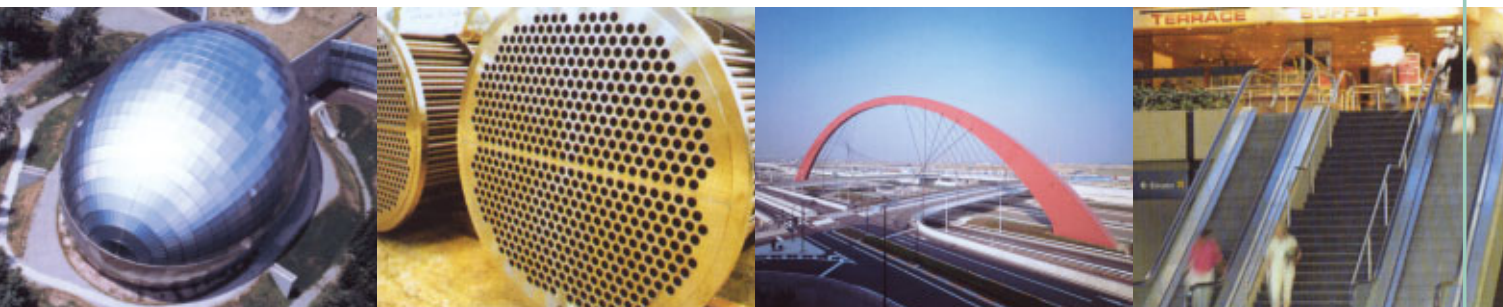




Annual Report 2006

Nippon Yakin Kogyo was established in 1925. Since the commercialization of 18-8 stainless steel (SUS 304) in 1935, the company has continued to research ways of manufacturing high-grade stainless steels and super alloys from nickel ore. Over the years, the company has systematically developed outstanding technologies and sophisticated production facilities under a comprehensive quality assurance system. And the company's products have earned a high reputation among customers.

Nippon Yakin Kogyo, as the leading stainless steel manufacturer in Japan, is now expanding confidently its business field to manufacture high-performance alloys for new applications together with conventional stainless steels aiming at a "new special stainless steel manufacturer," applying the sophisticated production technologies we have acquired through years of stainless steel manufacturing.



### Contents

Financial Highlights .....	1
Message from the President .....	2
Corporate Social Responsibility .....	4
Strategic Focus .....	6
Financial Review.....	8
Consolidated Balance Sheets.....	10
Consolidated Statements of Income.....	12
Consolidated Statements of Shareholders' Equity .....	12
Consolidated Statements of Cash Flows.....	13
Notes to Consolidated Financial Statements.....	14
Subsidiaries and Affiliates .....	21
Corporate Directory .....	21

# Financial Highlights

Five years ended March 31

Consolidated Data	2002	2003	2004	2005	2006
<Millions of yen>					
Net sales .....	¥128,455	134,017	121,454	158,144	<b>148,987</b>
Ordinary income (loss) .....	(1,834)	360	5,648	17,216	<b>10,730</b>
Net income (loss) .....	(6,064)	(42,547)	4,269	22,551	<b>5,980</b>
Shareholders' equity .....	31,089	2,730	7,287	34,154	<b>39,630</b>
Total assets .....	231,184	150,994	157,161	167,880	<b>163,427</b>
<Yen>					
Shareholders' equity per share .....	¥ 186.54	(147.72)	(92.64)	207.23	<b>266.49</b>
Net income (loss) per share .....	(36.39)	(512.10)	51.33	255.81	<b>62.43</b>
Diluted earnings per share .....	—	—	10.79	175.28	<b>50.16</b>
<%>					
Shareholders' equity ratio .....	13.4	1.8	4.6	20.3	<b>24.2</b>
Return on equity .....	—	—	85.2	108.8	<b>16.2</b>
Price earnings ratio .....	—	—	6.88	2.18	<b>8.41</b>
<Millions of yen>					
Cash flows from operating activities .....	¥ 6,383	4,104	3,656	13,433	<b>13,689</b>
Cash flows from investing activities .....	2,161	(1,951)	1,918	(2,460)	<b>(4,564)</b>
Cash flows from financing activities .....	(9,354)	(9,925)	(5,118)	(7,744)	<b>(10,546)</b>
Cash and cash equivalents at the term end .....	¥ 12,023	4,229	4,688	7,910	<b>6,538</b>
Number of employees .....	2,709	2,165	2,115	2,115	<b>2,139</b>
Non-Consolidated Data	2002	2003	2004	2005	2006
<Millions of yen>					
Net sales .....	¥ 70,441	77,344	86,886	120,227	<b>112,179</b>
Ordinary income (loss) .....	(793)	483	4,569	14,336	<b>9,363</b>
Net income (loss) .....	(3,502)	(49,786)	4,667	16,185	<b>5,706</b>
Paid-in capital .....	20,946	12,736	12,736	14,743	<b>14,743</b>
Shareholders' equity .....	42,351	7,709	12,815	33,277	<b>38,270</b>
Total assets .....	177,341	120,185	114,059	125,774	<b>126,329</b>
<Thousands of shares>					
Total number of shares outstanding .....	166,661	158,330	158,330	166,519	<b>166,519</b>
<Yen>					
Shareholders' equity per share .....	¥ 254.14	(87.55)	(26.24)	197.65	<b>251.61</b>
Cash dividend					
Ordinary shares .....	—	—	—	5,000	<b>5,000</b>
Preferred shares					
Type1 .....	—	—	—	2,228	<b>2,236</b>
Type2 .....	—	—	—	2,728	<b>2,736</b>
Type3 .....	—	—	—	3,228	<b>3,236</b>
Including interim dividend .....	(—)	(—)	(—)	(—)	<b>(—)</b>
Net income (loss) per share .....	(21.01)	(597.68)	56.05	182.91	<b>59.44</b>
Diluted earnings per share .....	—	—	11.79	125.79	<b>47.84</b>
<%>					
Shareholders' equity ratio .....	23.9	6.4	11.2	26.5	<b>30.3</b>
Return on equity .....	—	—	45.5	70.2	<b>16.0</b>
Price earnings ratio .....	—	—	6.30	3.04	<b>8.83</b>
Payout Ratio .....	—	—	—	2.7	<b>8.4</b>
Number of employees .....	965	895	134	137	<b>155</b>

- 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 for the year ended March 31, 2005 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 year ended March 31, 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.

# Message from the President



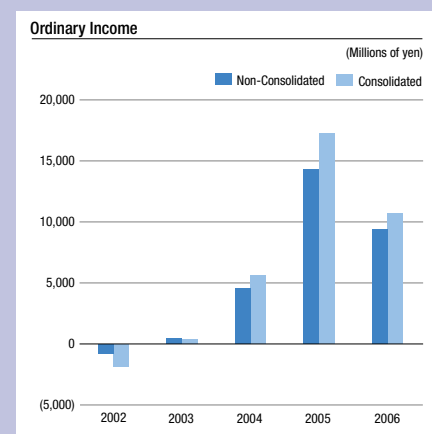
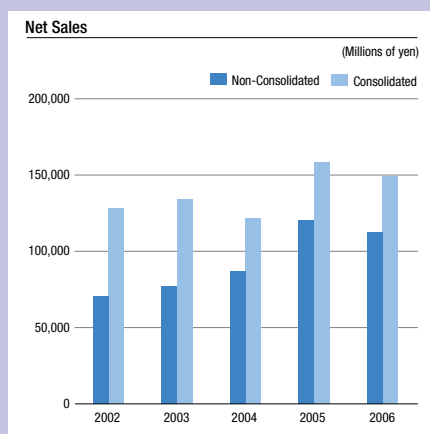
Yoichi Saji  
President

I would like to thank our shareholders for their continued support, and take this opportunity to present the Annual Report for the 124th term (from April 1, 2005 to March 31, 2006.)

