

NIPPON YAKIN KOGYO CO., LTD.

Annual Report 2004

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 18 subsidiaries and 3 affiliates in Japan and overseas that are engaged mainly in the manufacture of processed stainless steel products, including pipes and tubes.

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	2000	2001	2002	2003	2004
<Millions of yen>					
Net sales	¥135,927	143,226	128,454	134,016	121,453
Ordinary income (loss)	(4,043)	1,618	(1,834)	360	5,647
Net income (loss)	(6,184)	(819)	(6,063)	(42,546)	4,268
Shareholders' equity	11,193	34,892	31,089	2,730	7,268
Total assets	203,459	243,043	231,184	150,994	157,160
<Yen>					
Shareholders' equity per share	¥ 67.17	209.37	186.54	(147.72)	(92.64)
Net income (loss) per share	(37.11)	(4.92)	(36.39)	(512.10)	51.33
Diluted earnings per share	—	—	—	—	10.79
<%>					
Shareholders' equity ratio	5.5	14.4	13.4	1.8	4.6
Return on equity	—	—	—	—	85.2
Price earnings ratio	—	—	—	—	6.88
<Millions of yen>					
Cash flows from operating activities	¥ 3,178	8,384	6,383	4,103	3,656
Cash flows from investing activities	1,511	(889)	2,161	(1,951)	1,917
Cash flows from financing activities	(4,969)	(4,294)	(9,353)	(9,924)	(5,117)
Cash and cash equivalents at the term end	¥ 9,416	12,597	12,023	4,228	4,688
Number of employees	3,039	2,833	2,709	2,165	2,115
Non-Consolidated Data	2000	2001	2002	2003	2004
<Millions of yen>					
Net sales	¥67,082	77,220	70,440	77,343	86,885
Ordinary income (loss)	(3,275)	857	(793)	483	4,569
Net income (loss)	(4,951)	(990)	(3,501)	(49,785)	4,667
Paid-in capital	20,945	20,945	20,945	12,736	12,736
Shareholders' equity	23,596	46,112	42,351	7,709	12,815
Total assets	146,800	185,824	177,340	120,184	114,058
<Thousands of shares>					
Total number of shares outstanding	166,660	166,660	166,660	158,330	158,330
<Yen>					
Shareholders' equity per share	¥141.59	276.68	254.14	(87.55)	(26.24)
Net income (loss) per share	(29.71)	(5.94)	(21.01)	(597.68)	56.05
Diluted earnings per share	—	—	—	—	11.79
<%>					
Shareholders' equity ratio	16.1	24.8	23.9	6.4	11.2
Return on equity	—	—	—	—	45.5
Price earnings ratio	—	—	—	—	6.30
Number of employees	1,109	1,054	965	895	134

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. The amount of diluted earnings per share is not shown for the 120th term because there are no potential common shares.

4. The amount of diluted earnings per share is not shown for the 121st term because of a net loss per share.

5. Some domestic consolidated subsidiaries revalued their land for business use, based on the Land Revaluation Act (No. 34 Act introduced on March 31, 1998) and the Act for Partial Amendment of the Land Revaluation Act (No. 19 Act introduced on March 31, 2001).

6. The financial indexes of the reporting company are calculated by excluding treasury shares from shareholders' equity beginning with fiscal 2001. In addition, the amount of net worth per share, the amount of earnings per share, and the amount of diluted earnings per share are calculated by excluding the number of treasury shares from the number of total outstanding shares.

7. The accounting standards for earnings per share (corporate accounting standards No. 2) and the practical guidelines for the accounting standards concerning earnings per share (practical guidelines for corporate accounting standards No. 4) are applied to the calculation of net worth per share, earnings per share, and diluted earnings per share beginning with fiscal 2002.

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.

Managing Strategy in the Medium to Long Term

The Nippon Yakin Group is carrying out a medium-term business reconstruction plan that covers the period from October 2002 to March 2006. One of the basic policies of the plan is to improve profitability by concentrating management resources on fields in which the Company excels, with a focus on highly profitable high-performance materials. Specifically, we have set a numerical target, namely to increase sales of high-performance materials to 40% of total sales by March 2006.

Issues to Be Addressed

The task of the Group is to ensure that the goals of the medium-term business reconstruction plan are achieved. We aim at achieving a rapid recovery in dividend payments by carrying through the plan. We will also continue to devote our energies to the following priority measures:

1. To expand sales of high-performance materials and develop products backed by our technological capabilities to meet the needs of customers
2. To comprehensively reduce costs by taking advantage of the effect of corporate spin-offs and ensuring flexible procurement of materials
3. To fully restore selling prices
4. To strengthen the business base across the Group by ensuring close collaboration among Group companies

Business risks

With the domestic economy on the path to recovery, the environment surrounding the stainless steel industry is expected to change, as the gap between demand and supply in Japan is eliminated. Overseas, demand in China will continue to grow. But given the operating tie-ups and consolidations taking place globally, and the future operations of new facilities established in the East Asian region, we must conclude that competition will remain severe in the future. Raw material costs are expected to stay at high levels, and trends in raw material costs will likely have some impact on the business of the Group. Nonetheless, the Group will endeavor to achieve the goals of the medium-term business reconstruction plan as soon as possible.

Analysis of Financial Conditions and Business Results

(1) Analysis of financial conditions for the term under review
Total assets rose by ¥6,166 million from the previous year, to ¥157,160 million at the end of the term. This was chiefly because of an increase in notes and accounts receivable, which in turn reflected sales growth.

Total liabilities increased by ¥1,669 million, to ¥149,499 million, mainly attributable to an increase in notes and accounts payable arising from higher raw material prices. Shareholders' equity rose ¥4,556 million, to ¥7,286 million, due mainly to a rise in net income and an increase in gains on valuation of securities, reflecting higher market prices of securities holdings. As a result, the shareholders' equity ratio stood at 4.6%.

