852-2520-0818

Facsimile: +852-2520-0889

Shanghai Office

Nippon Yakin Kogyo Co., Ltd.

Shanghai Office

10F-D, New Shanghai International

Tower, 360 Pudong Non Road, Pudong New Area, Shanghai, China

Phone: +86-21-6886-2056 / 2057

Facsimile: +86-21-6886-2051

(as of June 27, 2003)

 **NIPPON YAKIN KOGYO CO., LTD.**

Sanei Bldg.,
5-8, Kyobashi 1-chome, Chuo-ku, Tokyo 104-8365, Japan
Phone: +81-3-3272-1511
Facsimile: +81-3-3272-1510
URL: <http://www.nyk.co.jp/>