The term under review saw the Japanese economy staging a moderate recovery, with an upswing in corporate profitability triggering an increase in capital investment and growth in personal incomes amid improved employment figures. In March 2006, having concluded that Japan had thrown off its deflationary straitjacket, the Bank of Japan decided to end its “quantitative” easy money policies continued since 2001, enabling private-sector demand to spur economic recovery.

Against a background of

inventory adjustment at customers worldwide, the special steel and stainless steel sectors in Japan also saw a slowing of demand from the ICT-related and construction sectors. Buoyant demand from automotive companies partially offset the decline. Inventory levels at wholesalers remained at appropriate levels as supply and demand balanced each other out, with the strong inflows of overseas products in the previous term showing signs of falling back somewhat during the term under review. With regard to export markets, the start-up of new mills in China and elsewhere in the East Asian market meant that regional oversupply has become apparent a year earlier than expected, with the Chinese



market in particular showing temporary softness. But the market grew more active again from the beginning of 2006, as fears of oversupply faded and raw materials prices soared.

However, sustained rises in the prices of nickel, chrome and molybdenum, base materials for the special steel and stainless steel, have made it even more imperative to take systematic action to establish a material-price linked pricing policy so prices of our products reflect changes in raw material prices.

The Group took concerted steps to implement the three-year medium-term management plan launched in April 2005, to establish an operating structure capable of ensuring stable earnings in

a changing business environment.

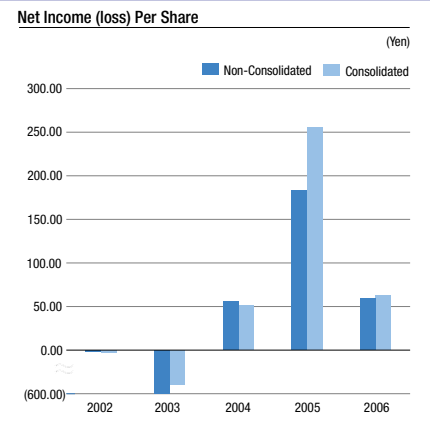
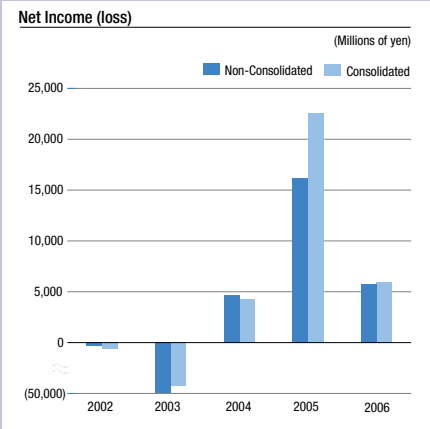
Specific measures included increasing earnings power through business restructuring to place more emphasis on high-performance alloys, and bolstering the financial position mainly through improvement of the shareholders' equity ratio.

As a result of the foregoing, ordinary income in the term under review totaled ¥10,730 million, and net income came in at ¥5,980 million.

In light of these performances we paid an annual dividend of ¥5 per common share. Regarding types 1,2 and 3 preferred shares we paid annual dividends in accordance with resolutions approved by the Board of Directors at the time of issue.

In the special steel and stainless steel sectors, a number of new mills are expected to come on line one after another in China, and in view of the current high prices of raw materials, which are pushing up overall production costs, the company faces a difficult business environment. In these circumstances, the Group will make every effort – through the medium-term management plan now in place – to consolidate its operational footing in the special steel and stainless steel business.

Yoichi Saji  
President

# Corporate Social Responsibility

## 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 and enforcing rigorous compliance, thereby ensuring the soundness and trustworthiness of its management.

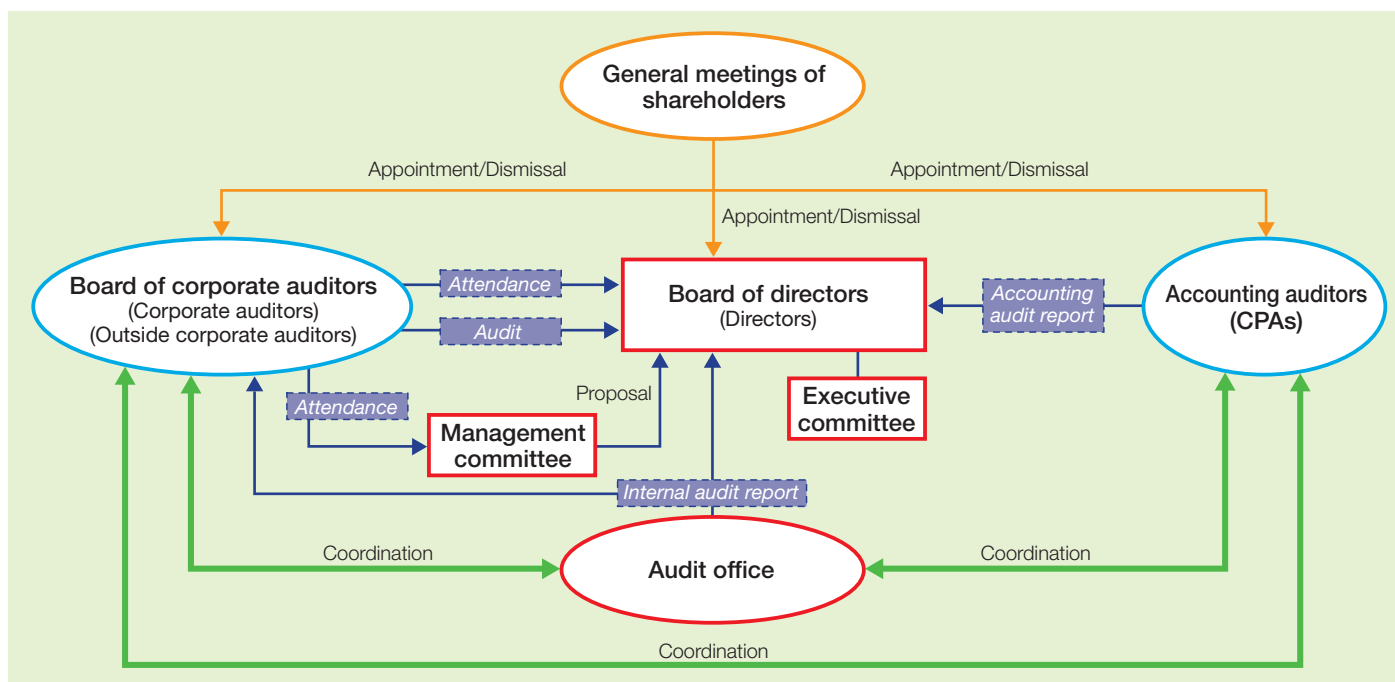
We have set the number of directors on the Board of Directors at 12 as of March 31, 2005, to enable the Board to respond more rapidly to changes in the business environment. The Company has a statutory auditor-based system of governance, with the conduct of business by executives overseen by the Board of Directors and audited by the statutory auditors, including outside auditors, both

individually and as members of the Board of Corporate Auditors. In addition, an Audit Office has been set up directly under the President to conduct regular internal audits into the conduct of business. Its findings are reported at due times to the directors, the corporate auditors, and the accounting auditors (certified public accountants at an accounting firm contracted to the Company). In addition, the accounting auditors brief the Board of Corporate Auditors on the results of accounting audits, and exchange information with the Board.