(2) Analysis of the results for the term under review
For the term under review, the Nippon Yakin Kogyo Group achieved a substantial improvement in results compared to those of the previous year. We believe that this is attributable to our consistent execution of the medium-term business reconstruction plan. A summary of the plan and its progress is shown in the notes to the consolidated financial statements.

REVIEW OF OPERATIONS

Business Results

During the term under review, the Japanese economy benefited from a recovery in corporate profitability, driven by brisk exports, centering on shipments to China, and business restructuring. The manufacturing industry recorded an upturn in production, and capital investment also expanded. The economy thus staged a moderate recovery. Still, ongoing weakness in employment and incomes means that consumer spending is not expected to rise sharply. There were also concerns during the period about the prolonged difficult situation in Iraq. Nonetheless, the stock market gained momentum and the overall economic outlook showed a number of bright signs.

The Group continued to implement a number of initiatives to reconstruct its business, spinning off the Kawasaki Plant and the Oheyama Plant, transferring the head office of the Company, and expanding areas for partnership with JFE Steel Corporation. In addition, we focused on profitability and productivity and endeavored to expand sales of high-performance materials and restore product prices. As a result, the Company was able to achieve the sales shown below.

(¥ million)			
Business segment	Fiscal 2002	Fiscal 2003	Year-on-year increase/decrease
Stainless steel sheet and plate and processed products	110,103	121,453	10.3%
Kitchen and bath products	23,913	—	—
Total	134,016	121,453	(9.4)%

Note: The business of the home-use kitchen and bath product segment shown in the past was transferred to an outside party in March 2003. Beginning with the term under review, the Company's operations are solely in one field.

The Company recorded a substantial improvement in profits. Operating income rose from ¥3,593 million posted a year earlier, to ¥7,577 million on a consolidated basis, and ordinary income increased from ¥360 million to ¥5,647 million. The disposal of losses to ensure a corporate revival based on the medium-term business reconstruction plan was completed by the end of the previous term. Consequently, the Company recorded net income of ¥4,268 million, showing a significant improvement from the net loss of ¥42,546 million registered in the previous term.

With respect to its financial position, the Company achieved a reduction in interest-bearing debt that was greater than expected, with funds generated from earnings and the proceeds from the sale of investment securities and other assets.

1. Results by Segment

Stainless Steel Sheets and Plates, and Processed Products

Demand in the stainless steel industry remained firm, centering on demand for electrical, industrial and transport equipment in the domestic market, which was fueled by the economic recovery. This in turn went some way toward restoring selling prices. The export market continued to grow, driven by rising demand in China as the economic cycle moved from completion of inventory adjustment to greater demand. This

higher demand also meant steep rises in the prices of nickel, chrome and molybdenum, our principal raw materials.

These hikes in the prices of raw materials produced a sharp increase in the cost of stainless steel products. The Group therefore set as priority targets both achieving product prices commensurate with the cost of raw materials and further reducing costs. In the market for high-performance materials, we achieved an increase in order volumes, thereby improving production efficiency, and worked to unify production and sales.

As a result, in this segment net sales rose 10.3% year-on-year, to ¥121,453 million on a consolidated basis. Operating income also increased sharply, from ¥4,070 million posted a year earlier, to ¥7,577 million.

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

Cash inflow from operating activities, mainly attributable to an increase in business profit, totaled ¥3,656 million, compared with the ¥4,103 million recorded the previous year.

Cash flow from investing activities

During the term under review, we kept the acquisition of fixed assets to a minimum, promoted the sale of idle assets, and sold those investment securities that had little connection with the core business. As a result, cash inflow from investing activities totaled ¥1,917 million, compared with a cash outflow of ¥1,951 million recorded the previous year.

Cash flow from financing activities

We endeavored to minimize interest-bearing debts in the course of executing the medium-term business reconstruction plan. As a result, cash outflow from financing activities totaled ¥5,117 million yen, which was lower than the ¥9,924 million figure recorded the previous year.

As a result, cash and cash equivalents increased by ¥459 million, including the impact of exchange rate changes, to a year-end balance of ¥4,688 million.

REVIEW OF OPERATIONS

Corporate Governance

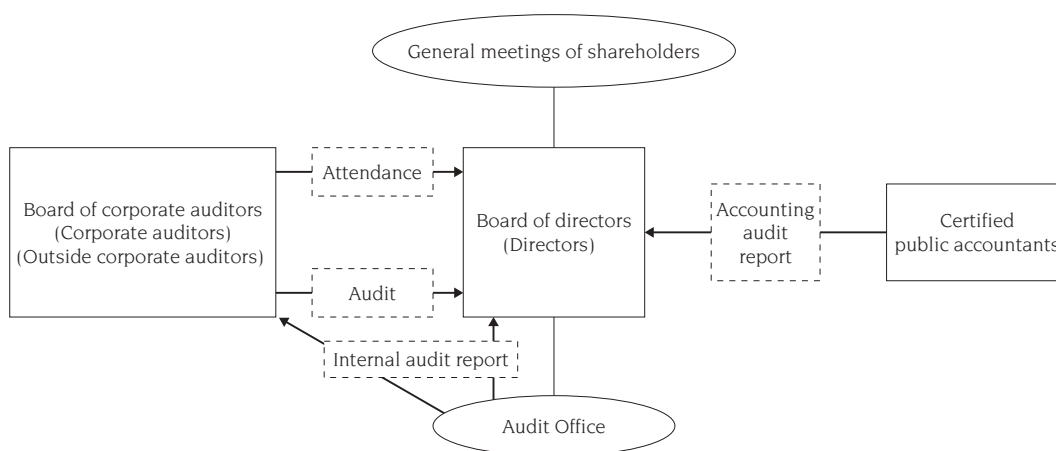
* Basic approach to corporate governance

Nippon Yakin Kogyo has endeavored to perfect corporate governance as one of its key management tasks through the immediate disclosure and significant business information and through the comprehensive enforcement of compliance. With this commitment, the Company aims to improve the soundness and confidence of management.

