

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

Annual Report 2005

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	2001	2002	2003	2004	2005
<Millions of yen>					
Net sales	¥143,227	128,455	134,017	121,454	158,144
Ordinary income (loss)	1,619	(1,834)	360	5,648	17,216
Net income (loss)	(819)	(6,064)	(42,547)	4,269	22,551
Shareholders' equity	34,892	31,089	2,730	7,287	34,154
Total assets	243,043	231,184	150,994	157,161	167,880
<Yen>					
Shareholders' equity per share	¥ 209.37	186.54	(147.72)	(92.64)	209.53
Net income (loss) per share	(4.92)	(36.39)	(512.10)	51.33	258.21
Diluted earnings per share	—	—	—	10.79	175.28
<%>					
Shareholders' equity ratio	14.4	13.4	1.8	4.6	20.3
Return on equity	—	—	—	85.2	108.8
Price earnings ratio	—	—	—	6.88	2.18
<Millions of yen>					
Cash flows from operating activities	¥ 8,385	6,383	4,103	3,656	13,433
Cash flows from investing activities	(890)	2,161	(1,951)	1,917	(2,460)
Cash flows from financing activities	(4,294)	(9,353)	(9,924)	(5,117)	(7,744)
Cash and cash equivalents at the term end	¥ 12,598	12,023	4,228	4,688	7,910
Number of employees	2,833	2,709	2,165	2,115	2,115
Non-Consolidated Data	2001	2002	2003	2004	2005
<Millions of yen>					
Net sales	¥ 77,221	70,441	77,344	86,886	120,227
Ordinary income (loss)	858	(793)	483	4,569	14,336
Net income (loss)	(991)	(3,502)	(49,786)	4,667	16,185
Paid-in capital	20,946	20,946	12,736	12,736	14,743
Shareholders' equity	46,112	42,351	7,709	12,815	33,277
Total assets	185,825	177,341	120,185	114,059	125,774
<Thousands of shares>					
Total number of shares outstanding	166,661	166,661	158,330	158,330	166,519
<Yen>					
Shareholders' equity per share	¥ 276.68	254.14	(87.55)	(26.24)	199.94
Cash dividend					
Ordinary shares	—	—	—	—	5,000
Preferred shares					
Type1	—	—	—	—	2,228
Type2	—	—	—	—	2,728
Type3	—	—	—	—	3,228
Including interim dividend	(—)	(—)	(—)	(—)	(—)
Net income (loss) per share	(5.94)	(21.01)	(597.68)	56.05	185.31
Diluted earnings per share	—	—	—	11.79	125.79
<%>					
Shareholders' equity ratio	24.8	23.9	6.4	11.2	26.5
Return on equity	—	—	—	45.5	70.2
Price earnings ratio	—	—	—	6.30	3.04
Payout Ratio	—	—	—	—	2.7
Number of employees	1,054	965	895	134	137

- 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. An annual dividend per share of ¥5 declared by the reporting entity includes a special dividend of ¥2 in commemoration of the 80th anniversary of the Company's establishment.
4. The amount of diluted earnings per share is not shown for the years ended March 31, 2001 and 2002 because there are no potential common shares.
5. The amount of diluted earnings per share is not shown for the year ended March 31, 2003 because of a net loss per share.
6. 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).
7. 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.
8. 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 contribute to the progress and prosperity of society by pairing creativity and efficiency to provide superior products. Our goal is to achieve international standards in all aspects of our business and to satisfy all stakeholders, not least our shareholders, through enhancement of enterprise value.

The Group had been operating under its Medium-Term Recovery Plan, with fiscal 2005 as the final year, but as announced on March 24, 2005 we have called an end to that plan one year ahead of the original schedule, emerging from the financial assistance framework under the Guidelines for Multi-Creditor Out-of-Court Workouts and transitioning to a new business plan, which we have named the "Build Up Plan 3-7-5."

The Group is united in its determination to carry out the new business plan and accomplish the goals outlined above.

Medium- and Long-Term Management Strategy

After calling an end to the previous medium-term reconstruction plan one year early, the Group developed a new business plan. Below we present an overview of the new plan.

(1) Plan period: April 2005–March 2008 (three years)

(2) Specific strategies

(a) Further increase sales of high-performance materials through closer cooperation in development, production, and marketing

Develop and market new high-performance materials leveraging our core technologies; broaden line-up of high-performance products through joint Group development of secondary processed products; build sales organization which can respond closely to customer needs

(b) Plan ¥14.9 billion of capital investment during the plan period, on a consolidated basis

Investments in improving the efficiency and widening the application of our manufacturing processes to further expand sales of high-performance materials; ongoing environmental investments and investments in stabilizing capacity utilization

(c) Rebuild systems

Rebuild administrative processes and core information systems to deal with small lots of many products

(3) Consolidated income plan (¥ billion)

	Fiscal 2005 (March 2006)	Fiscal 2006 (March 2007)	Fiscal 2007 (March 2008)
Sales	146.4	146.9	150.9
Operating income	11.7	11.6	11.6
Ordinary income	9.0	8.8	8.7
Net income	5.7	5.6	5.5

P&L Assumptions Nickel LME price — US\$5/lb.

Forex rate — ¥110/US\$1.

The following outlines the business environment scenario on which the P&L plan above is predicated.

- In the short term, we expect the Japanese economy to be supported by the robust US and Chinese economies, with corporate earnings to remain at high levels.
- We forecast rapid growth in stainless steel production in East Asia, especially China, during the plan period, leading to concerns about worsening demand-supply balance and more intense competition.
- The cost increases stemming from the recent spikes in crude oil and raw materials prices will continue for the time being.

