Annual Report 2007

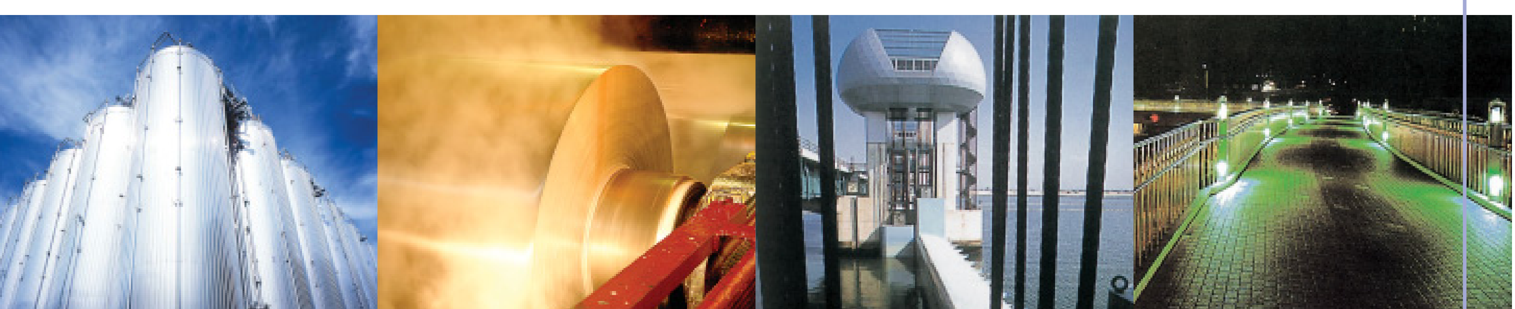
NIPPON YAKIN KOGYO CO., LTD.

Profile

Nippon Yakin Kogyo was established in 1925.

Since the commercialization of 18-8 stainless steel (SUS 304) in 1935, the company has continued to endeavor to research ways of manufacturing high-value stainless steels and nickel alloys from nickel ore. Over the years, the company has systematically developed efficient technologies and integrated production facilities under a comprehensive quality assurance system. The company's products have earned a solid reputation, and its services produce true added value for our customers' businesses.

Nippon Yakin Kogyo, as the leading stainless steel manufacturer in Japan, is now expanding confidently to concentrate on the core businesses area of manufacturing high-performance alloys for new applications together with conventional stainless steels, and is determined to become a "new specialty stainless steel manufacturer," applying the integrated production technologies we have acquired through years of stainless steel manufacturing.



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Note: Amounts stated in U.S. dollars have been converted at ¥118.05 per U.S.1.00 dollar, the rate prevailing as of March 30, 2007.

Nippon Yakin Kogyo Co., Ltd. and its consolidated subsidiaries

Financial Highlights

Five years ended March 31

Consolidated Data	2003	2004	2005	2006	**2007**
<Millions of yen>					
Net sales	¥134,017	121,454	158,144	148,987	**194,940**
Ordinary income	360	5,648	17,216	10,730	**23,913**
Net income (loss)	(42,547)	4,269	22,551	5,980	**15,284**
Net assets	2,730	7,287	34,154	39,630	**55,136**
Total assets	150,994	157,161	167,880	163,427	**196,005**
<Yen>					
Net assets per share	¥(147.72)	(92.64)	207.23	266.49	**440.26**
Net income (loss) per share	(512.10)	51.33	255.81	62.43	**139.40**
Diluted earnings per share	—	10.79	175.28	50.16	**—**
<%>					
Shareholders' equity ratio	1.8	4.6	20.3	24.2	**27.8**
Return on equity	—	85.2	108.8	16.2	**32.5**
Price earnings ratio	—	6.88	2.18	8.41	**7.83**
<Millions of yen>					
Cash flows from operating activities	¥ 4,104	3,656	13,433	13,689	**5,549**
Cash flows from investing activities	(1,951)	1,918	(2,460)	(4,564)	**(4,538)**
Cash flows from financing activities	(9,925)	(5,118)	(7,744)	(10,546)	**1,048**
Cash and cash equivalents at the term end	¥ 4,229	4,688	7,910	6,538	**8,721**
Number of employees	2,165	2,115	2,115	2,139	**2,198**

Non-Consolidated Data	2003	2004	2005	2006	**2007**
<Millions of yen>					
Net sales	¥ 77,344	86,886	120,227	112,179	**155,242**
Ordinary income	483	4,569	14,336	9,363	**19,352**
Net income (loss)	(49,786)	4,667	16,185	5,706	**11,335**
Paid-in capital	12,736	12,736	14,743	14,743	**22,251**
Net assets	7,709	12,815	33,277	38,270	**49,039**
Total assets	120,185	114,059	125,774	126,329	**159,220**
<Thousands of shares>					
Total number of shares outstanding	158,330	158,330	166,519	166,519	**123,973**
<Yen>					
Net assets per share	¥ (87.55)	(26.24)	197.65	251.61	**396.05**
Cash dividend per share					
Ordinary shares	—	—	5.000	5.000	**8.000**
Preferred shares					
Type1	—	—	2.228	2.236	**—**
Type2	—	—	2.728	2.736	**—**
Type3	—	—	3.228	3.236	**—**
Including interim dividend	(—)	(—)	(—)	(—)	**(—)**
Net income (loss) per share	(597.68)	56.05	182.91	59.44	**103.38**
Diluted earnings per share	—	11.79	125.79	47.84	**—**
<%>					
Shareholders' equity ratio	6.4	11.2	26.5	30.3	**30.8**
Return on equity	—	45.5	70.2	16.0	**26.0**
Price earnings ratio	—	6.30	3.04	8.83	**10.55**
Payout Ratio	—	—	2.7	8.4	**7.7**
Number of employees	895	134	137	155	**159**

Notes:
1. The figures for net sales do not include consumption tax.
2. 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.
3. The amount of diluted earnings per share is not shown for the year ended March 31, 2003 because of a net loss per share.
4. 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.
5. The amount of diluted earnings per share is not shown for the term under review because there are no potential common shares.
6. Effective from the period under review, we have applied Business Accounting Standard No. 5 for reporting net assets in the balance sheets, issued by the Accounting Standards Board of Japan on September 9, 2005, and Guidelines on Implementation of Business Accounting Standard No. 8 for reporting net assets in the balance sheets, issued by the Accounting Standards Board of Japan on December 9, 2005.