(1) Details of the organizations of the Company and development of an internal control system

The number of directors comprising the board of directors of the Company was reduced from 14 in fiscal 2000 to 11 in fiscal

2001. This was done to enable a more rapid response to changes in the business environment. The Company does not adopt a committee-style corporate governance system but instead uses the corporate auditor system. The board of directors supervises the fulfillment of duties by directors, and corporate auditors (the board of corporate auditors consists of four corporate auditors including two outside corporate auditors) audit the fulfillment. An Audit Office was established as an organization reporting directly to the president. The Audit Office conducts periodical internal audits on the conduct of business, and reports the results of audits to directors and corporate auditors as appropriate.



(2) Establishment of risk management system

Nippon Yakin Kogyo established a Compliance Committee (chaired by the director in charge of general affairs) in October 2003. The purpose of the committee is to deliberate on, draw up, and promote important guidelines to ensure that corporate behavior is based without fail on corporate ethics and the spirit of compliance.

The President himself made a declaration on compliance in January 2004. (The declaration is available on the Company's website.) The guidelines, which were a companion to our management philosophy, were changed to those that put first priority on compliance. In addition, the "Code of Conduct of the Nippon Yakin Group" was established. Accordingly, a basis for activities was set up to ensure that employees gain awareness of compliance with laws and ordinances and to prevent illegal acts.

The Committee started actual activities from May 2004 and began by conducting a seminar for marketing staff. As future activities, the Committee will work to strengthen systems to instill an awareness of the importance of compliance among all supervisory staff and to establish daily checking systems, aiming at undertaking initiatives across a broad area.

(3) Details of remuneration for directors and corporate auditors
It has been decided that the limit of monthly amounts of remuneration for the directors of the Company will be ¥25 million,

based on a resolution of a shareholders' meeting held on June 27, 1991. This does not include the amount of employee salaries paid to directors concurrently working as employees. The annual remuneration paid to directors during the term under review amounted to ¥74 million. In addition, an annual amount of ¥37 million was paid as employee salaries to directors concurrently working as employees.

It has been decided that the limit of monthly amount of the remunerations for the corporate auditors of the Company will be ¥4 million based on a resolution of a shareholders meeting held on June 27, 1996. The annual remuneration paid to corporate auditors during the term under review amounted to ¥19 million. In addition, a retirement allowance of ¥14 million was paid based on a resolution of a shareholders meeting.

(4) Payment for audit report

With respect to the details of remuneration for audit certificates based on an audit agreement entered into between the Company and Yaesu Audit Firm, the purpose of the audit shall be an audit certificate of accounting statements based on Paragraph 1 of Article 2 of the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha, and an audit certificate of financial statements based on Article 193-2 of the Securities and Exchange Law. It was decided that the annual amount of remuneration would be ¥22 million.

CONSOLIDATED BALANCE SHEETS

As of March 31, 2003 and 2004	2003		2004	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
Assets				
I. Current assets				
1. Cash and deposits	4,354		4,700	
2. Notes and accounts receivable *3 and *5	25,378		32,549	
3. Marketable securities	70		160	
4. Inventories	23,955		27,764	
5. Deferred tax assets	308		484	
6. Other current assets	911		1,070	
7. Allowance for doubtful receivables	(437)		(556)	
Total current assets	54,540	36.1	66,172	42.1
II. Fixed Assets				
(1) Tangible fixed assets				
1. Buildings and structures *3	47,433		46,278	
Accumulated depreciation	30,948	16,485	30,610	15,668
2. Machinery, equipment and vehicles *3	128,491		129,314	
Accumulated depreciation	104,237	24,253	106,057	23,256
3. Land *2 and *3	45,413		43,938	
4. Construction in progress	446		1,094	
5. Other tangible fixed assets	7,162		7,257	
Accumulated depreciation	6,263	899	6,282	975
Total tangible fixed assets	87,497	57.9	84,933	54.0
(2) Intangible assets				
1. Consolidated adjustment	339		110	
2. Other intangible assets	411		437	
Total intangible assets	751	0.5	548	0.4
(3) Investments and other assets				
1. Investment securities *1 and *3	6,111		3,245	
2. Deferred tax assets	884		1,104	
3. Other investments and other assets	1,932		1,978	
4. Allowance for doubtful receivables	(723)		(822)	
Total investments and other assets	8,204	5.4	5,506	3.5
Total fixed assets	96,453	63.9	90,988	57.9
Total assets	150,994	100.0	157,160	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.