(4) Numerical targets

Sales of high-performance materials as percentage of total (nonconsolidated basis) 50% or above

ROA (consolidated basis) 7% or above

Equity ratio (consolidated basis) 30% or above

* ROA = (operating income + interest and dividends received)/total assets

Issues to be addressed

The Group views the next three years as a time for building up our strength for the next leap forward, to restructure our business through sure-footed execution of the new business plan in order to prepare to deal with the difficult business conditions the future will bring.

Business Risks

Of the issues relating to our operational and financial situation as laid out in the Yuka Shoken Hokokusho (formal filing of business results), the following are the primary factors which could have a major influence on investor judgment. Forward-looking statements in the text below represent the best judgment of the Group as of the end of the reporting period.

In the short term, we expect the Japanese economy to be supported by the robust US and Chinese economies, with corporate earnings to remain at high levels.

At the same time, the stainless and specialty steel industry will be affected by rapid growth of stainless steel production in East Asia, especially China, leading to concerns about worsening demand-supply balance and more intense competition. Moreover, the cost increases stemming from the recent spikes in crude oil and raw materials prices are expected to continue for the time being.

Under these difficult business conditions, the Group will push ahead with its current strategy focusing on the growth segment of high-performance materials, to increase the proportion of such materials as a proportion of total sales, and thereby build a more robust platform for profitability.

Analysis of Financial Position and Operating Results**(1) Analysis of consolidated financial position for period under review**

Total assets on a consolidated basis as of the end of the period under review were ¥167,880 million, an increase of ¥10,719 million over the end of the previous period. Major factors behind the increase include a rise in trade receivables in the amount of ¥2,946 million, attributable to increased sales, and a rise in inventories in the amount of ¥5,858 million, attributable to increases in raw materials prices.

Liabilities as of the end of the period under review were ¥133,289 million, a decrease of ¥16,210 million over the end of the previous period.

Major factors behind the decrease include a decline in short-term borrowings and other debt, in the amount of ¥11,728 million, and reduction in reserve for employees' retirement benefits in the amount of ¥9,282 million, attributable to the dissolution of the pension fund.

Shareholders' equity as of the end of the period under review was ¥34,154 million, an increase of ¥26,867 over the end of the previous period. Major factors behind the increase include the posting of a net income for the reporting period, in the amount of ¥22,551 million, and the conversion in their entirety of the fourth round of unsecured bonds with non-detachable warrants in the amount of ¥4,000 million issued on January 5, 2005 into ordinary shares of common stock on February 10, 2005.

As a result, the equity ratio on a consolidated basis as of the end of the period under review was 20.3%, compared to 4.6% at the end of the previous period.

(2) Analysis of operational results for period under review
Operational results for the Group during the period under review improved substantially over the previous period, due to the recovery efforts made towards achievement of the medium-term recovery plan, progress in streamlining management, and favorable external conditions. (For further details, see the section Review of Operations (1) Business Results at the beginning of this report.)

(3) Medium-term management plans

Up to the end of the reporting period, the Nippon Yakin Group had been working toward the goals under its Medium-Term Recovery Plan. With effect from April 2005, the Company's New Medium-Term Management Plan (dubbed "Build Up Plan 3-7-5") came into operation. (For further details, see the previous section entitled Issues to be addressed.)

REVIEW OF OPERATIONS

Business Results

During the first half of the year under review the Japanese economy exhibited a mild recovery, with strong exports driven by a resurgent world economy, rising corporate earnings, higher levels of capital investment, and increasing personal consumption.

The recovery continued into the second half, even in the presence of negative factors such as a pullback in IT spending and the rise in crude oil prices, as the continuing expansion in the U.S. and East Asia, primarily China, sustained the strength in corporate earnings, employment improved, and consumer spending showed no signs of abating.

It was against this background that we continued as a Group to pursue the objectives in our medium-term reconstruction plan and rebuild our business placing a greater focus on high-performance materials. Our efforts to restore the bottom line and streamline management bore fruit, as with the help of favorable external conditions, we recorded profitability far in excess of our plan. We also made solid progress in reducing interest-bearing debt levels to shore up our balance sheet, through the profit increase just mentioned and the disposal of underutilized assets.

Overall, net sales on a consolidated basis for the period under review (ended March 2005) rose 30.2% over the previous period to ¥158,144 million. Both operating income and ordinary income exhibited large increases on a consolidated basis, the former rising from ¥7,578 million in the previous period to ¥19,816 million, the latter from ¥5,648 million to ¥17,216 million.

Net income rose from ¥4,269 million in the previous period to ¥22,551 million, as ¥3,520 million in extraordinary losses, including a ¥759 million loss on disposition of fixed assets and a ¥1,108 million penalty payment for antitrust violations, were more than offset by extraordinary gains, including a ¥9,306 million gain on dissolution of the pension fund.

(1) Results by operating segment are as follows.

Stainless steel sheet and processed products

Note: Stainless steel sheet and processed products is the Company's only operating segment.

The stainless and specialty steel industry enjoyed brisk global demand, particularly from China, with the balance of steel related supply and demand continuing to tighten. Demand for use in IT products, construction, and automobiles was especially strong in the first half, leading to a large improvement in the situation of market inventories. In the second half, however, the market was seriously impacted by record levels of imports of stainless steel materials from overseas and

inventory adjustments in IT-related sectors.