Yoichi Saji
President

Dear shareholders,

First, I would like to thank our shareholders for their support over the past year.

I take this opportunity to present the annual report for our 125th business year, from April 1, 2006 to March 31, 2007.

During the term under review, the Japanese economy maintained its moderate recovery momentum, driven by strong exports on the back of expansion in the global economy and increased capital investment supported by further steady improvement in corporate earnings at Japanese companies.

Trading activity in the specialty steel and stainless steel industries in Japan as well as overseas markets has showed complete contrast to the inventory adjustment phase of the previous term, with further impetus coming from tightened supply against a backdrop of economic buoyancy in Japan, burgeoning growth momentum in Asian economies, the tightness of supply/demand balance in European continent, and overall resulting in substantially improved market transactions caused by raw materials prices marking historical record of all-time.

Meanwhile, unprecedented rises in the prices for nickel, chrome and molybdenum, base materials for the specialty steel and stainless steel, are underscoring the need for systematic action to establish a material-price linked-pricing policy, consequently prices of our products reflect fluctuation in raw material prices.

The Group's 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 growing earnings through business restructuring, to place more emphasis on high-performance alloys, and bolstering the financial position mainly through improvement of the equity ratio.

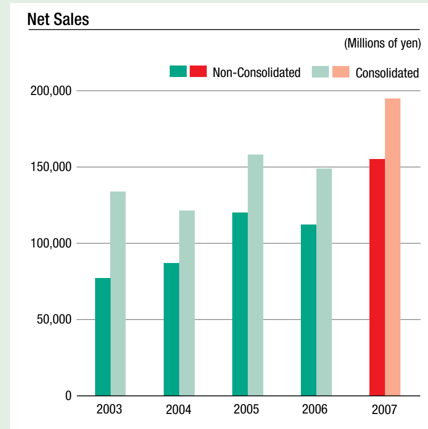
As a result of the foregoing, ordinary income in the term under review came in at ¥23,913 million (US$202,567 thousand), significantly higher than the previous period, and net income more than doubled to ¥15,284 million (US$129,471 thousand).

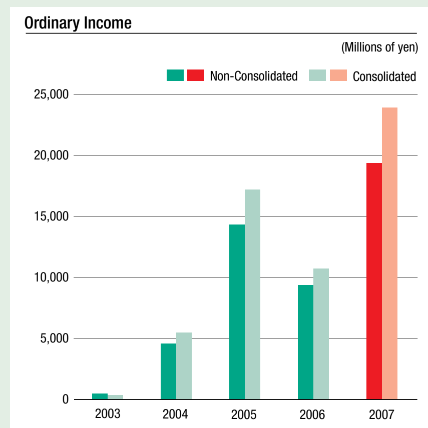
In light of this earnings performance, we paid an end-of-year cash dividend of ¥8 (US$0.068) per ordinary share. We also cancelled all of our Class I and Class II preferred stock in September 2006, and all Class III preferred shares in February 2007. This measure has substantially improved our capital structure and strengthened our financial position, leading to enhanced enterprise value.

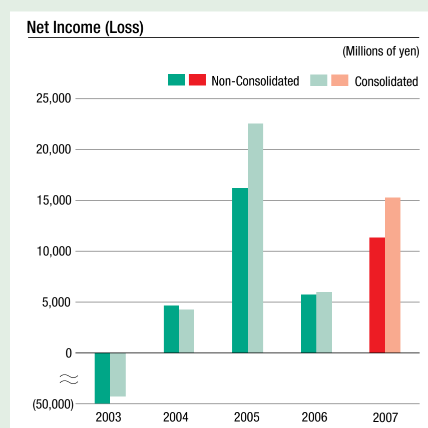
In the specialty steel and stainless steel industries, new disturb arose in the market as excess supply resulting from the addition of new mills in the Asian region combined with a surge in raw material prices which could drive a shift to inexpensive steel types and substitute materials. Nonetheless, we are convinced that we can build a firm operating foundation and further increase enterprise value as a key player in specialty steel and stainless steel market by further upgrading our high-performance alloys and reaching our targets by the end of the final year of the medium-term management plan.

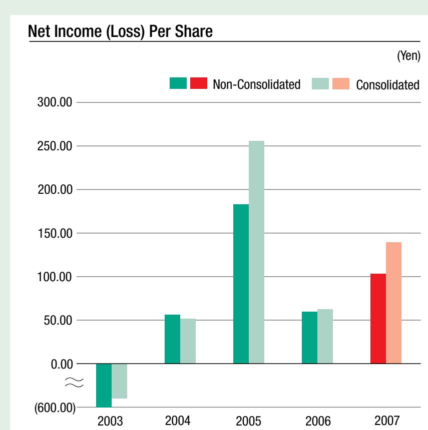
I trust we can count on the continuing support and cooperation of all our shareholders in these endeavors.