At term-end and interim account settlements, corporate auditors are present as accounting

auditors conduct inventory audits. They receive reports and explanations from the accounting auditors concerning auditing methods and findings, and also oversee the accounting auditors as they carry out their tasks. Corporate auditors and accounting auditors also collaborate over audit schedules and exchange opinions with regard to audit findings.

At meetings of the Management Committee, corporate auditors are given final reports on internal audits by the Audit Office (directly under the President) on the conduct of business. Corporate auditors and the Audit Office exchange opinions on auditing the conduct of business of each department prior to implementation of audits.



## Compliance

In October 2003, the Company set up a Compliance Committee, chaired by the director in charge of the General Affairs Division, to debate, propose and promote important policies for ensuring rigorous adherence to appropriate standards of corporate conduct, based on our corporate philosophy and legal observance

requirements.

In January 2004, top management issued a Compliance Statement, making compliance the main priority in the Code of Conduct. Previously, there was ambiguity in the status of the Code of Conduct, as the Company had made the corporate philosophy public separately. We redrafted the old Code

of Conduct as the Nippon Yakin Group Code of Conduct, which now forms part of internal regulations.

The Company now has in place standards for corporate behavior which instill recognition of the need for legal observance in employees and preempt violations.

## Environmental Protection Activities

The Group engages in environmental protection activities under the motto “C&C” (Clean and Circulation), and works to encourage environmental awareness and willingness to promote the environment among its employees.

Our subsidiary Yakin Kawasaki pursues environmental protection activities in light of its situation in an urbanized environment. In March 1999, the plant of the subsidiary was the first in the Group

to win certification under the international ISO 14001 environmental management standard. We aim to creatively contribute to social infrastructure through environment-friendly manufacturing and development activities.

Another subsidiary, Yakin Oheyama, is a manufacturing company located near in an area of great scenic beauty. Its plant obtained ISO14001 certification in November 2001, with the aim of ensuring that its production

activities take full consideration of its location and the need for environmental protection.

In addition to ISO certification, the Group has received a JIS Mark certificate, confirming the effectiveness of its quality assurance. We will continue to work to further raise quality, better meeting customer needs by consolidating our manufacturing and inspection technologies and through increased standardization.

## Strategic Focus

The all-purpose and high-performance alloys and stainless steels of Nippon Yakin Kogyo are manufactured by an integrated production system.

The company has systematized excellent technologies and advanced production facilities, developed over many years and backed by a comprehensive quality assurance system, enabling it to offer recognized NAS high-performance alloys and stainless steel products to customers.

The broad range of high-quality materials is sure to meet all requirements in terms of corrosion resistance, heat resistance, weather resistance, acid resistance, high strength, machinability, and formability. All these products have earned strong reputations among customers.



### Highly Corrosion-Resistant Plate-Type Heat Exchangers

Plate-type heat exchangers employ heat-pipe fluids to transfer heat from warm plates to cool ones.

Highly corrosion-resistant material is used to ensure corrosion resistance.

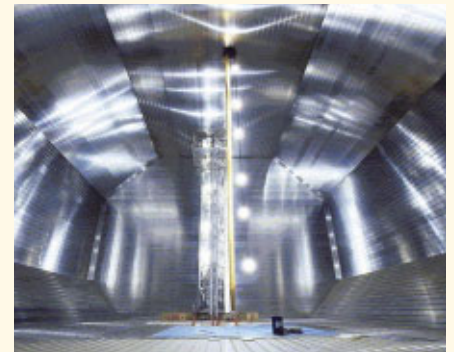


### Marine structures

Since marine structures are exposed to harsh environments, super stainless steels which contain rich amounts of Cr, Ni, Mo, and N are used instead of standard grade stainless steels.

NAS 254N developed by Nippon Yakin Kogyo shows high cost performance during its life cycle for marine structures, providing excellent corrosion resistance, long service life and easy maintenance.

The overlay is generally constructed by welding or bolting. NAS 254N is applicable to both methods.



### Energy

LNG tankers are an essential means of transporting natural gas by sea from the country of production.

An LNG tanker, which stores liquefied natural gas at very low temperature, has a tank structure capable of holding very low temperatures and providing thermal insulation to minimize vaporization of the gas.

NAS 36LG, which was developed for the lining of box-shaped membrane tanks, suppresses the thermal stress caused by temperature variations as it has a very low coefficient of thermal expansion.

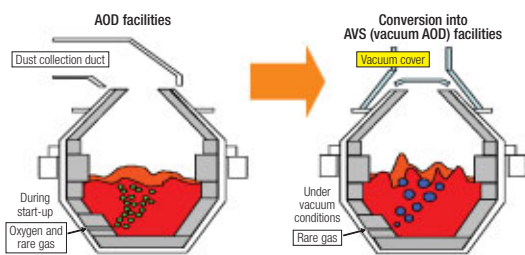
NAS 36LG plays an important role in the safe transportation of liquefied natural gas.

### Shanghai Office



The staff of our Shanghai Office are helping lay the groundwork for the expansion of the Company's sales of high-performance alloys in China.

## New Capital Investment



To increase sales of high-performance alloys, we plan to introduce facilities for argon oxygen decarburation (AOD) with Vacuum System for Special Alloys at the steel mill within the Yakin Kawasaki plant, with operations scheduled to start in January 2008.

By introducing these facilities, we aim to increase production efficiency by shortening refining times, positioning us to meet the diversifying needs of our customers more rapidly.



### High-temperature environments

The sheathed heater generates heat in household electric appliances such as electric ovens, electric stoves, and air conditioners, and also industrial apparatuses such as driers, train heaters, etc., yet invisibly to users.

The sheathed heater is fabricated by forming a heat-generating wire into a spiral shape, which is held at the center of a metallic pipe made of NAS 800L or NAS H840, then filling and compacting an insulation material into the pipe to surround the wire.

Since the sheath itself is heated to high temperatures, it is made of NAS 800L or NAS H840 which has excellent resistance to high-temperature oxidation and high-temperature creep.



### Desulfurization system

The desulfurization unit is auxiliary facilities of thermal power plants designed to prevent air pollution.

In the flue gas desulfurization unit at coal fired power generation plants, chlorine in the fuel condenses to create a corrosive environment of high concentration chloride.

In environments where the chlorine ion concentration exceeds 10,000 ppm, the super stainless steels NAS 254N and NAS 354N, and highly corrosion-resistant Ni alloys NAS NW276 and NAS NW22 are used to reduce the cost and to extend the service life of the unit.



### Food processing plants

“Soy sauce moromi tank”

In the past, soy sauce moromi tanks were lined with resin or FRP. To reduce maintenance and operational cost, however, these tanks have been recently replaced by super stainless steel tanks.