At the same time, prices of key raw materials such as nickel, chrome, and molybdenum remained high, making it more important than ever to manage product pricing closely linked to raw material costs. Against the backdrop of a brisk flow of inquiries at home and abroad, the Company's management emphasizes sales pricing which reflects raw material costs and a stable supply of products.

The high-performance materials on which the Group has been placing particular emphasis performed extremely well, as we reaped the benefits of strong demand from the electronics materials market, past initiatives relating to heat-resistant and corrosion-resistant products, price modifications to reflect the steep rise in nickel prices, and production efficiencies.

Consolidated sales for the segment thus rose 34.5% over the previous period, reaching ¥133,619 million, of which overseas sales accounted for ¥24,525 million, an increase of 10.9%.

(2) A geographical breakdown of sales for this segment has been omitted, since Japan accounts for over 90% of the total.

Cash Flows

Cash flow from operating activities

Operating cash flow for the period amounted to ¥13,433 million on a consolidated basis, primarily from operating profits, compared with ¥3,656 for the previous period.

Cash flow from investing activities

Cash flow from investing activities for the period netted to a ¥2,460 million outflow (compared to an inflow of ¥1,918 million for the previous period). This period's outflow is attributable to a ¥3,745 million outflow for acquisition of tangible fixed assets and intangible assets, which more than offset a ¥1,404 million inflow from disposal of underutilized assets.

Cash flow from financing activities

Cash flow from financing activities for the period amounted to an outflow of ¥7,744 million, compared to an outflow of ¥5,118 million in the previous period. This period's outflow was the result of the issuance of a fourth round of unsecured bonds with non-detachable warrants in the amount of ¥4,000 million, on the one hand, and a paying down of as much debt as possible utilizing funds from profits and the proceeds from disposal of underutilized assets on the other hand.

As a result, cash and equivalents grew to ¥7,910 million as of period end, a ¥3,222 million increase, including translation adjustments, over the previous period end level.

REVIEW OF OPERATIONS

Corporate Governance

Fundamental Approach to Corporate Governance

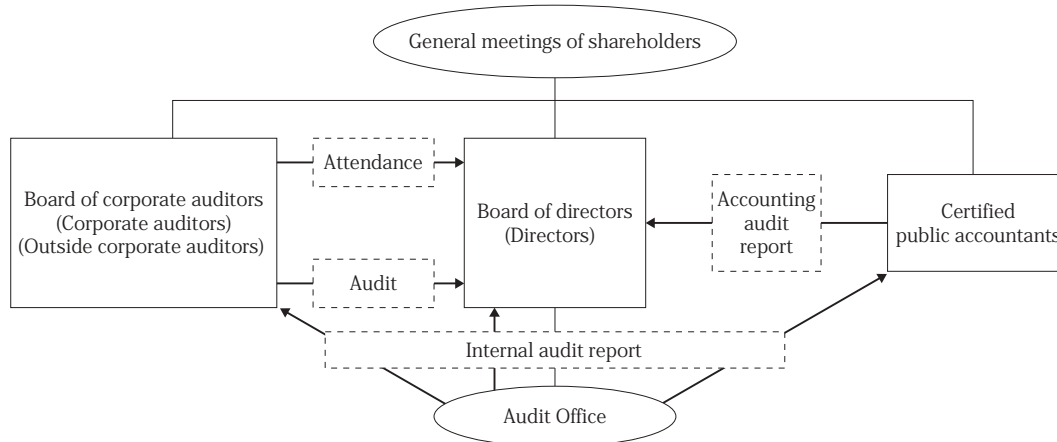
It is a top management priority for the Company to enhance its corporate governance framework, by disclosing business information in a timely, appropriate fashion, thereby ensuring the soundness and trustworthiness of management.

(1) Company organs and internal control systems

In order to ensure responsiveness to changes in business conditions, as of June 29, 2005, the date of filing of the Yuka Shoken Hokokusho, the Company's Board of Directors was composed of twelve members. The Company employs a system of corporate auditors rather than committees, with the Board of Directors and board of auditors (composed of four corporate auditors of which two are external) auditing directors as they execute their responsibilities. In addition, an

auditing unit reporting directly to the President carries out periodic internal audits of operations, reporting their findings from time to time to the directors, the corporate auditors, and the external auditing firm. The Company and its external auditors share no interests worthy of note, other than that one external auditor also serves as auditor for two subsidiaries.

The Company's accounts are audited by three CPAs from Yaesu Audit Company, Mr. Hideo Honma, with a 13-year history working on the account, Mr. Hisao Kugu, with a 9-year history, and Mr. Takashi Watanabe. An additional three CPAs and three audit associates also assist in the work of auditing the Company's accounts. The auditing firm reports to the Board of Auditors from time to time concerning the progress of their audits and exchanges information with the latter.



(2) Risk management system

In January 2004, the Fair Trade Commission of Japan ruled that the Company had effectively restrained competition in the sales of cold-rolled stainless steel sheet, and in March 2005 ordered the payment of a penalty in the amount of ¥1,108 million. After duly deliberating the appropriateness of the financial penalty, the Company accepted it. To ensure such events never reoccur, we have strengthened our compliance framework by bringing together points to be observed strictly by each and every employee in the form of a written document entitled "Nippon Yakin Kogyo Group Behavior Guidelines," and carrying out annual training and audits of the sales force as regards the Antimonopoly Act.

(3) Compensation for directors and corporate auditors

A resolution of the June 27, 1991 General Meeting of shareholders set the maximum monthly director compensation at ¥25 million, not including that portion corresponding to the salary of directors who also serve as employees. Total director compensation for the year under review amounted to ¥80 million. An additional ¥37 million was paid as the equivalent of salary to directors who also serve as employees.