Yoichi Saji
President









Corporate Governance

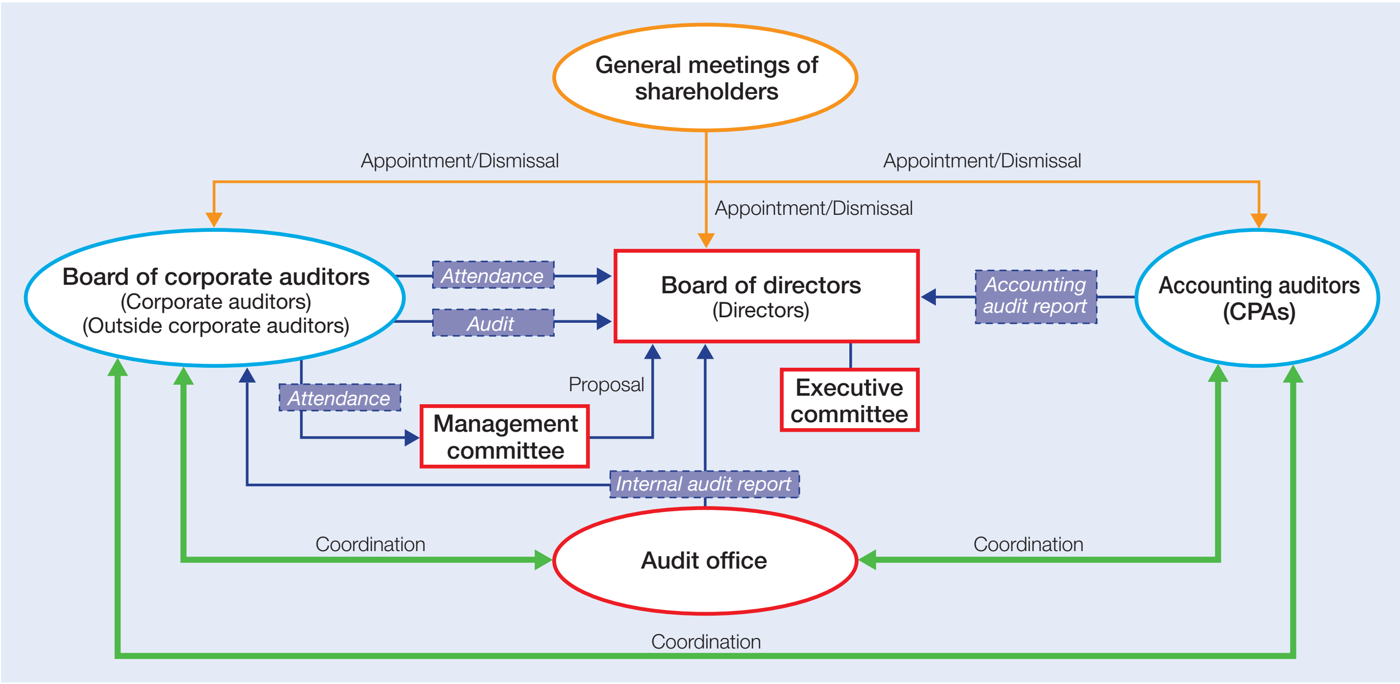
It is a top management priority for the Company to enhance its corporate governance framework by disclosing business information in a timely, appropriate fashion and enforcing rigorous compliance, thereby ensuring the soundness and trustworthiness of its management.

Our Board of Directors has 12 members, positioning it to promptly address change in our 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 who organize 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 under the Corporation Law). 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 general affairs. This committee was established to discuss, draft and promote major policies for instilling a code of conduct based on corporate ethics and legal compliance.

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's 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's 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's to win certification under the international ISO14001 environmental management standard. We aim to creatively contribute to social infrastructure through environment-friendly manufacturing and development activities.

Another subsidiary, Yakin Oheyama, is a Ferronickel manufacturer 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's 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.

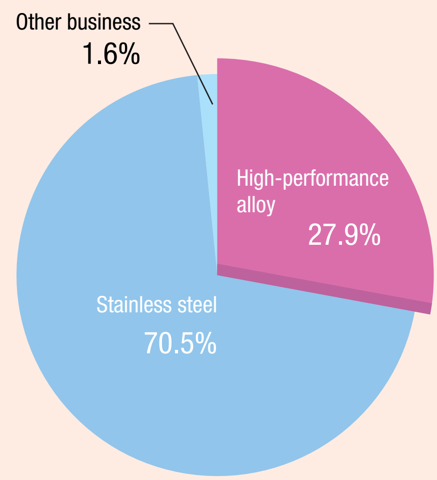
The all-purpose high-performance alloys and stainless steels of Nippon Yakin Kogyo are manufactured by an integrated production system.

The company has systematized state-of-the art technologies and integrated production facilities, developed over many years and backed by a comprehensive quality assurance system, enabling it to offer recognized NAS nickel based stainless steels and nickel based high-alloys products to the customers.

The broad range of high-quality materials is confidence level to meet various requirements in terms of corrosion resistance, heat resistance, weather resistance, acid resistance, high strength, and formability. All these products have earned solid reputations and services produce the true added value for our customers' business.

Net Sales Breakdown (Year ended March 2007)

(Non-Consolidated)

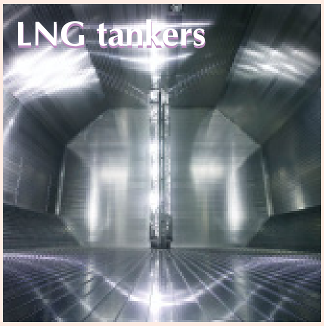


Against the background of the worldwide movement to conserve energy and to improve environmental impact, the airplane makers are focusing their efforts on developing new, lighter aircraft models that are more fuel-efficient.

To make airplane bodies lighter, the manufacturers are turning to body parts made from carbon fiber-reinforced plastics (CFRP), and as a result, demand is rising for Nippon Yakin's NAS36 invar (nickel alloy) for use in manufacturing the molds required for the calcination of CFRP.