Since moromi contains very high concentrations of salt, standard grade stainless steels would suffer pitting corrosion, crevice corrosion, and stress corrosion cracking. Super stainless steel, however, offers excellent corrosion resistance even under such severe environments.

# Financial Review

## 1. Business Results

Results in stainless steel and other processed products were as follows.

During the term under review, customers in the Japanese and overseas markets embarked on inventory adjustment. Against this backdrop, the Group worked to match supply closely with actual demand and worked to obtain sales prices appropriately reflecting rising raw-material prices, with a focus on price revisions and more profitable products.

Overall, net sales (on a consolidated basis) for the term under review (ended March 2006) fell 5.8% year-on-year to ¥148,987 million. Of this total, domestic sales accounted for ¥123,816 million (down 7.3% year-on-year), and sales overseas accounted for ¥25,171 million (up 2.6% year-on-year). Ordinary income totaled ¥10,730 million and net income came in at ¥5,980 million.

By segment, among high-performance alloys, strong performances came from highly heat-resistant and highly corrosion-resistant steels, the

Group's priority products.

However, sales of products for electronics materials, long an important item in our product portfolio, were down steeply, hit by inventory adjustment at customers and higher-than-expected penetration by new products in the market that are replacing shadow masks for cathode ray tubes, formerly a Company specialty.

On a non-consolidated basis, net sales came to ¥112,179 million, ordinary income totaled ¥9,363 million and net income totaled ¥5,706 million.

## 2. Issues Facing the Company

Despite firm internal demand-led recovery momentum in the Japanese economy, we do not believe complacency is warranted on a sustained basis, in light of rising interest rates, soaring raw-material prices and other factors of concern.

In the special steel and stainless steel sectors, we expect companies in China, one of the major markets in the world for these

products, to continue the wave of new mill openings begun last year. Thus, Japanese manufacturers are concerned about stiff competition. At the same time, with important raw materials prices remaining at a high level at the moment, it is vital to secure better selling prices amid fierce global competition.

Against this backdrop, the Group embarked on the second year of its medium-term management plan. While focusing on high-performance alloys in terms of both portfolio mix and scale of operations, we will continue our efforts to push forward business restructuring. At the same time we will make every effort to secure a more appropriate level of product pricing in Japanese and overseas markets, in line with rising raw-material prices, and work to attain the goals in the plan while further forcing down costs.

At the meeting of the Board of Directors held on April 17, 2006 it was decided to (1) propose as an agenda item at the 124th general meeting of shareholders a reduction in the statutory reserve

included in the capital surplus to secure funding for acquiring our own shares (preferred shares) and (2) issue a fifth round of Moving Strike Convertible Bonds (MSCB) through private placement (carried out on May 8, 2006) and registration for the issue of the MSCB. (Item (1) was approved at the 124th Regular General Meeting of Shareholders held on June 29, 2006)

These measures are aimed at bolstering fund procurement through acquisition and retirement of preferred shares issued on March 28, 2003 (Types 1, 2 and 3), and at enhancing our financial position. Through achievement of the medium-term management plan, we are confident of further strengthening the

financial position and equity ratio of the Company, thereby further raising enterprise value.

### 3. Fund Procurement

The Company meets its working capital and investment funding needs by ensuring adequate levels of retained earnings and through bank borrowing.

### 4. Capital Investment

The Group's capital investment in the term under review (on a consolidated basis) totaled ¥4,666 million, with most of the funding going into replacement of outdated facilities to ensure more stable and environment-friendly business operation.

To improve productivity in high-performance alloys and establish a supply system capable of responding more rapidly to demand, the Group plans to introduce facilities for AOD with Vacuum System for Special Alloys, using the scrap-and-build method, inside the steel mill at the Yakin Kawasaki plant, with operations scheduled to begin in January 2008.

## Progress in the First Year of the Medium-Term Management Plan

Performance indicators	Targets for fiscal 2005	Results for fiscal 2005	Targets for fiscal 2006	Targets for fiscal 2007
Proportion of sales in the high-performance alloys segment (on a non-consolidated basis)	38.2%	24.6%	41.3%	50.0%
ROA (on a consolidated basis)	7.3%	8.1%	7.5%	7.0%
Shareholders' equity ratio (on a consolidated basis)	24.9%	24.2%	28.3%	30.0%

(Note) ROA = (operating income + interest and dividend income) / total assets

# Consolidated Balance Sheets

As of March 31, 2005 and 2006	2005		2006	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
<b>Assets</b>				
I. Current assets				
1. Cash and deposits .....	7,918		<b>6,586</b>	
2. Notes and accounts receivable *3 and *5 .....	35,496		<b>29,327</b>	
3. Marketable securities .....	120		<b>70</b>	
4. Inventories .....	33,623		<b>35,955</b>	
5. Deferred tax assets .....	1,790		<b>1,384</b>	
6. Other current assets .....	1,447		<b>1,307</b>	
7. Allowance for doubtful receivables .....	(725)		<b>(749)</b>	
Total current assets .....	79,669	47.5	<b>73,880</b>	<b>45.2</b>
II. Fixed assets				
(1) Tangible fixed assets				
1. Buildings and structures *3 .....	44,262		<b>44,617</b>	
Accumulated depreciation .....	29,348	14,914	<b>30,031</b>	<b>14,586</b>
2. Machinery, equipment and vehicles *3 .....	129,869		<b>130,931</b>	
Accumulated depreciation .....	106,853	23,017	<b>107,414</b>	<b>23,516</b>
3. Land *2 and *3 .....	42,457		<b>41,912</b>	
4. Construction in progress .....	946		<b>558</b>	
5. Other tangible fixed assets .....	6,968		<b>6,787</b>	
Accumulated depreciation .....	6,008	960	<b>5,809</b>	<b>978</b>
Total tangible fixed assets .....	82,293	49.0	<b>81,551</b>	<b>49.9</b>
(2) Intangible assets				
1. Consolidated adjustment .....	72		<b>33</b>	
2. Other intangible assets .....	482		<b>576</b>	
Total intangible assets .....	554	0.3	<b>609</b>	<b>0.4</b>
(3) Investments and other assets				
1. Investment securities *1 and *3 .....	3,750		<b>5,634</b>	
2. Deferred tax assets .....	592		<b>807</b>	
3. Other investments and other assets .....	2,201		<b>1,947</b>	
4. Allowance for doubtful receivables .....	(1,181)		<b>(1,002)</b>	
Total investments and other assets .....	5,364	3.2	<b>7,387</b>	<b>4.5</b>
Total fixed assets .....	88,211	52.5	<b>89,546</b>	<b>54.8</b>
Total assets .....	167,880	100.0	<b>163,427</b>	<b>100.0</b>

\*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.