A resolution passed at the June 27, 1995 General Meeting of shareholders set the maximum total monthly compensation for all corporate auditors at ¥4 million. Total auditor compensation for the year under review amounted to ¥18 million. We also paid ¥3 million in retirement bonuses in accordance with resolutions of the General Meeting of shareholders.

(4) Payment for audit report

Concerning the compensation to Yaesu Audit Firm for services rendered in accordance with Paragraph 1 of Section 2 of the Act #103 of 1948, the CPA Act, the annual remuneration was set at ¥22 million. The purpose of the audit is an attestation of the nonconsolidated financial statements based on Paragraph 1 of Article 2 of the Act Concerning Special Commercial Code Considerations Concerning Audit of Joint Stock Companies, and of consolidated financial statements based on Paragraph 3 of Article 19 (2) of the Act, and an attestation of financial statements based on Article 193(2) of the Securities and Exchange Law. Total compensation paid to Yaesu, including that paid by the Company's subsidiaries, amounted to ¥41 million for the year.

No compensation was paid for any services other than the above.

CONSOLIDATED BALANCE SHEETS

As of March 31, 2004 and 2005	2004		2005	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
Assets				
I. Current assets				
1. Cash and deposits	4,700		7,918	
2. Notes and accounts receivable *3 and *5	32,549		35,496	
3. Marketable securities	160		120	
4. Inventories.....	27,764		33,623	
5. Deferred tax assets	485		1,790	
6. Other current assets	1,071		1,447	
7. Allowance for doubtful receivables.....	(557)		(725)	
Total current assets.....	66,172	42.1	79,669	47.5
II. Fixed assets				
(1) Tangible fixed assets				
1. Buildings and structures *3	46,279		44,262	
Accumulated depreciation	30,611	15,668	29,348	14,914
2. Machinery, equipment and vehicles *3	129,314		129,869	
Accumulated depreciation	106,058	23,257	106,853	23,017
3. Land *2 and *3.....	43,939		42,457	
4. Construction in progress.....	1,094		946	
5. Other tangible fixed assets	7,258		6,968	
Accumulated depreciation	6,282	976	6,008	960
Total tangible fixed assets.....	84,934	54.0	82,293	49.0
(2) Intangible assets				
1. Consolidated adjustment	111		72	
2. Other intangible assets	438		482	
Total intangible assets.....	548	0.4	554	0.3
(3) Investments and other assets				
1. Investment securities *1 and *3.....	3,246		3,750	
2. Deferred tax assets	1,105		592	
3. Other investments and other assets.....	1,978		2,201	
4. Allowance for doubtful receivables.....	(822)		(1,181)	
Total investments and other assets.....	5,506	3.5	5,364	3.2
Total fixed assets.....	90,988	57.9	88,211	52.5
Total assets.....	157,161	100.0	167,880	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.

	2004		2005	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
Liabilities				
I. Current liabilities				
1. Notes and accounts payable	18,193		19,511	
2. Short-term debt *3	69,143		52,374	
3. Current portion of long-term debt *3	7,739		3,893	
4. Accrued income taxes	442		2,267	
5. Accrued consumption taxes	222		632	
6. Reserve for employees' bonuses	953		1,224	
7. Other current liabilities	4,643		6,193	
Total current liabilities	101,335	64.5	86,094	51.3
II. Long-term liabilities				
1. Corporate bonds	220		220	
2. Long-term debt *3	15,759		24,645	
3. Deferred tax liabilities	10,089		9,538	
4. Deferred tax liabilities on land revaluation *2	1,809		1,809	
5. Reserve for employees' retirement benefits	20,208		10,926	
6. Other long-term liabilities	80		57	
Total long-term liabilities	48,164	30.7	47,195	28.1
Total liabilities	149,499	95.2	133,289	79.4
Minority interests				
Minority interests	375	0.2	437	0.3
Shareholders' equity				
I. Capital stock *6	12,736	8.1	14,743	8.8
II. Capital surplus	8,809	5.6	10,803	6.4
III. Retained earnings	(16,575)	(10.5)	5,220	3.1
IV. Difference on land revaluation *2	1,788	1.1	2,545	1.5
V. Unrealized gain (loss) on available-for-sale securities	527	0.3	866	0.5
VI. Foreign exchange translation adjustment	6	0.0	(0)	(0.0)
VII. Treasury stock *7	(5)	(0.0)	(22)	(0.0)
Total shareholders' equity	7,287	4.6	34,154	20.3
Total liabilities, minority interests, and shareholders' equity	157,161	100.0	167,880	100.0