Our NAS36 invar alloy has a coefficient of thermal expansion that is only one-tenth that of steel and close to the coefficients of plastics or carbon fibers. Thus, the field of application of invar for the precision molding of CFRP is rising at a very steep pace.

With thirty years experience in the manufacture of invar, the know-how and leading-edge technology possessed by Nippon Yakin is highly evaluated in all quarters.



Natural gas is transported from the producing countries to consumer countries in liquid form, known as liquefied natural gas, or LNG. LNG tankers are thus essential to the energy industry. To liquefy natural gas and maintain it in the liquid state, it must be cooled to approximately minus 162 degrees Celsius. This means that LNG tankers require a highly specialized structure to accommodate and maintain such cryogenic temperatures, and stringent safety measures must be in place to prevent the gasification of even a minute portion of the LNG.

Nippon Yakin has developed the NAS36LG invar alloy for the internal walls of box-shaped membrane-type LNG tanks. NAS36LG boasts an extremely small coefficient of thermal expansion, which enables it to withstand the considerable changes in temperature that a tanker will undergo on the average voyage.

Our NAS36LG invar alloy thus plays a very significant role in enabling the safe marine transportation of LNG.

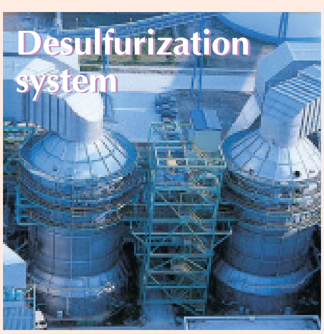
Safety regulations covering household electric appliances have recently become increasingly strict, and as a result, demand has been rising strongly from appliance makers for Nippon Yakin's bimetal products for use in their thermostats. (Thermostats make use of bimetal strips, which consist of two metals with different coefficients of thermal expansion, bonded together.)

Nippon Yakin's bimetal products are becoming widely used in various consumer electric and electronic products, including fan heaters, refrigerators, fire alarms, and so on.

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., while remaining invisible 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 compact 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.



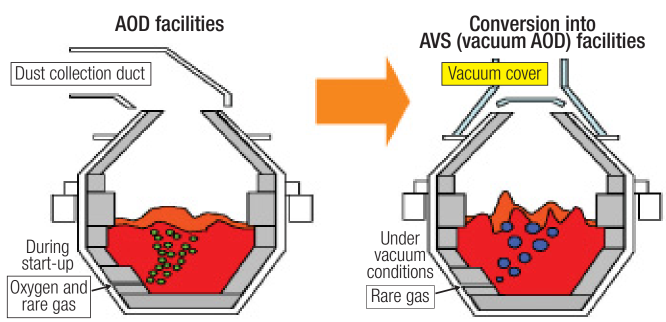
The desulfurization unit auxiliary facilities of thermal power plants are designed to prevent air pollution.

The flue gas desulfurization unit is the current state-of-the art technology used for removing chloride and sulfur dioxide from the exhaust flue gases in power plants that burn coal or oil to produce steam for the steam turbines that drive their electricity generators.

Chloride and sulfur dioxide are responsible for acid-rain formation. Tall flue gas stacks disperse the emissions by diluting the pollutants in ambient air and transporting them to other regions.

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

New Capital Investment



To increase sales of high-performance alloys, an ongoing expansion facility for argon oxygen decarburation (AOD) with Vacuum System for Nickel Alloys at the mill within the Yakin Kawasaki plant, with operations scheduled to launch in January 2008.

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

Financial Review

(1) Business Results

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

During the term under review, demand from manufacturers of industrial and construction equipment was firm, and a further boost came from tight supply conditions overall in Japanese markets and overseas markets throughout the term, due to anticipation of further rises in raw-material prices.

Sales volumes for high-performance alloys and products, a strategic priority for the Group's, to manufacturers of electronic materials were flat year-on-year. On the other hand in other businesses, we began to reap the benefits of earlier efforts, as business negotiations picked up for applications for energy and environmental system manufacturers, a new focus, and selling volumes increased for heat-resistant and corrosion-resistant steels. In addition, we were managed to translate on the cost of rising raw materials prices to the end-user.

As a result of the foregoing, net sales in the term under review rose 30.8% to ¥194,940 million (US$1,651,334 thousand) on a consolidated basis. Sales in Japan accounted for ¥157,563 million of this total, up 27.3% year-on-year, and export sales totaled ¥37,376 million, up 48.5%.

Sales on a non-consolidated basis came in at ¥155,242 million (US$1,315,053 thousand). Ordinary income was ¥19,352 million (US$163,931 thousand) and net income for the term totaled ¥11,335 million (US$96,019 thousand).

(2) Issues Facing the Company

We expect the Japanese economy to show further moderate recovery, supported by strong corporate earnings.

In the specialty steel and stainless steel industries, we expect demand to continue to be supported by strong economic conditions. However, newly built stainless steel mills in the Asian region – long a source of concern – have launched operations generally on schedule, with China in particular showing a striking increase in production volumes. Due to favorable demand and supply conditions, we saw no sign of any major shortfall in production during the term under review, but we believe it necessary to watch out for possible problems with regard to overproduction in the Asian region in the specialty steel and stainless steel industries.

There are two other new concerns. As discussed above, unprecedented rises in prices for nickel, chrome and molybdenum, base materials for the specialty steel and stainless steel, are highlighting the need for systematic action to establish a material-price linked-pricing policy, so prices of our products reflect changes in raw material prices. At the same time, excessively high raw material prices are also driving a shift to substitute materials and inexpensive steel types.

Against this background, the Group's has embarked on the last year of its three-year medium-term management plan. We are making steady progress toward our targets of restructuring our businesses while further upgrading the quality and range of our high-performance alloys products. We are also taking measures to bring selling prices more in line with future trends in raw materials prices, and to further cut costs.