	2005		2006	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
<b>Liabilities</b>				
I. Current liabilities				
1. Notes and accounts payable .....	19,511		<b>19,592</b>	
2. Short-term debt *3 .....	52,374		<b>46,190</b>	
3. Current portion of long-term debt *3 .....	3,893		<b>3,967</b>	
4. Accrued income taxes .....	2,267		<b>2,169</b>	
5. Accrued consumption taxes .....	632		<b>85</b>	
6. Reserve for employees' bonuses .....	1,224		<b>1,448</b>	
7. Other current liabilities .....	6,193		<b>4,937</b>	
Total current liabilities .....	86,094	51.3	<b>78,388</b>	<b>48.0</b>
II. Long-term liabilities				
1. Corporate bonds .....	220		<b>220</b>	
2. Long-term debt *3 .....	24,645		<b>20,879</b>	
3. Deferred tax liabilities .....	9,538		<b>10,318</b>	
4. Deferred tax liabilities on land revaluation *2 .....	1,809		<b>2,687</b>	
5. Reserve for employees' retirement benefits .....	10,926		<b>10,621</b>	
6. Other long-term liabilities .....	57		<b>170</b>	
Total long-term liabilities .....	47,195	28.1	<b>44,895</b>	<b>27.5</b>
Total liabilities .....	133,289	79.4	<b>123,283</b>	<b>75.5</b>
<b>Minority interests</b>				
Minority interests .....	437	0.3	<b>514</b>	<b>0.3</b>
<b>Shareholders' equity</b>				
I. Capital stock *6 .....	14,743	8.8	<b>14,743</b>	<b>9.0</b>
II. Capital surplus .....	10,803	6.4	<b>10,803</b>	<b>6.6</b>
III. Retained earnings .....	5,220	3.1	<b>9,149</b>	<b>5.6</b>
IV. Difference on land revaluation *2 .....	2,545	1.5	<b>3,048</b>	<b>1.9</b>
V. Unrealized gain (loss) on available-for-sale securities...	866	0.5	<b>1,869</b>	<b>1.1</b>
VI. Foreign exchange translation adjustment .....	(0)	(0.0)	<b>48</b>	<b>0.0</b>
VII. Treasury stock *7 .....	(22)	(0.0)	<b>(29)</b>	<b>(0.0)</b>
Total shareholders' equity .....	34,154	20.3	<b>39,630</b>	<b>24.2</b>
Total liabilities, minority interests, and shareholders' equity .....	167,880	100.0	<b>163,427</b>	<b>100.0</b>

## Consolidated Statements of Income

Terms ended March 31, 2005 and 2006	2005		2006	
	Amount (¥ million)	Percentage (%)	Amount (¥ million)	Percentage (%)
I. Sales .....	158,144	100.0	<b>148,987</b>	<b>100.0</b>
II. Cost of sales *2 .....	125,448	79.3	<b>122,876</b>	<b>82.5</b>
Gross profit .....	32,697	20.7	<b>26,111</b>	<b>17.5</b>
III. Selling, general and administrative expenses *1 and *2 ...	12,881	8.1	<b>12,811</b>	<b>8.6</b>
Operating income .....	19,816	12.5	<b>13,300</b>	<b>8.9</b>
IV. Non-operating income				
1. Interest income .....	35		<b>36</b>	
2. Dividend income .....	39		<b>50</b>	
3. Rent .....	47		<b>34</b>	
4. Other non-operating income .....	144	265	<b>88</b>	<b>208</b>
V. Non-operating expenses				
1. Interest paid.....	1,805		<b>1,862</b>	
2. Expenses for syndicated loan organization .....	361		<b>98</b>	
3. Exchange loss .....	375		<b>336</b>	
4. Other non-operating expenses .....	324	2,865	<b>483</b>	<b>2,779</b>
Ordinary income.....	17,216	10.9	<b>10,730</b>	<b>7.2</b>
VI. Extraordinary profits				
1. Amendment to prior income statement *5 .....	—		<b>281</b>	
2. Gain on sales of fixed assets *3.....	201		<b>3</b>	
3. Gain on sale of investment securities .....	126		<b>0</b>	
4. Gain on account settlement for welfare pension fund ...	9,306		<b>—</b>	
5. Reversal of allowance for doubtful receivables .....	—		<b>53</b>	
6. Other extraordinary profits.....	22	9,656	<b>38</b>	<b>375</b>
VII. Extraordinary losses				
1. Loss on disposal of tangible fixed assets .....	447		<b>330</b>	
2. Loss on sale of fixed assets *4.....	759		<b>6</b>	
3. Valuation loss on investment securities .....	2		<b>30</b>	
4. Provision for doubtful receivables .....	491		<b>—</b>	
5. Loss on impairment of fixed assets *6.....	—		<b>921</b>	
6. Surcharge for violation of Antimonopoly Law .....	1,108		<b>—</b>	
7. Other extraordinary losses .....	714	3,520	<b>256</b>	<b>1,543</b>
Income before income taxes and minority interests .....	23,352	14.8	<b>9,562</b>	<b>6.4</b>
Income taxes (corporate tax, residential tax and enterprise tax) ...	2,307		<b>3,225</b>	
Income tax adjustment .....	(1,576)	730	<b>282</b>	<b>3,507</b>
Minority interest-income .....	70	0.0	<b>75</b>	<b>0.0</b>
Net income .....	22,551	14.3	<b>5,980</b>	<b>4.0</b>

\*1 to \*6 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, 2005 and 2006	2005		2006	
	Amount (¥ million)		Amount (¥ million)	
Capital surplus				
I. Capital surplus at beginning of term .....		8,809		<b>10,803</b>
II. Increase in capital surplus				
Gain on capital increase .....	1,994	1,994	<b>—</b>	<b>—</b>
III. Capital surplus at end of term.....		10,803		<b>10,803</b>
Retained earnings				
I. Deficit at beginning of term .....		(16,575)		<b>5,220</b>
II. Increase in retained earnings				
1. Reversal of difference on land revaluation.....	(757)		<b>(1,384)</b>	
2. Net income.....	22,551	21,795	<b>5,980</b>	<b>4,596</b>
III. Decrease in retained earnings				
Cash dividends .....	—	—	<b>667</b>	<b>667</b>
IV. Retained earnings at end of term .....		5,220		<b>9,149</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