CONSOLIDATED STATEMENTS OF INCOME

Terms ended March 31, 2004 and 2005	2004		2005	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
I. Sales	121,454	100.0	158,144	100.0
II. Cost of sales *2	101,820	83.8	125,448	79.3
Gross profit.....	19,634	16.2	32,697	20.7
III. Selling, general and administrative expenses				
*1 and *2	12,056	9.9	12,881	8.1
Operating income	7,578	6.3	19,816	12.5
IV. Non-operating income				
1. Interest income	41		35	
2. Dividend income.....	40		39	
3. Rent.....	52		47	
4. Insurance dividend income	43		—	
5. Insurance claims received.....	47		—	
6. Gain on investment in equity-method affiliates...	66		—	
7. Other non-operating income.....	117	406	144	265
V. Non-operating expenses				
1. Interest paid	1,832		1,805	
2. Expenses for syndicated loan organization	—		361	
3. Exchange loss	—		375	
4. Other non-operating expenses.....	504	2,336	324	2,865
Ordinary income	5,648	4.7	17,216	10.9
VI. Extraordinary profits				
1. Gain on sales of fixed assets *3	101		201	
2. Gain on sale of investment securities	32		126	
3. Gain on account settlement for welfare pension fund.....	—		9,306	
4. Other extraordinary profits	20	153	22	9,656
VII. Extraordinary losses				
1. Loss on disposal of tangible fixed assets.....	189		447	
2. Loss on sale of fixed assets *4	262		759	
3. Loss on sale of investment securities	391		—	
4. Valuation loss on investment securities	5		2	
5. Provision for doubtful receivables	177		491	
6. Restructuring loss.....	100		—	
7. Surcharge for violation of Antimonopoly Law	—		1,108	
8. Other extraordinary losses.....	196	1,322	714	3,520
Income before income taxes and minority interests	4,479	3.7	23,352	14.8
Income taxes (corporate tax, residential tax and enterprise tax)	683		2,307	
Income tax adjustment	(469)	214	(1,576)	730
Minority interest-income	—		70	0.0
Minority interest-loss.....	4	0.0	—	—
Net income.....	4,269	3.5	22,551	14.3

*1 to *4 above refer to the section, "Notes to Consolidated Statements of Income," under the accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Terms ended March 31, 2004 and 2005	2004		2005	
	Amount (¥ million)		Amount (¥ million)	
Capital surplus				
I. Capital surplus at beginning of term.....		21,375		8,809
II. Increase in capital surplus				
Gain on capital increase	—	—	1,994	1,994
III. Reduction in capital surplus				
Transfer to retained earnings	12,566	12,566	—	—
IV. Capital surplus at end of term.....		8,809		10,803
Retained earnings				
I. Deficit at beginning of term.....		(47,803)		(16,575)
II. Increase in retained earnings				
1. Transfer from capital surplus.....	12,566		—	
2. Reversal of difference on land revaluation.....	14,620		(757)	
3. Net income.....	4,269	31,455	22,551	21,795
III. Increase in deficit				
Decrease due to change in the scope of application of equity-method accounting.....	227	227	—	—
IV. Deficit at end of term		(16,575)		5,220

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Terms ended March 31, 2004 and 2005	2004 Amount (¥ million)	2005 Amount (¥ million)
I. Cash flows from operating activities		
Income before income taxes and minority interests.....	4,479	23,352
Depreciation and amortization	4,255	4,206
Amortization of consolidation adjustment.....	223	39
Increase in allowance for doubtful receivables	—	527
Increase in reserve for employees' bonuses	—	270
Increase in reserve for employees' retirement benefits.....	612	1,576
Interest and dividends received	(81)	(74)
Interest expense	1,832	1,805
Income from equity-method affiliates.....	(66)	—
(Gain) loss on sale of investment securities.....	359	(126)
Loss on valuation of investment securities	5	2
(Gain) loss on sale of tangible fixed assets	161	558
Loss of disposal of tangible fixed assets	189	357
Gain on cancellation of welfare pension.....	—	(9,306)
Surcharge for violation of Antimonopoly Law	—	1,108
(Increase) decrease in trade notes receivable	(7,171)	(2,946)
(Increase) decrease in inventories	(3,809)	(5,858)
Increase (decrease) in trade accounts payable.....	4,923	1,321
Increase in accrued consumption taxes	—	410
Extraordinary retirement allowance	6	6
Other	26	63
Subtotal.....	5,945	17,288
Interest and dividends received	114	74
Interest paid.....	(1,758)	(1,665)
Gain on account settlement for welfare pension fund.....	—	(1,551)
Extraordinary retirement allowance paid.....	(6)	(6)
Income taxes paid	(639)	(707)
Net cash provided by operating activities	3,656	13,433
II. Cash flows from investing activities		
Expenditures for deposits in time deposits.....	(109)	(89)
Proceeds from maturity of time deposits.....	153	132
Purchases of marketable securities	(20)	—
Purchases of noncurrent assets	(3,058)	(3,745)
Proceeds from sale of noncurrent assets	1,535	1,212
Purchases of investment securities	(17)	(2)
Proceeds from sale of investment securities	3,411	193
Other	23	(162)
Net cash provided by (used in) investing activities	1,918	(2,460)
III. Cash flows from financing activities		
Net decrease in short-term debt.....	(4,464)	(16,769)
Proceeds from long-term debt	31	9,545
Repayment of long-term debt.....	(682)	(4,504)
Proceeds from share issuance	—	4,000
Other	(2)	(16)
Net cash used in financing activities.....	(5,118)	(7,744)
IV. Foreign currency translation adjustment of cash and cash equivalents	3	(7)
V. Net increase (decrease) in cash and cash equivalents.....	460	3,222
VI. Cash and cash equivalents at the beginning of the term.....	4,229	4,688
VII. Balance of cash and cash equivalents at the end of the term.....	4,688	7,910

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year to March 31, 2005 (April 1, 2004 to March 31, 2005)

Basis for Preparing the Consolidated Financial Statements

1. Scope of consolidation

(a) Number of consolidated subsidiaries: 12 companies

(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

There are no equity-method subsidiaries.

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. (Unrealized gain/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 at the term-end.

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

(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 long as they meet the requirement stipulated in the regulations.