○ Defensive Measures against Major Purchases of Company Shares

At a meeting of the Board of Directors held on April 27, 2007, it was decided to introduce a set of defensive measures against major purchases of Company shares (the “defense measures”). The approved measures went into effect the same day. At the 125th regular general meeting of shareholders held on June 27, 2007, a large majority of shareholders approved a proposal for introduction of the defense measures, including amendment of our articles of incorporation to include new provisions enabling the general meeting of shareholders to approve introduction of the defense measures. The proposal was adopted as per original draft. I would like to sincerely thank all our shareholders for their support in this matter.

More details concerning these defense measures can be found at our website (http://www.nyk.co.jp).

(3) Capital Investment

Capital investment by the Group’s during the term under review totaled ¥4,157 million (US$35,214 thousand), with outlays going into priority measures to strengthen production capacity at bottleneck points. The investments have positioned us to upgrade obsolete facilities to stabilize operations and combat environmental pollution, and to expand marketing of high-performance alloys.

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 Nickel Alloys, using the scrap-and-build method, inside the steel mill at the plant of a group company, Yakin Kawasaki, with operations scheduled to begin in January 2008.

We have also launched a project to reconfigure our core computer systems, with full operation slated for January 2009.

(4) Fund Procurement

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

In May and November 2006, the Company issued Moving Strike Convertible Bonds (MSCB) in the amount of ¥15 billion. Net proceeds were appropriated to repurchase and cancellation of preferred shares issued in March 2003 in the amount of ¥15 billion.

Consolidated Balance Sheets

	2006			2007		
As of March 31, 2006 and 2007		Amount (¥ million)	Percentage (%)		**Amount (¥ million)**	**Percentage (%)**
Assets						
I. Current assets						
1. Cash and deposits		6,586			**8,789**	
2. Notes and accounts receivable *3 ,*5 and *6		29,327			**43,519**	
3. Marketable securities		70			**70**	
4. Inventories		35,955			**50,859**	
5. Deferred tax assets		1,384			**2,162**	
6. Other current assets		1,307			**1,271**	
Allowance for doubtful receivables		(749)			**(826)**	
Total current assets		73,880	45.2		**105,845**	**54.0**
II. Fixed assets						
(1) Tangible fixed assets						
1. Buildings and structures *3	44,617			**45,187**		
Accumulated depreciation	30,031	14,586		**30,574**	**14,612**	
2. Machinery, equipment and vehicles *3	130,931			**132,685**		
Accumulated depreciation	107,414	23,516		**109,363**	**23,322**	
3. Land *2 and *3		41,912			**41,886**	
4. Construction in progress		558			**816**	
5. Other tangible fixed assets	6,787			**6,532**		
Accumulated depreciation	5,809	978		**5,719**	**813**	
Total tangible fixed assets		81,551	49.9		**81,448**	**41.6**
(2) Intangible assets						
1. Consolidated adjustment		33			—	
2. Other intangible assets		576			**419**	
Total intangible assets		609	0.4		**419**	**0.2**
(3) Investments and other assets						
1. Investment securities *1 and *3		5,634			**6,366**	
2. Deferred tax assets		807			**920**	
3. Other investments and other assets		1,947			**1,828**	
Allowance for doubtful receivables		(1,002)			**(822)**	
Total investments and other assets		7,387	4.5		**8,292**	**4.2**
Total fixed assets		89,546	54.8		**90,159**	**46.0**
Total assets		163,427	100.0		**196,005**	**100.0**

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

	2006 Amount (¥ million)	2006 Percentage (%)	**2007 Amount (¥ million)**	**2007 Percentage (%)**
Liabilities				
I. Current liabilities				
1. Notes and accounts payable *6	19,592		**29,016**	
2. Short-term debt *3	46,190		**34,759**	
3. Current portion of long-term debt *3	3,967		**4,198**	
4. Accrued income taxes	2,169		**8,708**	
5. Accrued consumption taxes	85		**704**	
6. Reserve for employees' bonuses	1,448		**1,691**	
7. Reserve for directors' bonuses	—		**114**	
8. Other current liabilities	4,937		**4,439**	
Total current liabilities	78,388	48.0	**83,630**	**42.7**
II. Long-term liabilities				
1. Corporate bonds	220		**220**	
2. Long-term debt *3	20,879		**33,817**	
3. Deferred tax liabilities	10,318		**9,183**	
4. Deferred tax liabilities on land revaluation *2	2,687		**2,687**	
5. Reserve for employees' retirement benefits	10,621		**10,461**	
6. Reserve for directors' retirement benefits	—		**713**	
7. Other long-term liabilities	170		**158**	
Total long-term liabilities	44,895	27.5	**57,239**	**29.2**
Total liabilities	123,283	75.5	**140,869**	**71.9**
Minority interests				
Minority interests	514	0.3	—	—
Shareholders' equity				
I. Capital stock	14,743	9.0	—	—
II. Capital surplus	10,803	6.6	—	—
III. Retained earnings	9,149	5.6	—	—
IV. Difference on land revaluation *2	3,048	1.9	—	—
V. Unrealized gain on available-for-sale securities	1,869	1.1	—	—
VI. Foreign exchange translation adjustment	48	0.0	—	—
VII. Treasury stock	(29)	(0.0)	—	—
Total shareholders' equity	39,630	24.2	—	—
Total liabilities, minority interests, and shareholders' equity	163,427	100.0	—	—
Net assets				
I. Equity				
1. Common stock	—	—	**22,251**	**11.4**
2. Capital surplus	—	—	**7,492**	**3.8**
3. Retained earnings	—	—	**19,440**	**9.9**
4. Treasury stock	—	—	**(49)**	**(0.0)**
Total Equity	—	—	**49,133**	**25.1**
II. Valuation and translation adjustments				
1. Unrealized gain on available-for-sale securities	—	—	**1,800**	**0.9**
2. Net deferred losses on hedges	—	—	**283**	**0.1**
3. Land revaluation reserve	—	—	**3,114**	**1.6**
4. Foreign currency translation adjustments	—	—	**183**	**0.1**
Total valuation and translation adjustments	—	—	**5,380**	**2.7**
III. Minority interests	—	—	**623**	**0.3**
Total net assets	—	—	**55,136**	**28.1**
Total liabilities and net assets	—	—	**196,005**	**100.0**