	2005	2006
	Amount (¥ million)	Amount (¥ million)
Terms ended March 31, 2005 and 2006		
I. Cash flows from operating activities		
Income before income taxes and minority interests.....	23,352	9,562
Depreciation and amortization .....	4,206	4,120
Loss on impairment of fixed assets.....	—	921
Amortization of consolidation adjustment.....	39	39
Increase (decrease) in allowance for doubtful receivables.....	527	(155)
Increase in reserve for employees' bonuses .....	270	224
Increase (decrease) in reserve for employees' retirement benefits .....	1,576	(305)
Gain on amendment to prior year income statement .....	—	(281)
Interest and dividends received .....	(74)	(86)
Interest expense .....	1,805	1,862
(Gain) loss on sale of investment securities.....	(126)	(0)
Loss on valuation of investment securities .....	2	30
(Gain) loss on sale of tangible fixed assets .....	558	2
Loss of disposal of tangible fixed assets .....	357	263
Gain on cancellation of welfare pension.....	(9,306)	—
Surcharge for violation of Antimonopoly Law .....	1,108	—
(Increase) decrease in trade notes receivable .....	(2,946)	6,169
(Increase) decrease in inventories .....	(5,858)	(2,090)
Increase (decrease) in trade accounts payable.....	1,321	142
Increase (decrease) in accrued consumption taxes .....	410	(547)
Extraordinary retirement allowance .....	6	—
Other.....	63	(7)
Subtotal.....	17,288	19,864
Interest and dividends received .....	74	86
Interest paid.....	(1,665)	(1,969)
Gain on account settlement for welfare pension fund.....	(1,551)	—
Extraordinary retirement allowance paid.....	(6)	—
Surcharge payment under the Antimonopoly Act.....	—	(1,108)
Income taxes paid .....	(707)	(3,185)
Net cash provided by operating activities .....	13,433	13,689
II. Cash flows from investing activities		
Expenditures for deposits in time deposits.....	(89)	(34)
Proceeds from maturity of time deposits.....	132	44
Purchases of noncurrent assets .....	(3,745)	(4,427)
Proceeds from sale of noncurrent assets .....	1,212	30
Purchases of investment securities .....	(2)	(234)
Proceeds from sale of investment securities .....	193	0
Other.....	(162)	58
Net cash used in investing activities .....	(2,460)	(4,564)
III. Cash flows from financing activities		
Net decrease in short-term debt.....	(16,769)	(6,184)
Proceeds from long-term debt .....	9,545	489
Repayment of long-term debt .....	(4,504)	(4,181)
Proceeds from issuance of Moving Strike Convertible Bonds (MSCB) .....	4,000	—
Payment of cash dividends.....	—	(662)
Cash dividends paid to minority shareholders.....	—	(7)
Other.....	(16)	(1)
Net cash used in financing activities.....	(7,744)	(10,546)
IV. Foreign currency translation adjustment of cash and cash equivalents .....	(7)	48
V. Net increase (decrease) in cash and cash equivalents.....	3,222	(1,372)
VI. Cash and cash equivalents at the beginning of the term.....	4,688	7,910
VII. Balance of cash and cash equivalents at the end of the term .....	7,910	6,538

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Year to March 31, 2006 (April 1, 2005 to March 31, 2006)

## 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) Other significant accounting policies

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

### Accounting standards for impairment of fixed assets

With effect from the reporting fiscal year, the Company applies the Accounting Standards for Impairment of Fixed Assets ("Opinion on Establishment of Accounting Standards for Impairment of Fixed Assets" [Business Accounting Deliberation Council; August 9, 2002]) and "Guideline for Application of Accounting Standards for Impairment of Fixed Assets" (Guideline for Application of Business Accounting Standards No. 6; October 31, 2003). Accordingly, income before income taxes and minority interest decreased ¥921 million.

The cumulative impairment loss was deducted directly from the amount of each asset pursuant to provisions in the regulations for preparing financial statements.

## Notes to Consolidated Balance Sheets

### \*1. Investment in nonconsolidated subsidiaries and affiliates

Investment securities (equity shares): ¥364 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: ¥2,345 million

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

Assets pledged as collateral	Corresponding liabilities
(Details)	
Buildings and structures: ¥7,387 million <¥7,127 million>	Current portion of long-term debt: ¥3,967 million
Machinery, equipment, and vehicles: ¥19,567 million <¥19,567 million>	Long-term debt: ¥20,879 million
Land: ¥35,667 million <¥34,977 million>	Short-term debt: ¥32,506 million
	Notes discounted: ¥1,635 million
Tangible fixed assets: ¥62,620 million <¥61,672 million>	
(Figures in brackets indicate factory mortgage.)	
Notes receivable: ¥2,678 million <¥2,305 million>	
(Figures in brackets indicate trust beneficiary rights on asset securitization)	
Marketable securities: ¥120 million	
Total: ¥65,419 million	Total: ¥58,987 million

## 4. Contingent liabilities

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥282 million
Total	¥282 million

## \*5. Notes discounted and endorsed

Notes discounted:	¥2,209 million
Notes endorsed:	¥315 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 115,000 ordinary shares.

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

Shipping expenses and storage fees:	¥2,704 million
Salary and bonuses:	¥3,165 million
Provision to reserve for employees' bonuses:	¥456 million
Provision for reserve for retirement allowance:	¥305 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 ¥999 million.

**\*3. Details**

Land:	¥— million
Structures and others:	¥3 million

**\*4. Details**

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

**\*5. Gain on amendment to prior income statement**

The gain was recorded as a result of restatement of cost of sales for consolidated subsidiaries for the previous fiscal year.

**\*6. Impairment loss**

The Company recorded a ¥921 million impairment loss on certain idle assets in the reporting fiscal year. This is mainly attributable to significant drops in the market values of these assets (most of which are idle land in Chiba Prefecture) from their book values as a result of declines in land prices in recent years.

In determining the amount of impairment loss, the Group, as a rule, classifies all assets into business-use assets and idle assets, and then reclassifies business-use assets by business unit. Each idle asset is treated as an individual accounting unit. The recoverable value of each idle asset is determined using its net selling price. The market price used in measurement of the net selling price is calculated by using the official price for taxation purpose upon reasonable adjustments.

**Notes to Consolidated Statements of Cash Flows****Reconciliation of amounts reported in the balance sheets to cash and cash equivalents as of March 31, 2006**

Cash and deposits:	¥6,586 million
Time deposits with a maturity over three months:	(¥99 million)
Investment securities with a maturity within three months:	¥50 million
Cash and Cash equivalents:	¥6,538 million

**Notes to Lease Transactions****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
<b>(Tangible fixed assets)</b>			
Machinery, equipment, and vehicles	1,696	488	1,208
Other tangible fixed assets	1,442	706	737
<b>(Intangible assets)</b>			
Other intangible assets	234	119	115
Total	3,372	1,312	2,060

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	538
Over one year	1,523
Total	2,060

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:	485
Depreciation expense:	485

**(4) Calculation of depreciation expense**

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

(Impairment loss)

Description is omitted as no impairment loss is recognized on leased properties.

**Market Value of Available-for-Sale Securities**

Term under review (as of March 31, 2006)

**1. Available-for-sale securities with market quotation**

	Acquisition cost	Balance sheet accounts	Unrealized gain (loss)
<b>(The figure in the Balance Sheet is larger than acquisition cost.)</b>			
Stock	1,596	4,739	3,143
Securities	45	105	60
Total	1,641	4,844	3,203
<b>(The figure in the Balance Sheet is not larger than the acquisition cost.)</b>			
Stock	12	10	(2)
Securities	20	20	—
Total	32	30	(2)
Total	1,673	4,874	3,201

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

	Sales price	Gain on sale	Loss on sale
	50	0	—

### 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):	¥353 million
Unlisted overseas stock:	¥63 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 being incurred by the fluctuation of market prices such as price changes in assets or liabilities, interest rate changes, 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**

In Japan, the Company and a majority of its consolidated subsidiaries employ their own lump-sum retirement allowance plans. However, other consolidated subsidiaries participate in a plan operated by the Smaller Enterprise Retirement Allowance Mutual Aid Office. Overseas consolidated subsidiaries participate in the pension fund schemes designated by the governments of their respective countries. An additional retirement allowance may be paid to certain employees under early retirement schemes upon their retirement.

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

The Company and 10 consolidated subsidiaries adopted a lump-sum retirement benefit system.

**2. Retirement benefit obligations**

(as of March 31, 2006)

(a) Retirement benefit obligations	(¥10,621 million)
(b) Unfunded portion of retirement benefit obligations	(¥10,621 million)
(c) Reserve for employee's retirement benefits	(¥10,621 million)

Note:

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

**3. Retirement benefit costs**

(April 1, 2005 to March 31, 2006)

(a) Service cost	¥672 million
(b) Interest cost	¥202 million
(c) Amortization of actuarial losses	(¥48 million)
Net retirement benefit costs (a+b+c)	¥826 million

Note:

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.