2) Hedging method and objectives

(a) Hedging instruments: Exchange forwards, exchange options,
Currency swaps

Hedging objectives: Foreign currency-denominated transactions,
foreign currency-denominated forward transactions

(b) Hedging instruments: Commodity derivatives

Hedging objectives: Raw materials and trade payables

(c) Hedging instruments: Interest swaps

Hedging objectives: Borrowings

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, foreign exchange rates or in interest rates of liabilities, 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.

**Changes in Basis of Preparing Consolidated Financial Statements
Accounting standard****Reserve for employees' retirement benefits**

Effective from the reporting term, the Company has adopted a new accounting method for calculating actuarial loss. Previously, the Company posted amortization expenses on a straight-line basis 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. Under the new method, actuarial loss is charged to income in lump-sum for the term that in which the obligations are recognized.

On March 25, 2005, the Company received approval from the Ministry of Health, Labor and Welfare for dissolution of the Nippon Yakin Welfare Pension Fund, which was jointly established by the Company and its subsidiaries and affiliates, based on which the Fund was dissolved on the same day. As a result, the Company's retirement benefit obligations substantially declined. Accordingly, possibilities for generation of actuarial losses in the future are limited and amounts of actuarial loss generated, if any, are expected to be small. Taking into consideration the decline in retirement benefit obligations, the Company has judged that the change in accounting method is appropriate as the new method enables the Company to reflect its financial position more properly in the financial statements, and is also desirable from the viewpoint of maintaining the soundness of the Company's financial position.

Due to the change in accounting method, operating income and ordinary income decreased by ¥871 million, and income before income taxes decreased by ¥1,213 million.

Changes in Accounting Titles**Consolidated statements of income**

The exchange loss, which was included in non-operating expenses in the previous reporting term, is separately and individually shown this term because it exceeded 10% of non-operating expenses. The exchange loss, which was included in non-operating expenses in the previous reporting term, amounted to ¥64 million.

Consolidated statements of cash flows

The increase in allowance for doubtful receivables, increase in reserve for employees' bonuses and increase in accrued consumption taxes that were included in other in previous reporting term, are separately and individually shown this term because these amounts become important. The amounts of increase in allowance for doubtful receivables, increase in reserve for employees' bonuses and increase in accrued consumption taxes that were included in other in previous reporting term were ¥218 million, ¥103million and ¥-174 million, respectively.

Additional Information**Dissolution of the Nippon Yakin Welfare Pension Fund**

On March 25, 2005, the Company received approval from the Ministry of Health, Labor and Welfare for dissolution of the Nippon Yakin Welfare Pension Fund, which was jointly established by the Company and its subsidiaries and affiliates, based on which the Fund was dissolved on

the same day.

Reasons and background of the dissolution

The Nippon Yakin Welfare Pension Fund (hereinafter, the Fund) was jointly established by the Company and its 15 subsidiaries and affiliates in April 1986. For several years, the Fund was sound in terms both of the balance of the Fund and its financial position. However, against the backdrop of severe business conditions, some of founding companies of the Fund withdrew from the Fund. Year by year, the number of participants of the Fund substantially declined, while recipients continued to grow. As a result, the Fund's financial position rapidly deteriorated. In addition, prolonged low interest rates in line with the Government's policy made it difficult to secure the expected return on the investments held by the Fund. The Fund recognized a large actuarial shortfall and its financial position deteriorated severely. The Company thus applied for the dissolution of the Fund to the Ministry of Health, Labor and Welfare on the approval of beneficiaries based on the management's judgment that premiums are expected to keep rising and burdens on participant companies are also expected to increase beyond the extent of reasonable cost as the possibility of recovery of the financial position of the Fund deems extremely low.

Effects on the Company's financial statements

Due to the dissolution of the Fund, estimated retirement benefit obligations at the term-end declined, which caused a reversal of the reserve for employees' retirement benefits in an amount of ¥9,306 million. The Company posted the said amount as an extraordinary gain under gain on dissolution of welfare pension fund.

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

Investment securities (equity shares): ¥394 million

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

An amount equivalent to the tax payable on the difference resulting from revaluation of land for business purposes is posted under Deferred Tax Liabilities 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). 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: ¥2,226 million

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

Assets pledged as collateral	Corresponding liabilities
(Details)	
Buildings and structures: ¥7,858 million <¥7,582 million>	Current portion of long-term debt: ¥3,859 million
Machinery, equipment, and vehicles: ¥19,580 million <¥19,580 million>	Long-term debt: ¥24,645 million
Land: ¥35,531 million <¥34,840 million>	Short-term debt: ¥36,333 million
Tangible fixed assets: ¥62,969 million <¥62,001 million>	Notes discounted: ¥2,387 million
(Figures in brackets indicate factory mortgage.)	
Notes receivable: ¥2,848 million <¥2,132 million>	
(Figures in brackets indicate trust beneficiary rights on asset securitization)	
Marketable securities: ¥80 million	
Total: ¥65,897 million	Total: ¥67,224 million

4. Contingent liabilities

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥340 million
Total	¥340 million

***5. Notes discounted and endorsed**

Notes discounted:	¥2,859 million
Notes endorsed:	¥285 million

***6.** The total numbers of the Company's ordinary shares issued are 91,519,000 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 104,000 ordinary shares.

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

Shipping expenses and storage fees:	¥2,832 million
Salary and bonuses:	¥2,887 million
Provision to reserve for employees' bonuses:	¥342 million
Provision for reserve for retirement allowance:	¥1,127 million
Amortization of consolidation adjustment:	¥39 million

***2. Research and development expenses**

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥967 million.