	2003		2004	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
Liabilities				
I. Current liabilities				
1. Notes and accounts payable	13,269		18,193	
2. Short-term debt *3	73,607		69,143	
3. Current portion of long-term debt *3	11,015		7,738	
4. Accrued income taxes	397		441	
5. Accrued consumption taxes	395		221	
6. Reserve for employees' bonuses	850		953	
7. Provision for affiliate liquidation	149		—	
8. Other reserves	0		0	
9. Other current liabilities	3,700		4,642	
Total current liabilities	103,387	68.5	101,334	64.5
II. Long-term liabilities				
1. Corporate bonds	220		220	
2. Long-term debt *3	13,132		15,758	
3. Deferred tax liabilities	28		10,089	
4. Deferred tax liabilities on land revaluation *2	11,368		1,809	
5. Reserve for employees' retirement benefits	19,595		20,207	
6. Other long-term liabilities	97		79	
Total long-term liabilities	44,442	29.4	48,164	30.7
Total liabilities	147,830	97.9	149,499	95.2
Minority interests				
Minority interests	433	0.3	374	0.2
Shareholders' equity				
I. Capital stock *6	12,736	8.4	12,736	8.1
II. Capital surplus	21,375	14.2	8,809	5.6
III. Retained earnings	(47,802)	(31.7)	(16,574)	(10.5)
IV. Difference on land revaluation *2	16,621	11.0	1,788	1.1
V. Unrealized gain (loss) on available-for-sale securities...	(190)	(0.1)	526	0.3
VI. Foreign exchange translation adjustment	3	0.0	6	0.0
VII. Treasury stock *7	(13)	(0.0)	(5)	(0.0)
Total shareholders' equity	2,730	1.8	7,286	4.6
Total liabilities, minority interests, and shareholders' equity	150,994	100.0	157,160	100.0

CONSOLIDATED STATEMENTS OF OPERATIONS

Terms ended March 31, 2003 and 2004	2003		2004	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
I. Sales	134,016	100.0	121,453	100.0
II. Cost of sales *2	111,704	83.4	101,820	83.8
Gross profit.....	22,312	16.6	19,633	16.2
III. Selling, general and administrative expenses				
*1 and *2	18,718	14.0	12,056	9.9
Operating income	3,593	2.7	7,577	6.3
IV. Non-operating income				
1. Interest income	53		40	
2. Dividend income.....	27		40	
3. Rent.....	84		52	
4. Insurance dividend income	91		42	
5. Insurance claims received.....	49		46	
6. Gain on investment in equity-method affiliates...	147		66	
7. Other non-operating income.....	153	607	117	406
V. Non-operating expenses				
1. Interest paid	2,833		1,832	
2. Other non-operating expenses.....	1,007	3,840	503	2,336
Ordinary income	360	0.3	5,647	4.7
VI. Extraordinary profits				
1. Gain on sales of fixed assets *3	1,071		100	
2. Gain on sale of investment securities	—		32	
3. Gain on debt forgiveness *5	20,000		—	
4. Other extraordinary profits	155	21,226	19	153
VII. Extraordinary losses				
1. Loss on disposal of tangible fixed assets.....	517		189	
2. Loss on sale of fixed assets *4	200		262	
3. Loss on sale of investment securities	—		391	
4. Valuation loss on investment securities	309		5	
5. Provision for doubtful receivables	—		176	
6. Restructuring loss *6.....	67,853		100	
7. Other extraordinary losses.....	1,609	70,490	195	1,321
Income (loss) before income taxes and minority interests	(48,904)	(36.5)	4,479	3.7
Income taxes (corporate tax, residential tax and enterprise tax)	562		682	
Income tax adjustment	(7,001)	(6,439)	(468)	214
Minority interest-income	81	0.1	—	—
Minority interest-loss.....	—	—	3	0.0
Net income (loss)	(42,546)	(31.7)	4,268	3.5

*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, 2003 and 2004	2003		2004	
	Amount (¥ million)		Amount (¥ million)	
Capital surplus				
I. Capital surplus at beginning of term		11,819		21,375
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	12,566	12,566
IV. Capital surplus at end of term		<u>21,375</u>		<u>8,809</u>
Retained earnings				
I. Deficit at beginning of term		(28,473)		(47,802)
II. Increase in retained earnings				
1. Transfer from capital surplus	13,653		12,566	
2. Reversal of difference on land revaluation	9,598		14,619	
3. Net income	—	23,251	4,268	31,455
III. Increase in deficit				
1. Decrease resulting from equity stake	34		—	
2. Decrease due to change in the scope of application of equity-method accounting	—		227	
3. Net loss	42,546	42,581	—	227
IV. Deficit at end of term		<u>(47,802)</u>		<u>(16,574)</u>

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2003	2004
	Amount (¥ million)	Amount (¥ million)
Terms ended March 31, 2003 and 2004		
I. Cash flows from operating activities		
Income (loss) before income taxes and minority interests	(48,904)	4,479
Depreciation and amortization	7,245	4,255
Amortization of consolidation adjustment	224	223
Increase in reserve for employees' retirement benefits	15,014	612
Interest and dividends received	(80)	(81)
Interest expense	2,833	1,832
Income (loss) from equity-method affiliates	(147)	(66)
(Gain) loss on sale of investment securities	382	358
Loss on valuation of investment securities	309	5
(Gain) loss on sale of tangible fixed assets	(870)	161
Loss of disposal of tangible fixed assets	517	189
Gain on debt forgiveness	(20,000)	—
Restructuring loss	44,275	—
(Increase) decrease in trade notes receivable	1,547	(7,170)
(Increase) decrease in inventories	10,554	(3,809)
(Increase) decrease in trade accounts payable	(7,451)	4,923
Extraordinary retirement allowance	304	6
Other	1,576	25
Subtotal	7,330	5,945
Interest and dividends received	89	114
Interest paid	(2,875)	(1,758)
Extraordinary retirement allowance paid	(304)	(6)
Income taxes paid	(136)	(638)
Net cash provided by operating activities	4,103	3,656
II. Cash flows from investing activities		
Expenditures for deposits in time deposits	(252)	(109)
Proceeds from maturity of time deposits	676	153
Purchases of marketable securities	(0)	(19)
Proceeds from sale of marketable securities	19	—
Purchases of noncurrent assets	(3,927)	(3,058)
Proceeds from sale of noncurrent assets	2,360	1,535
Purchases of investment securities	(4)	(16)
Proceeds from sale of investment securities	208	3,410
Expenditure for sale of subsidiaries resulting in changes in the scope of consolidation	(1,208)	—
Other	176	22
Net cash provided by (used in) investing activities	(1,951)	1,917
III. Cash flows from financing activities		
Net decrease in short-term debt	(22,014)	(4,464)
Proceeds from long-term debt	10	31
Repayment of long-term debt	(2,918)	(682)
Proceeds from share issuance	15,000	—
Other	(2)	(2)
Net cash used in financing activities	(9,924)	(5,117)
IV. Foreign currency translation adjustment of cash and cash equivalents	(32)	3
V. Net increase (decrease) in cash and cash equivalents	(7,804)	459
VI. Cash and cash equivalents at the beginning of the term	12,023	4,228
VII. Balance of cash and cash equivalents of newly consolidated subsidiaries at the beginning of the term	10	—
VIII. Balance of cash and cash equivalents at the end of the term	4,228	4,688