**4. Basis for calculation for retirement benefit obligations**

(a) Discount rate:	2.0%
(b) Long-term rate of return on plan assets:	—%
(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
	(Lump-sum amortization when recognized)

**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	602
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	4,306
Denial of valuation loss on tangible fixed assets	4,290
Loss on impairment of fixed assets	910
Difference on land revaluation	377
Denial of valuation loss on inventories	5
Denial of valuation loss on marketable securities	783
Unrealized gain/loss included in fixed assets	198
Excess amount of provision for doubtful accounts	532
Others	905
Subtotal	12,908
Valuation allowance	(9,831)
Total deferred tax assets	3,077
Deferred tax liabilities:	
Difference on land revaluation	2,687
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	1,282
Others	119
Total deferred tax liabilities	13,891
Net deferred tax assets	2,191
Net deferred tax liabilities	13,005

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	1,384
Fixed assets: Deferred tax assets	807
Long-term liabilities: Deferred tax liabilities	10,318
Long-term liabilities: Deferred tax liabilities on land revaluation	2,687

**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, 2006)

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, 2005 to March 31, 2006					(¥ million)
	East / Southeast Asia	Oceania	North America	Middle East	Other	Total
I. Overseas sales	21,325	725	646	123	2,351	25,171
II. Consolidated sales	—	—	—	—	—	148,987
III. Ratio of overseas sales to consolidated sales (%)	14.3	0.5	0.4	0.1	1.6	16.9

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	266.49
Earnings per share	62.43
Diluted earnings per share	50.16

Note:

Bases for calculating earnings per share are as follows.

	Term under review ended March 31, 2006
<b>(Earnings per share)</b>	
Net income for the term (¥ million)	5,980
Amounts not available to distribution to common shareholders (¥ million)	273
Net income applicable to ordinary shares (¥ million)	5,707
Average numbers of ordinary shares during the term (in thousands)	91,404
<b>(Diluted earnings per share)</b>	
Adjustment to net income (¥ million)	210
Scale of increase in ordinary shares of common stock (in thousands)	26,549

### Subsequent Events

The Company's Board of Directors approved the following agenda items at the meeting held on April 17, 2006: [1] Making a proposal at the 124th regular general meeting of shareholders for reducing the statutory reserve included in capital surplus and the purchase of the Company's own preferred shares for inclusion in treasury stock, and [2] Issuance of Fifth Round of Moving Strike Convertible Bonds (MSCB) through private placement and registration for the issue of MSCB. Details are as follows.

#### 1. Reduction of statutory reserve included in capital surplus

##### (1) Purpose

To appropriate the proceeds from the reduction of the statutory reserve to purchase the Company's preferred shares issued in March 2003.

##### (2) Procedure

Pursuant to the provisions of Article 448-1 of the Corporation Law, the Company will reduce the Company's outstanding statutory reserve included in capital surplus in the amount of ¥10,802,953,653 in the full amount. When the reduction of the statutory reserve comes into force, the balance of statutory reserve included in capital surplus will become zero.

The entire amount of statutory reserve reduced will be reclassified as "Remaining Portion of Capital Surplus."

##### (3) Schedule

- 1) Approval date at the meeting of the Board of Directors: April 17, 2006
- 2) Resolution at the General Meeting of Shareholders: June 29, 2006
- 3) Expiration of the objection period for creditors: July 31, 2006
- 4) Effective date of the reduction of statutory reserve included in capital surplus: August 1, 2006

#### 2. Purchase of preferred shares for retirement purpose

##### (1) Reason

The conversion price of each of the Company's preferred shares to an ordinary share of common stock is determined at the start of the conversion period. Therefore, the number of common shares to be issued on conversion of the preferred shares cannot be confirmed beforehand. In addition, as dividends on preferred shares are linked to interest rates, the Company's future dividend payments will depend on interest rate fluctuations. The proposed purchase and retirement of treasury shares have the effect of eliminating the aforementioned uncertainties, contributing to enhancing the Company's flexibility in planning and implementing its capital policies.

**(2) Details of preferred share purchase**

## 1) Number of shares to be purchased

Class I preferred stock	20,000,000 shares
Class II preferred stock	25,000,000 shares
Class III preferred stock	30,000,000 shares

The total number of shares to be purchased is equivalent to 100% of the aggregate number of outstanding shares of Class I through III preferred stocks.

## 2) Payment of money in exchange for purchased preferred shares, and total amounts

Class I preferred stock	Pay money in the total amount of ¥4 billion in exchange for preferred shares.
Class II preferred stock	Pay money in the total amount of ¥5 billion in exchange for preferred shares.
Class III preferred stock	Pay money in the total amount of ¥6 billion in exchange for preferred shares.
Grand total	¥15 billion

## 3) Preferred share purchase period

From the effective date of the reduction of statutory reserve included in capital surplus to be proposed at the 124th Regular General Meeting of Shareholders scheduled in June 2006, until the conclusion of the Regular General Meeting of Shareholders scheduled in June 2007. (Note: The items specified above are subject to a resolution at the Company's 124th Regular General Meeting of Shareholders scheduled in June 2006 approving the proposed "reduction of statutory reserve included in capital surplus.")

**3. Issuance of Fifth Round of Moving Strike Convertible Bonds (MSCB)****(1) Purpose**

To raise funds to purchase the Company's preferred shares issued in March 2003 and improve the quality of shareholders' equity.

**(2) Name of bond**

Nippon Yakin Kogyo Co., Ltd. Fifth Round of Moving Strike Convertible Bonds (MSCB)

**(3) Issue price**

¥100 per par value of ¥100

**(4) Value of bond certificate**

¥100 million (one type)

**(5) Total issue price**

¥9 billion

**(6) Method of invitation for subscription**

Through private placements, the Company will allot ¥5.5 billion to Mizuho Securities Co., Ltd. and ¥3.5 billion to Mitsubishi UFJ Securities Co., Ltd.

**(7) Payment date and issue date**

May 8, 2006 (Mon)

**(8) Interest**

No interest shall accrue on this bond.

**(9) Redemption date**

May 8, 2008 (Thu)

Once the conversion price (after correction in line with the following paragraph) becomes ¥308.5, the holder of this MSCB may request early redemption of all or part of his/her/their bond holding at ¥100 per par

value of ¥100 upon notification to the Company by no later than two weeks before the redemption date.

**(10) Matters relating to share warrant**

## 1) Total number of share warrants

Each bond will be issued with one share warrant, and a total of 90 share warrants will be issued.

## 2) Conversion price

The conversion price will be set at ¥617 initially.

After the issue, the conversion price of this MSCB will be corrected on or after the day immediately following the fourth Friday of each month (hereinafter referred to as "price determination day") to an amount (obtained by calculating to two decimal places and then rounding off the second decimal place) corresponding to 92% of the average closing price (including quotation) at the Tokyo Stock Exchange over five consecutive trading days through (including) the price determination day (excluding any trading day on which no transactions are made; or five consecutive trading days immediately preceding the price determination day if the price determination day is not a trading day).