***3. Details**

Land:	¥16 million
Structures and others:	¥186 million

***4. Details**

Land:	¥759 million
Machinery and equipment:	¥0 million

Notes to Consolidated Statements of Cash Flows**1. Reconciliation of amounts reported in the balance sheets to cash and cash equivalents as of March 31, 2005**

Cash and deposits:	¥7,918 million
Time deposits with a maturity over three months:	(¥108 million)
Investment securities with a maturity within three months:	¥100 million
Cash and Cash equivalents:	¥7,910 million

2. Material non-monetary transactions

Exercise of share subscription rights attached to unsecured privately placed convertible bonds	
Increase in capital stock	¥2,066 million
Increase in capital surplus	¥1,994 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	700	370	330
Other tangible fixed assets	1,003	586	417
(Intangible assets)			
Other intangible assets	189	140	49
Total	1,892	1,096	796

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	284
Over one year	512
Total	796

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:	319
Depreciation expense:	319

(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, 2005)

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	1,244	2,727	1,483
Securities	45	68	23
Total	1,289	2,795	1,506
(The figure in the Balance Sheet is not larger than the acquisition cost.)			
Stock	136	109	(28)
Securities	20	20	—
Total	156	129	(28)
Total	1,445	2,924	1,479

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

	Sales price	Gain on sale	Loss on sale
(¥ million)			
	230	126	—

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):	¥395 million
Unlisted overseas stock:	¥57 million

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

Group companies enter into foreign exchange contracts, currency swap transactions, 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 long as they meet the requirement stipulated in the regulations.

2) Hedging method and objectives

- (a) Hedging instruments: Exchange forwards, exchange options, Currency swaps
- Hedging objectives: Foreign currency-denominated transactions, foreign currency-denominated forward transactions
- (b) Hedging instruments: Commodity derivatives
- Hedging objectives: Raw materials and trade payables
- (c) Hedging instruments: Interest swaps
- Hedging objectives: Borrowings

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, currency swap transactions, interest-rate swap transactions and commodities derivatives transactions entered into by the Group are domestic banks or domestic trading firms with high credit-worthiness. 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**1. Outline of the current retirement benefits system****(1) Retirement benefits system of the Company and its consolidated subsidiaries**

Previously, the Company and its domestic subsidiaries, together, principally employed a defined benefit plan system, consisting of an employees' pension fund system, which had been established by the Company and its subsidiaries and affiliates, and systems for lump-sum payments at the time of retirement. However, the employees' pension fund was dissolved on March 25, 2005 upon approval of the Ministry of Health, Labor and Welfare. On March 10 and 14, the Company contributed to the fund to compensate for the shortfall in the employees' pension fund prior to its dissolution.

Some consolidated subsidiaries of the Company previously employed qualified retirement pension schemes under defined benefit pension plans. Upon dissolution of the said employees' pension fund, these subsidiaries terminated fund operations under the qualified retirement pension schemes.

Some other consolidated subsidiaries have joined the Government-run retirement allowance fund for medium-sized to small enterprises. Overseas, subsidiaries adopted retirement allowance fund schemes specified by the local governments.

Under the early retirement schemes, the Company will make additional payments.

(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, 2005)

(a) Retirement benefit obligations	(¥10,926 million)
(b) Unfunded portion of retirement benefit obligations	(¥10,926 million)
(c) Reserve for employee's retirement benefits	(¥10,926 million)

Note:

Some consolidated subsidiaries have adopted a simplified method for calculating retirement benefit obligations.

3. Retirement benefit costs

(April 1, 2004 to March 31, 2005)

(a) Service cost	¥1,021 million
(b) Interest cost	¥778 million
(c) Expected return on plan assets	(¥201 million)
(d) Amortization of actuarial losses	¥1,344 million
(e) Net retirement benefit costs (a+b+c+d+e)	¥2,941 million
(f) Gain on dismissal of welfare pension	(¥9,306 million)
Total	(¥6,365 million)

Notes:

1. An amount equivalent to contribution to the employees' pension fund by the employees was deducted.
2. 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.
3. Expenses for elimination of actuarial shortfall includes a lump-sum amortization of expenses for newly recognized prior service obligations as of the end of the reporting term in the amount of ¥1,227 million.
4. Loss (gain) on dissolution of the Company's welfare fund includes a one-time contribution amounting to ¥1,551 million required for account settlement of the fund.
5. 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:	2.0%
(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: | 1 year |
| | (Previously, amortization was made on a straight-line basis over a certain period, which is shorter than the average remaining service period of employees, beginnings from the term following that in which the obligations are recognized. Effective from the reporting term, however, the obligations are amortized in lump-sum in the period when the obligations are incurred.) |

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	511
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	4,315
Denial of valuation loss on tangible fixed assets	5,285
Denial of valuation loss on inventories	45
Denial of valuation loss on marketable securities	775
Loss carried forward	11
Unrealized gain/loss included in fixed assets	201
Excess amount of provision for doubtful accounts	588
Others	920
Subtotal	12,649
Valuation allowance	(9,320)
Total deferred tax assets	3,329
Deferred tax liabilities:	
Difference on land revaluation	1,809
Difference on revaluation of land belonging to spun-off companies	9,748
Preferred income tax on fixed assets	56
Difference on valuation of investment securities	594
Others	87
Total deferred tax liabilities	12,294
Net deferred tax assets	2,383
Net deferred tax liabilities	11,347

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	1,790
Fixed assets: Deferred tax assets	592
Long-term liabilities: Deferred tax liabilities	9,538
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, 2005)

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**

Description of segment information by business segment is omitted, as the Company is solely engaged in the business field of stainless steel and processed stainless steel products.