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year to March 31, 2004 (April 1, 2003 to March 31, 2004)

Basis for Preparing the Consolidated Financial Statements

1. Scope of consolidation

(a) **Number of consolidated subsidiaries:** 12 companies
YAKIN Kawasaki Co., Ltd. and YAKIN Oheyama Co., Ltd. were founded during the reporting term and have been included in the scope of consolidation.

(b) Significant nonconsolidated subsidiaries

There are no significant nonconsolidated subsidiaries.

Six 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

Nippon Seisen Co., Ltd., which was subject to the equity-method in the previous reporting term, has been excluded from the scope of equity-method accounting because of the transfer of a part of its shares on November 28, 2003.

Six nonconsolidated subsidiaries and three 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.

(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 our in-house estimates of useful life.

(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 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.

(8) Lease transactions

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

(9) 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 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
Commodities derivatives transaction:	Raw materials and notes and accounts payable
Foreign exchange contracts and currency option	Foreign currency denominated transactions, including probable future transactions
Interest-rate swap transactions:	Borrowed money

3) Hedging policy

Based on its own internal hedging transaction regulation, the Company conducted hedging transactions with the aim of reducing the possibility of losses (risk) incurred by fluctuations in the prices of assets or liabilities, or in interest rates, foreign exchange rates and market prices. This similarly applies to the consolidated subsidiaries of the Company.

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.

(10) Consumption tax

- 1) Consumption tax is excluded from calculations
 - 2) Application of consolidated tax payment system
- The Company adopts the consolidated tax payment system.

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 titles**Consolidated statements of operations**

1. The gain on sale of investment securities, which was included in other extraordinary profits in the previous reporting term, is separately and individually shown this term because it exceeded 10% of extraordinary profits. The gain on sale of investment securities, which was included in other extraordinary profits in the previous reporting term, amounted to ¥2 million.
2. The loss on sales of investment securities, which was included in other extraordinary losses in the previous reporting term, is separately and individually shown this term because it exceeded 10% of extraordinary losses. The loss on sale of investment securities, which was included in other extraordinary losses in the previous reporting term, amounted to ¥385 million.
3. Provision for doubtful receivables, which was included in other extraordinary losses in the previous reporting term, is separately and individually shown this term because it exceeded 10% of extraordinary losses. Provision for doubtful receivables, which was included in other extraordinary losses in the previous reporting term, amounted to ¥445 million.

Medium-Term Business Reconstruction Plan**Consolidated statements of shareholders' equity**

1. Summary of the medium-term business reconstruction plan
(Plan period: October 2002 to March 2006)

- (1) Objectives and measures of the medium-term business reconstruction plan
 - (i) Business reconstruction to create a stable earnings base
 - (ii) Financial restructuring to build a strong financial situation
- (2) Content of business reconstruction
 - (i) Reconstruction of manufacturing and sales structure
 - Spin-off of Kawasaki Plant and Oheyama Plant
(Completed in April 2003)

- (ii) Further improvements in management efficiency and cost reduction
 - Headcount reduction
(Reduction of 125 employees as of the end of March 2004, compared with planned reduction of 140 employees)
 - Transfer of head office to within YAKIN Kawasaki Co., Ltd. (completed in November 2003)
- (iii) Focus on selected fields in which the Company has particular strength
 - Concentration of management resources on fields in which the Company excels, with a focus on highly profitable high-performance materials and high added-value materials. (Aiming to have these products accounting for more than 40% of sales by the term ending March 2006)
 - Concentration of management resources on the core business: Review businesses that have little connection with the stainless steel business, including related affiliated companies
(Sale of all shares in NAS Stainless Co., Ltd. in March 2003)
(Sale of some shares of Nippon Seisen Co., Ltd. in November 2003)
- (iv) Business tie-up: Comprehensive tie-up with JFE Steel Corporation (announced in July 2002)

(3) Details of major financial restructuring

- (i) Complete elimination of losses to ensure corporate revival (Completed by March 2003)
- (ii) Sale of idle assets and large-scale reduction in interest-bearing debts
(¥96.9 billion on March 31, 2002 - ¥59.0 billion on March 31, 2006)
- (4) Requests to shareholders and financial institutions
 - 75% capital reduction and 1:2 reverse stock split
(Both effected February 2003)
 - Debt forgiveness and conversion of debt to equity based on Guidelines for Multi-Creditor Corporate Workouts (both effected March 2003)

II. Progress in the medium-term business reconstruction plan

- (1) Profit/loss plan and plan for reduction of interest-bearing debt

	(¥ billion)			
	FY2002		FY2003	
	Plan	Results	Plan	Estimated results
Sales	75.4	77.3	77.9	87.0
Gross profit	9.7	9.3	13.2	12.3
Operating income	2.5	2.6	6.4	5.8
Ordinary income	0.2	0.5	4.3	4.6
Net income (loss)	(49.1)	(49.8)	4.0	5.2
Interest-bearing debt	72.5	73.0	67.8	68.1
Amount of reduction	(24.4)	(23.9)	(4.6)	(4.9)