## 3) Recapitalization of issue price of new common share

The recapitalization amount per share of the Company's common stock when shares are issued upon exercise of this share subscription warrant shall be the issue price of the applicable share, multiplied by 0.5. If the calculation result has fractions below one yen, the fractions shall be rounded up to the nearest yen.

## 4) Exercise period

May 9, 2006 through May 7, 2008

**4. Registration for the issue of Moving Strike Convertible Bonds (MSCB)****(1) Purpose**

To register a group of MSCB in preparation for fund procurement to purchase the Company's preferred shares issued in March 2003. The actual timing of share issue will be determined by the Company in consideration of, among others, the state of conversion of Fifth Round of MSCB, whose issue was approved at the meeting of the Board of Directors held on April 17, 2006. This way, timely and flexible fund procurement will become possible that reflects the market environment as well as the financial strategies and capital policies of the Company.

**(2) Procedure**

## 1) Type of bond offered for subscription

MSCB

## 2) Scheduled issue period

From the effective date of the shelf registration until the end of a one-year period thereafter (April 25, 2006 through April 24, 2007)

## 3) Scheduled issue price

¥6 billion (maximum limit)

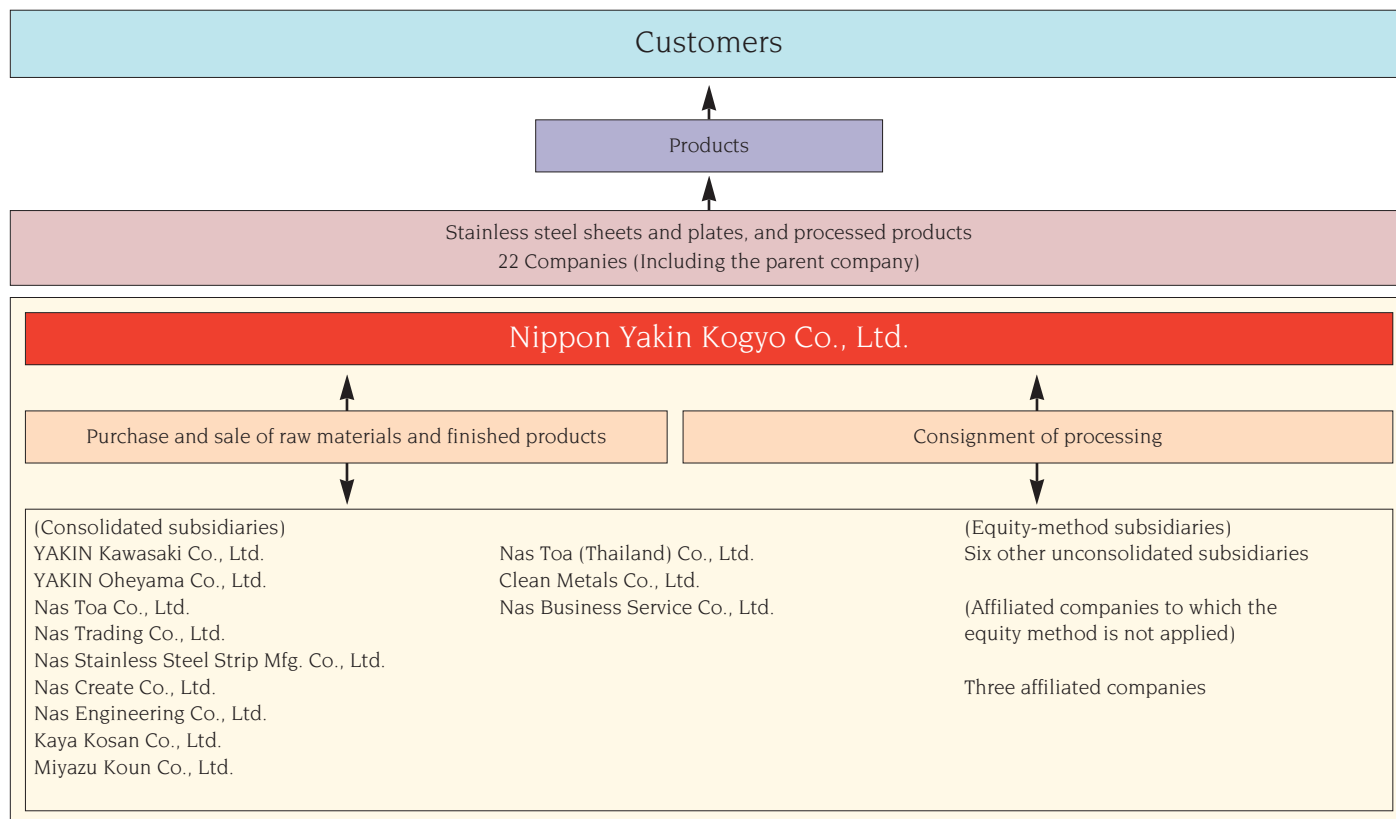
## 4) Purpose of proceeds

The proceeds will be combined with the proceeds from Fifth Round of MSCB, whose issue was approved at the meeting of the Board of Directors held on April 17, 2006, to be used as funds to purchase and retire the entire shares of the Company's preferred shares issued in March 2003. However, this is subject to a resolution at the Company's 124th Regular General Meeting of Shareholders scheduled in June 2006 approving the proposed "purchase of said preferred shares."

## 5) Method of invitation for subscription

Through private placements, the maximum of ¥6 billion will be allotted to Mizuho Securities Co., Ltd. A basic agreement will be concluded between the Company and the underwriter, i.e. Mizuho Securities.

## 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  
Akio Nonaka  
Shizuho Kanazawa

#### Directors

Eihan Konishi  
Michio Morooka  
Kuniaki Osada

#### Standing Corporate Auditors

Nagakazu Masuda  
Hideyuki Sakakibara

#### Corporate Auditors

Takeo Nakao  
Takashi Okada

(as of June 29, 2006)

### Corporate Data

**Established in**  
August 1925

#### Main Lines of Business

Production & Sale 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, Nagoya, Kyushu, Hiroshima,  
Niigata

#### Manufacturing subsidiaries

YAKIN Kawasaki Co., Ltd.  
YAKIN Oheyama Co., Ltd.

#### Singapore Office

Nippon Yakin Kogyo Co., Ltd.  
Singapore Office  
1 Shenton Way #16-08, Robina House,  
Singapore 0106, Republic of Singapore  
Phone: +65-6223-9233  
Facsimile: +65-6225-8659

#### Hong Kong Office

Nippon Yakin Kogyo Co., Ltd.  
Hong Kong Office  
Unit D-2, 13th Fl., United Center,  
95 Queensway, Hong Kong  
Phone: +852-2520-0818  
Facsimile: +852-2520-0889

#### Shanghai Office

Nippon Yakin Kogyo Co., Ltd.  
Shanghai Office  
916 Lippo Plaza 222,  
Huai Hai Zhong Road,  
Shanghai, China, 200021  
Phone: +86-21-5396-5940  
Facsimile: +86-21-5396-5941

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

**Registered Office**

Sanei Bldg.,

5-8, Kyobashi 1-chome, Chuo-ku, Tokyo 104-8365, Japan

URL: <http://www.nyk.co.jp/>

**Main Office**

4-2, Kojimacho, Kawasaki-ku, Kawasaki, Japan

Phone: +81-44-271-3007

Facsimile: +81-44-271-3055