Consolidated Statements of Income

Terms ended March 31, 2006 and 2007	2006 Amount (¥ million)		2006 Percentage (%)	**2007 Amount (¥ million)**		**2007 Percentage (%)**
I. Sales		148,987	100.0		**194,940**	**100.0**
II. Cost of sales *2		122,876	82.5		**153,561**	**78.8**
Gross profit		26,111	17.5		**41,379**	**21.2**
III. Selling, general and administrative expenses *1 and *2		12,811	8.6		**14,536**	**7.4**
Operating income		13,300	8.9		**26,842**	**13.8**
IV. Non-operating income						
1. Interest income	36			**44**		
2. Dividend income	50			**67**		
3. Rent	34			**34**		
4. Other non-operating income	88	208	0.1	**118**	**264**	**0.1**
V. Non-operating expenses						
1. Interest paid	1,862			**1,455**		
2. Expenses for syndicated loan organization	98			**83**		
3. Exchange loss	336			**1,080**		
4. Other non-operating expenses	483	2,779	1.8	**576**	**3,194**	**1.6**
Ordinary income		10,730	7.2		**23,913**	**12.3**
VI. Extraordinary profits						
1. Amendment to prior income statement	281			**10**		
2. Gain on sales of fixed assets *3	3			**580**		
3. Gain on sale of investment securities	0			**58**		
4. Reversal of allowance for doubtful receivables	53			**2**		
5. Other extraordinary profits	38	375	0.2	**1**	**651**	**0.3**
VII. Extraordinary losses						
1. Loss on disposal of tangible fixed assets	330			**328**		
2. Loss on sale of tangible fixed assets *4	6			**9**		
3. Valuation loss on investment securities	30			**5**		
4. Provision for doubtful receivables	—			**334**		
5. Loss on impairment of fixed assets	921			**33**		
6. Provision to directors' retirement benefits	—			**529**		
7. Other extraordinary losses	256	1,543	1.0	**54**	**1,292**	**0.7**
Income before income taxes and minority interests		9,562	6.4		**23,271**	**11.9**
Income taxes (corporate tax, residential tax and enterprise tax)	3,225			**10,035**		
Income tax adjustment	282	3,507	2.4	**(2,162)**	**7,873**	**4.0**
Minority interest-income		75	0.0		**114**	**0.1**
Net income		5,980	4.0		**15,284**	**7.8**

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

Nippon Yakin Kogyo Co., Ltd. and its consolidated subsidiaries

Consolidated Statement of Shareholders' Equity

Term ended March 31, 2006	2006 Amount (¥ million)	
Capital surplus		
I. Capital surplus at beginning of term		10,803
II. Capital surplus at end of term		10,803
Retained earnings		
I. Deficit at beginning of term		5,220
II. Increase in retained earnings		
1. Reversal of difference on land revaluation	(1,384)	
2. Net income	5,980	4,596
III. Decrease in retained earnings		
Cash dividends	667	667
IV. Retained earnings at end of term		9,149

Nippon Yakin Kogyo Co., Ltd. and its consolidated subsidiaries

Consolidated Statement of Changes in Equity

Term ended March 31, 2007	2007 Equity (¥ million) Common stock	Capital surplus	Retained earnings	Treasury stock	Total equity
Balance at March 31, 2006	14,743	10,803	9,149	(29)	34,665
Net changes in the term					
Share issuance	**7,508**	**7,492**	**—**	**—**	**15,000**
Cash dividends	**—**	**—**	**(667)**	**—**	**(667)**
Directors' bonuses	**—**	**—**	**(63)**	**—**	**(63)**
Net income	**—**	**—**	**15,284**	**—**	**15,284**
Purchase of Treasury stock	**—**	**—**	**—**	**(15,020)**	**(15,020)**
Acquisition of Treasury stock	**—**	**(10,803)**	**(4,197)**	**15,000**	**—**
Disposal of Treasury stock	**—**	**(0)**	**—**	**0**	**0**
Reversal of land revaluation reserve	**—**	**—**	**(66)**	**—**	**(66)**
Changes outside scope of equity — net	**—**	**—**	**—**	**—**	**—**
Total net changes in the term	**7,508**	**(3,311)**	**10,290**	**(20)**	**14,468**
Balance at March 31, 2007	**22,251**	**7,492**	**19,440**	**(49)**	**49,133**