	(¥ billion)	
	FY2004 plan	FY2005 plan
Sales	77.8	77.4
Gross profit	13.2	13.1
Operating income	6.7	6.7
Ordinary income	4.8	4.9
Net income	4.5	4.6
Interest-bearing debt	64.2	59.0
Amount of reduction	(3.9)	(51.0)

Note:

- To ensure comparability, the above figures are shown on a non-consolidated basis for fiscal 2002 and on a consolidated basis for the Company, YAKIN Kawasaki Co., Ltd. and YAKIN Oheyama Co., Ltd. for fiscal 2003 and thereafter.
- A loss incurred as a result of the fulfillment of the medium-term business reconstruction plan was recorded in extraordinary losses as a restructuring loss in fiscal 2002.

In fiscal 2002, Nippon Yakin Kogyo achieved operating income that exceeded forecasts because of an increase in sales volume and the effect of cost cutting. The disparity between the planned and actual net loss was a reflection of an unexpectedly high loss on the sale of shares in NAS Stainless Co., Ltd. These shares were sold because of a lack of connection to the core business of the Company.

In fiscal 2003, a rise in raw material prices centering on nickel conspired to drive costs higher. The Company was still able to beat its forecast for ordinary income for the second straight fiscal year, thanks to efforts to restore prices and initiatives to reduce costs other than raw material costs. Net income was also higher than planned, thanks to a gain of about ¥1.0 billion on sales of investment securities. As a result, the amount of reduction of interest-bearing debts was higher than planned for fiscal 2003.

The outlook for nickel prices in fiscal 2004 remains uncertain. In addition, prices of other raw materials, including chrome, are tending to rise. There is a possibility that these market prices and foreign exchange rate fluctuations will impact the Company's ability to achieve its profit/loss plan. However, the Company believes that it is possible to achieve the targets under the plan by reducing costs overall and by sustaining its commitment to restoring product prices in the face of high raw material costs.

(2) Establishment of YAKIN Kawasaki Co., Ltd. and YAKIN Oheyama Co., Ltd.

As approved at the extraordinary general meeting of shareholders held on January 23, 2003, the Company's Kawasaki Plant and Oheyama Plant were spun off on April 1, 2003. The spin-off has been included in the Company's medium-term business reconstruction plan as a business reconstruction measure.

The assets, liabilities and net worth of the Company and each of the new companies established after the spin-offs are as shown below.

Before spin-offs (as of March 31, 2003)

	(¥ million)		
	Assets	Liabilities	Net worth
Nippon Yakin Kogyo	120,184	112,475	7,709

After spin-offs (as of April 1, 2003)

	(¥ million)		
	Assets	Liabilities	Net worth
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

Notes to Consolidated Balance Sheets

*1. Investment in nonconsolidated subsidiaries and affiliates

Investment securities (equity shares): ¥393 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: ¥1,690 million

*3. Assets pledged as collateral and corresponding liabilities

Assets pledged as collateral

Corresponding liabilities

(Details) Buildings and structures: ¥8,592 million <¥8,054 million> Machinery, equipment, and vehicles: ¥19,562 million <¥19,562 million> Land: ¥39,153 million <¥35,431 million>	Current portion of long-term debt: ¥7,658 million Long-term debt: ¥15,706 million Short-term debt: ¥60,080 million Notes discounted: ¥1,210 million
Tangible fixed assets: ¥67,307 million <¥63,048 million> (Figures in brackets indicate factory mortgage.)	Notes receivable: ¥3,538 million <¥2,765 million> (Figures in brackets indicate trust beneficiary rights on asset securitization)
Marketable securities: ¥210 million	
Total: ¥71,056 million	Total: ¥84,656 million

4. Contingent liabilities

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥413 million
Total	¥413 million

***5. Notes discounted and endorsed**

Notes discounted:	¥1,853 million
Notes endorsed:	¥203 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 number of Company shares held by the consolidated subsidiaries is 71,000 ordinary shares.

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

Shipping expenses and storage fees:	¥2,729 million
Salary and bonuses:	¥2,695 million
Provision to reserve for employees' bonuses:	¥285 million
Provision for reserve for retirement allowance:	¥904 million
Amortization of consolidation adjustment:	¥223 million

***2. Research and development expenses**

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥776 million.

***3. Details**

Land:	¥39 million
Structures and others:	¥61 million

***4. Details**

Land:	¥241 million
Machinery and equipment:	¥20 million

***5. 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:

Issuing cost of preferred stocks, etc. ¥100 million

Notes to Consolidated Statements of Cash Flows**Reconciliation of amounts reported in the balance sheets to cash and cash equivalents as of March 31, 2004**

Cash and deposits:	¥4,700 million
Time deposits with a maturity over three months:	(¥151 million)
Investment securities with a maturity within three months:	¥140 million
Cash and Cash equivalents:	¥4,688 million

Notes to Lease Transactions**1. 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	457	292	164
Other tangible fixed assets	1,073	686	386
(Intangible assets)			
Other intangible assets	204	127	76
Total	1,735	1,107	627

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	252
Over one year	375
Total	627

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:	304
Depreciation expense:	304

(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, 2004)

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	1,174	2,130	955
Securities	94	115	20
Total	1,269	2,245	976
(The figure in the Balance Sheet is not larger than the acquisition cost.)			
Stock	156	133	23
Securities	19	19	0
Total	176	153	23
Total	1,446	2,398	952

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

	Sales price	Gain on sale	Loss on sale
(¥ million)			
	219	32	41

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):	¥366 million
Unlisted overseas stock:	¥106 million

Derivatives Transactions

1. Notes to transactions

(1) Derivatives transactions

Group companies enter into foreign exchange contracts, currency option transactions commodities derivatives transactions, 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

The Group uses derivatives transactions as a means to reduce the possibility (risk) of losses to be incurred by the fluctuation of market prices such as the price change of assets or liabilities, interest rate change, and foreign exchange rate fluctuation.