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, 2004 to March 31, 2005					(¥ million)
	East / Southeast Asia	Oceania	North America	Middle East	Other	Total
I. Overseas sales	22,965	524	780	4	252	24,525
II. Consolidated sales						158,144
III. Ratio of overseas sales to consolidated sales (%)	14.5	0.3	0.5	0.0	0.2	15.5

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

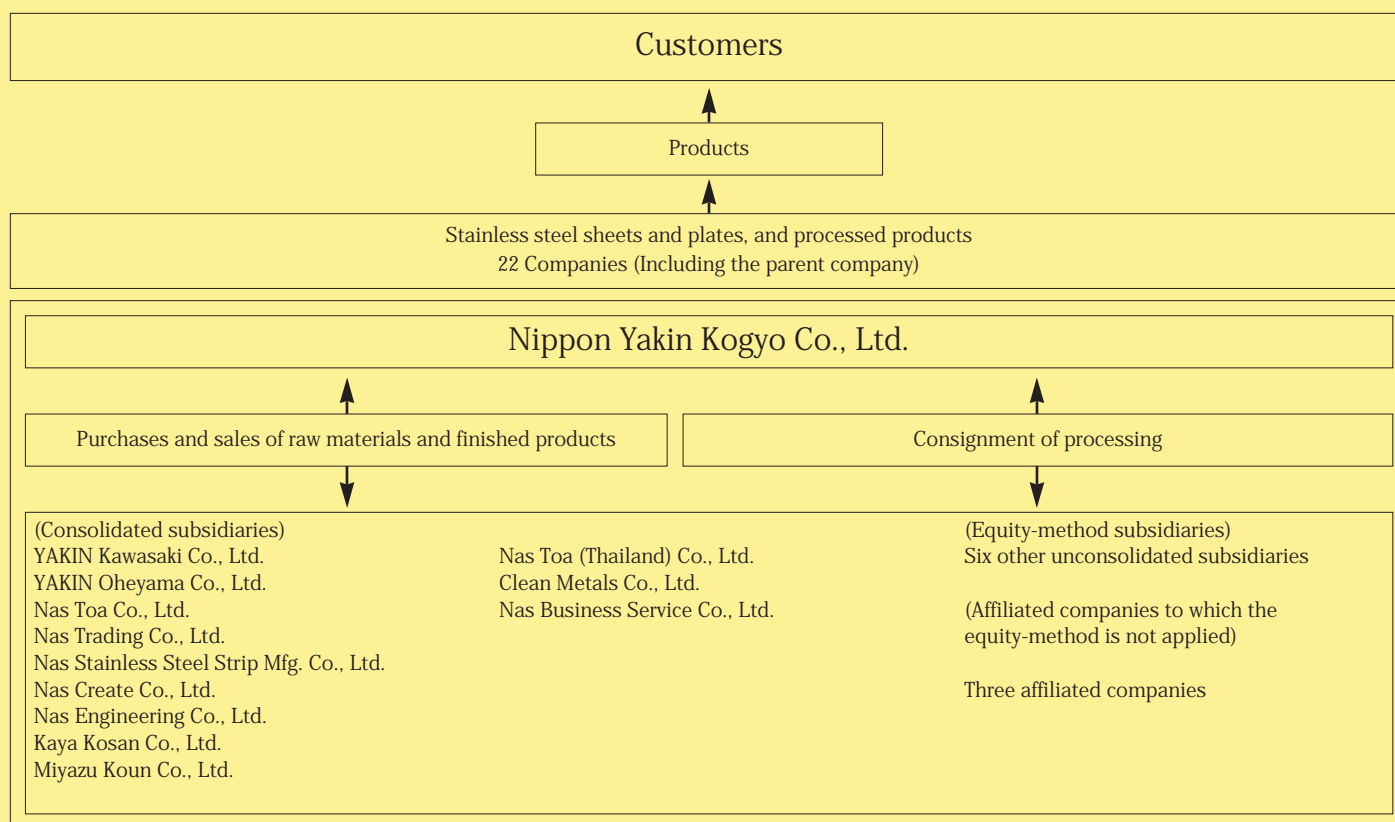
	(¥)
Shareholders' equity per share	209.53
Earnings per share	258.21
Diluted earnings per share	175.28

Note:

Bases for calculating earnings per share are as follows.

	Term under review ended March 31, 2005
Net income for the term (¥ million)	22,551
Net income applicable to ordinary shares (¥ million)	22,551
Average numbers of ordinary shares during the term (in thousands)	87,336
Scale of increase in ordinary shares of common stock	41,332

SUBSIDIARIES AND AFFILIATES



CORPORATE DIRECTORY

Board of Directors and Corporate Auditors

President
Yoichi Saji

Senior Managing Director
Hajime Kimura

Managing Directors

Katsuyoshi Hirooka
Yuzo Kumazawa
Hideo Takada
Yoshio Okamoto
Kazuta Sugimori

Directors

Akio Nonaka
Shizuho Kanazawa
Eihan Konishi
Michio Morooka
Kuniaki Osada

Standing Corporate Auditors

Nagakazu Masuda
Hideyuki Sakakibara

Corporate Auditors

Takeo Nakao
Takashi Okada

(as of June 29, 2005)

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

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Niigata

Manufacturing subsidiaries

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YAKIN Oheyama Co., Ltd.

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