	2007 Valuation and translation adjustments (¥ million)						
	Unrealized gain on available-for-sale securities	Net deferred losses on hedges	Land revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests (¥ million)	Total net assets (¥ million)
Balance at March 31, 2006	1,869	—	3,048	48	4,964	514	40,144
Net changes in the term							
Share issuance	**—**	**—**	**—**	**—**	**—**	**—**	**15,000**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(667)**
Directors' bonuses	**—**	**—**	**—**	**—**	**—**	**—**	**(63)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**15,284**
Purchase of Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(15,020)**
Acquisition of Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Disposal of Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Reversal of land revaluation reserve	**—**	**—**	**66**	**—**	**66**	**—**	**—**
Changes outside scope of equity — net	**(69)**	**283**	**—**	**135**	**349**	**109**	**458**
Total net changes in the term	**(69)**	**283**	**66**	**135**	**416**	**109**	**14,992**
Balance at March 31, 2007	**1,800**	**283**	**3,114**	**183**	**5,380**	**623**	**55,136**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Terms ended March 31, 2006 and 2007	2006 Amount (¥ million)	**2007 Amount (¥ million)**
I. Cash flows from operating activities		
Income before income taxes and minority interests	9,562	**23,271**
Depreciation and amortization	4,120	**4,164**
Loss on impairment of fixed assets	921	**33**
Amortization of consolidation adjustment	39	**—**
Amortization of goodwill	—	**33**
Decrease in allowance for doubtful receivables	(155)	**(103)**
Increase in reserve for employees' bonuses	224	**244**
Increase in reserve for directors' bonuses	—	**114**
Decrease in reserve for employees' retirement benefits	(305)	**(160)**
Increase in reserve for directors' retirement benefits	—	**713**
Gain on amendment to prior year income statement	(281)	**—**
Interest and dividends received	(86)	**(111)**
Interest expense	1,862	**1,455**
Gain on sale of investment securities	(0)	**(58)**
Loss on valuation of investment securities	30	**5**
(Gain) loss on sale of tangible fixed assets	2	**(571)**
Loss of disposal of tangible fixed assets	263	**305**
(Increase) decrease in trade notes receivable	6,169	**(14,192)**
(Increase) decrease in inventories	(2,090)	**(14,904)**
Increase (decrease) in trade accounts payable	142	**9,424**
Increase (decrease) in accrued consumption taxes	(547)	**619**
Extraordinary retirement allowance	—	**(63)**
Other	(7)	**281**
Subtotal	19,864	**10,499**
Interest and dividends received	86	**111**
Interest paid	(1,969)	**(1,449)**
Surcharge payment under the Antimonopoly Act	(1,108)	**—**
Income taxes paid	(3,185)	**(3,612)**
Net cash provided by operating activities	13,689	**5,549**
II. Cash flows from investing activities		
Expenditures for deposits in time deposits	(34)	**(21)**
Proceeds from maturity of time deposits	44	**1**
Purchases of noncurrent assets	(4,427)	**(4,350)**
Proceeds from sale of noncurrent assets	30	**733**
Purchases of investment securities	(234)	**(897)**
Proceeds from sale of investment securities	0	**101**
Other	58	**(106)**
Net cash used in investing activities	(4,564)	**(4,538)**
III. Cash flows from financing activities		
Net decrease in short-term debt	(6,184)	**(11,430)**
Proceeds from long-term debt	489	**17,274**
Repayment of long-term debt	(4,181)	**(4,105)**
Proceeds from issuance of Moving Strike Convertible Bonds (MSCB)	—	**15,000**
Payment for purchase of treasury stock	—	**(15,020)**
Payment of cash dividends	(662)	**(664)**
Cash dividends paid to minority shareholders	(7)	**(8)**
Other	(1)	**0**
Net cash provided by (used in) financing activities	(10,546)	**1,048**
IV. Foreign currency translation adjustment of cash and cash equivalents	48	**124**
V. Net increase (decrease) in cash and cash equivalents	(1,372)	**2,183**
VI. Cash and cash equivalents at the beginning of the term	7,910	**6,538**
VII. Balance of cash and cash equivalents at the end of the term	6,538	**8,721**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Term ended March 31, 2007 (April 1, 2006 to March 31, 2007)

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 net assets 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) *Reserve for directors' bonuses*

Provision is made mainly for the payments of bonuses to directors and corporate auditors in the estimated amount deemed necessary at the term-end.

(Changes in Accounting Policy)

Effective from the year ended March 31, 2007, the Company has applied the Accounting Standards for Directors' Bonuses (Business Accounting Standards No.4; November 29, 2005).

As a result, operating income, ordinary income and income before income taxes decreased by ¥114 million.

(9) *Reserve for directors' retirement benefits*

Provision is made mainly for the lump-sum payments to directors and corporate auditors at their retirement in the amount deemed necessary at the term-end.

(Changes in Accounting Policy)

Effective from the term ended March 31, 2007, the Company and its domestic subsidiaries have changes in accounting policy for the lump-sum payments to directors and corporate auditors at their retirement with the intention of enhancing companies' financial position. Previously the Company and its domestic subsidiaries posted expenses in the amounts that had been paid to directors and corporate auditors, when incurred. Under the new system, provision is made under "Reserve for directors' retirement benefits" in the amount deemed necessary at the term-end.

This change was made in line with resolutions of each company to abolish systems for the payment of retirement allowances to directors and corporate auditors at the closing of regular general meeting of shareholders of each company for the account settlement of fiscal 2006 ended March 2007. By the resolutions directors and corporate auditors shall be made lump-sum retirement payments corresponding to the length of terms in office based on in-house regulations of each company under the previous system.

This change caused the Company and its subsidiaries to charge ¥184 million to income under selling, general and administrative expenses for the reporting term and ¥529 million under extraordinary losses for the previous terms.

As a result, operating income and ordinary income decreased by ¥184 million and income before income taxes decreased by ¥713 million, compared with the amounts calculated under the previous method.

For the first-half period of the reporting term, the Company and its subsidiaries reported their performance using the previous method, as the changes were not made prior to the book closing for the first-half period. Compared with amounts calculated under the new standards, operating income and ordinary income for the first-half period increased by ¥92 million and income before income taxes by ¥621 million.

(10) *Lease transactions*

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

(11) *Material hedge accounting transactions*

1) Hedge accounting

The deferral hedge accounting method is adopted in principle. Exchange contracts are stated in accordance with appropriation treatment as long as they meet the requirement. Interest-rate swaps 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.

(12) *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 goodwill and negative goodwill

Amortization is made on a straight-line basis over five years.