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 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 and currency option	Foreign currency denominated transactions, including probable future transaction
Commodities derivatives transactions	Raw materials and notes and accounts payable
Interest-rate swap transactions:	Borrowed money

3) Hedging policy

The Group conducts hedge transactions with the aim of reducing the risk of losses incurred the fluctuations of market prices, such as changes in the prices of assets or liabilities, interest rates and exchange rates.

(4) Information on risk

Derivatives transactions used by the Group involve market price fluctuation risk arising from fluctuations in exchange rates, interest rates and commodity prices. Nonetheless, we believe that the risk to business is limited because the Group conducts derivative transactions with the aim of hedging against exchange rate risks associated with foreign currency-denominated transactions, interest-rate fluctuation risks associated with borrowings, and commodities prices fluctuation risks associated with the purchase of raw materials.

All other parties in forward exchange transactions, currency option transactions, interest-rate swap transactions and commodities derivatives transactions entered into by the Group are domestic banks or domestic trading firms with high creditworthiness. We therefore consider the risk of default by other parties to be effectively nil.

(5) Risk management system

The Company conducts derivative transactions in compliance with its own internal hedge transaction regulations. The regulations include provisions concerning (i) the kinds and details of risks that are the objectives of hedging, (ii) hedging policy and (iii) methods to measure the effectiveness of hedging with respect to hedge transactions designed to reduce the risk of losses caused by market prices fluctuations through derivative transactions.

Currency-related derivatives transactions are carried out by the Fund Division for individual hedge transactions at the request of the Materials Division, and for comprehensive hedge transactions based on the outlook for the Company's overall foreign currency position, which is based on the estimated amount of transactions periodically reported by each division. Derivative transactions related to interest rates are carried out by the Fund Division. The Accounting Division generally controls all of these transactions. A very similar procedure is applied to the consolidated subsidiaries of the Company.

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 10 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, 2004)

(a) Retirement benefit obligations	¥31,826 million
(b) Fair value of plan assets	¥10,093 million
(c) Unfunded portion of retirement benefit obligations (a+b)	¥21,733 million
(d) Unrecognized actuarial loss (increased amount of obligations)	¥1,525 million
(e) Reserve for employee's retirement benefits (c+d)	¥20,207 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, 2003 to March 31, 2004)

(a) Service cost	¥993 million
(b) Interest cost	¥764 million
(c) Expected return on plan assets	(¥167 million)
(d) Amortization of actuarial losses	¥336 million
(e) Net retirement benefit costs (a+b+c+d+e)	¥1,927 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.
- In addition to retirement benefit expenses mentioned above, the Company paid additional retirement allowances of ¥6 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: | 2.0% |
| (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: | 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**1. 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	386
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	8,019
Denial of valuation loss on tangible fixed assets	6,698
Denial of valuation loss on inventories	46
Denial of valuation loss on marketable securities	777
Loss carried forward	3,808
Unrealized gain/loss included in fixed assets	214
Denial on recognition of equity shares in spun-off subsidiaries	3,851
Others	707
Subtotal	24,510
Valuation allowance	(22,701)
Total deferred tax assets	1,809

Deferred tax liabilities:	
Difference on land revaluation	1,809
Difference on revaluation of land belonging to spun-off companies	9,747
Preferred income tax on fixed assets	56
Difference on valuation of investment securities	362
Others	143
Total deferred tax liabilities	12,118
Net deferred tax assets	1,589
Net deferred tax liabilities	11,898

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	484
Fixed assets: Deferred tax assets	1,104
Long-term liabilities: Deferred tax liabilities	10,089
Long-term liabilities: Deferred tax liabilities on land revaluation	1,809

2. Where there is a major difference between the statutory effective tax rate and the corporation tax rate, after the introduction of tax effect accounting, a breakdown by major item causing the said difference The term under review (March 31, 2004)

A valuation allowance was recorded for most of the deferred tax assets shown in 1. above at the end of the term under review. Therefore, there is a significant difference between the statutory effective tax rate and the corporation tax rate. A statement of the breakdown of permanent difference is omitted because the effect of the permanent difference is negligible.

Segment Information**1. Segment information by operations**

The business of the home-use kitchen and bath products segment shown in the past was transferred to a third party outside the Group in the previous year. Accordingly, the Company's business operations are limited to the field of stainless steel sheet and plate and processed products, and the statement of information on business segments is therefore omitted.

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, 2003 to March 31, 2004					(¥ million)
	East / Southeast Asia	Oceania	North America	Middle East	Other	Total
I. Overseas sales	20,564	379	568	9	593	22,115
II. Consolidated sales	—	—	—	—	—	121,453
III. Ratio of overseas sales to consolidated sales (%)	16.9	0.3	0.5	0.0	0.5	18.2

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:

East / Southeast Asia: South Korea, China, Taiwan, Thailand, Singapore, 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.

Per Share Information

	(¥)
Shareholders' equity per share	(92.64)
Net loss per share	51.33
Diluted earnings per share	10.79

Note:

Bases for calculating net loss per share are as follows.

	Term under review ended March 31, 2004
Net loss for the term (¥ million)	4,268
Net loss applicable to ordinary shares (¥ million)	4,268
Average numbers of ordinary shares during the term (in thousands)	83,159
Scale of increase in ordinary shares of common stock	312,500

Subsequent events

A promissory note issued by FUJIKIN K. K., which is a customer of NAS Trading Co., Ltd., a consolidated subsidiary of the Company, was dishonored for the second time on June 1, 2004. Consequently, there is a possibility that receivables with the company will become uncollectible or that collection will be delayed.

(1) Profile of the customer

Name: FUJIKIN K. K.

Address: 22-3, Shinpo-cho, Tokai-shi, Aichi Prefecture

Representative's name: Osamu Ogiso

Capital stock: ¥436 million

Details of business: wholesale of stainless steel products, processing of steel and sale of copper and brass

(2) The type and amount of receivables with the obligor

Trade accounts receivable: ¥61 million

Notes receivable: ¥411 million

Total: ¥472 million

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:

The amount of scheduled redemption within five years of the date of closing is as shown below.

b. Breakdown of liabilities

(¥ million)

Item	Previous term-end balance	Term-end balance	Average interest rate (%)	Payment period	Remark
Short-term debt	73,607	69,143	1.267	—	—
Current portion of long-term debt	11,015	7,738	2.742	—	—
Long-term debt (Excluding current portion)	13,132	15,758	2.262	2005 to 2006	—
Other interest-bearing liabilities	—	—	—	—	—
Total	97,755	92,640	—	—	—

Notes:

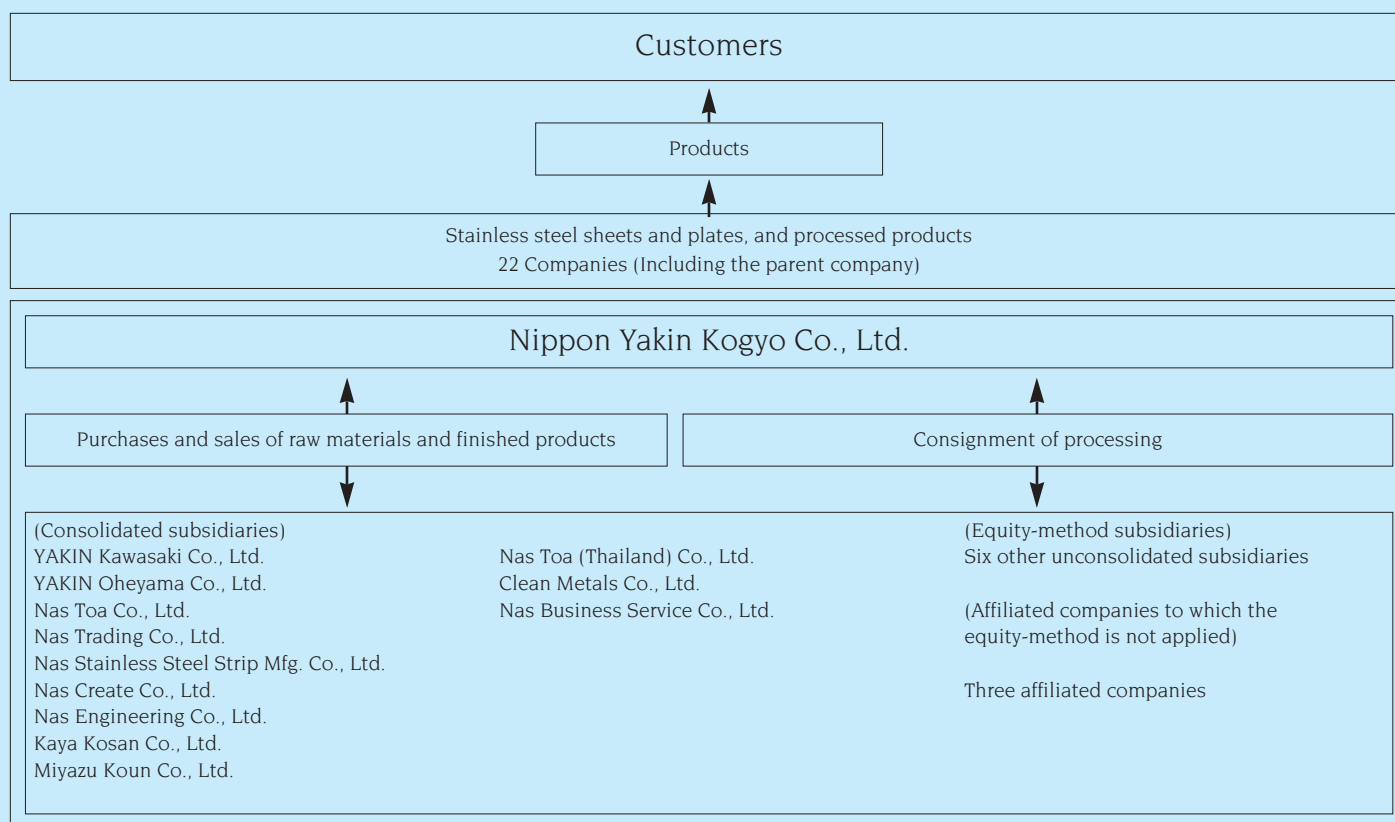
1. Term-end interest rates and balances are used to calculate the "Average Interest Rate."

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

(¥ million)

	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	15,758	—		

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
Takeo Nakao
Takashi Okada

(as of June 29, 2004)

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

Registered Office
Sanei Bldg.,
5-8, Kyobashi 1-chome, Chuo-ku,
Tokyo, Japan

Main Office
4-2, Kojimacho, Kawasaki-ku,
Kawasaki, Japan
Phone: +81-44-271-3007
Facsimile: +81-44-271-3055

Branches
Osaka, Kyushu, Nagoya, Hiroshima,
Niigata

Manufacturing subsidiaries
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YAKIN Oheyama Co., Ltd.

Singapore Office
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