7. 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 presenting net asset section under balance sheet

Effective from the year ended March 31, 2007, the Company has applied the Accounting Standards for Presenting Net Asset Section under Balance Sheet (Business Accounting Standards No.5; December 9, 2005) and Guideline for Application of Accounting Standards for Presenting Net Asset Section under balance Sheet (Guideline for Application of Accounting Standards No.8; December 9, 2005) Amounts equivalent to the total amounts posted under shareholders' equity using the previous method came to ¥54,230 million.

In line with changes in regulations for the presenting consolidated financial statements, the net asset section has been established in compatible with new regulations.

Changes in Accounting Titles

(Consolidated Statements of Cash Flows)

1. Effective from the term ended March 2007, amounts previously posted under "amortization of consolidated adjustment" are recorded under "amortization of goodwill."
2. Previously, amounts expended for the acquisition of the Company's own shares were included in "other". Effective from the term ended March 2007, however, due to increased effects on the Company's performance, a separate component has been established. Relevant amounts for the previous term ended March 2006 amounted to ¥8 million.

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 net assets under "Difference on land revaluation."

- 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: ¥2,472 million

*3. Assets pledged as collateral and corresponding liabilities

Assets pledged as collateral	Corresponding liabilities
(Details) Buildings and structures: ¥8,468 million <¥8,214 million> Machinery, equipment, and vehicles: ¥20,114 million <¥20,114 million> Land: ¥35,264 million <¥34,981million>	Current portion of long-term debt: ¥4,198 million Long-term debt: ¥33,817 million Short-term debt: ¥6,050 million Notes discounted: ¥2,427 million
Tangible fixed assets: ¥63,845 million <¥63,308 million> (Figures in brackets indicate factory mortgage.)	
Notes receivable: ¥2,607 million <¥2,329 million> (Figures in brackets indicate trust beneficiary rights on asset securitization)	
Marketable securities: ¥ — million	
Total: ¥66,452million	Total: ¥46,492 million

4. Contingent liabilities

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥241 million
Total	¥241 million

*5. Notes discounted and endorsed

Notes discounted: ¥2,891 million
Notes endorsed: ¥501 million

*6. Trade notes whose maturity fall into the balance-sheet date

The accounts of trade notes whose maturity fall into the balance-sheet date are cleared on the nearest clearance date.

As the balance-sheet date for the term ended March 31, 2007 fell into a bank holiday, balance of trade notes include those with the maturity date of March 31, 2007 in the following manner.

Trade notes receivable: ¥483 million
Trade notes payable: ¥3,009 million

Notes to Consolidated Statements of Income

*1. Main items and amounts of selling, general, and administrative expenses

Shipping expenses and storage fees:	¥2,901 million
Salary and bonuses:	¥3,410 million
Provision to reserve for employees' bonuses:	¥585 million
Provision to reserve for directors' bonuses:	¥114 million
Provision to directors' retirement benefits:	¥184 million
Provision for reserve for retirement allowance:	¥331 million
Amortization of goodwill:	¥33 million

*2. Research and development expenses

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥1,127 million.

*3. Details

Land: ¥570 million
Machinery and equipment: ¥10 million

*4. Details

Land: ¥8 million
Machinery and equipment: ¥1 million

Notes to Consolidated Statement of Changes in Equity

For the fiscal year 2006 (April 1, 2006 through March 31, 2007)

1. Class and number of shares issued and shares in treasury

(Thousands of shares)

	Number of shares at the previous year-end	Number of shares increased during the year	Number of shares decreased during the year	Number of shares at the reporting year-end
Shares issued				
Ordinary shares	91,519	32,455	—	123,973
Class I preferred shares	20,000	—	20,000	—
Class II preferred shares	25,000	—	25,000	—
Class III preferred shares	30,000	—	30,000	—
Total	166,519	32,455	75,000	123,973
Treasury stock				
Ordinary shares	123	30	1	152
Class I preferred shares	—	20,000	20,000	—
Class II preferred shares	—	25,000	25,000	—
Class III preferred shares	—	30,000	30,000	—
Total	123	75,030	75,001	152

Notes:

1. The increase of 32,455 thousand ordinary shares resulted from conversion of convertible bonds.
2. The total decrease of 75,000 thousand shares of class I, II and III preferred shares resulted from acquisition of the Company's own shares pursuant to Article 156 of the Company Law.
3. The increase of 30 thousand ordinary shares in treasury resulted from purchase of fractional unit shares. The decreases of 1 thousand shares of ordinary shares in the number of the Company's treasury shares resulted from sale of fractional unit shares upon request of sale.
4. The total increase of 75,000 thousand shares of class I, II and III preferred shares in the treasury resulted from acquisition of the Company's own shares pursuant to Article 156 of the Company Law.
5. The total decrease of 75,000 thousand shares of class I, II and III preferred shares in treasury resulted from disposal of shares in treasury pursuant to Article 178 of the Company Law.

2. Share warrants

Category	Reporting entity (parent company)
Description of share warrants	Convertible bond
Type of shares to be issued upon exercise of share warrants	Ordinary shares
Number of shares to be issued upon exercise of share warrants (shares)	
At the previous year-end	—
Increase during the year	32,455
Decrease during the year	32,455
At the reporting year-end	—
Balance at the year-end (¥ million)	—

Note:
The increase and decrease in convertible bonds resulted from issuance and conversion of convertible bonds, respectively.

3. Dividends

(1) Payment of dividends

Resolution Regular meeting of shareholders held on June 29, 2006

	Total dividends (¥ million)	Dividends per share (yen)
Ordinary shares	457	5.000
Class I preferred shares	45	2.236
Class II preferred shares	68	2.736
Class III preferred shares	97	3.236

Base date March 31, 2006
Initial date for payment June 30, 2006

(2) Dividends for which the base date falls in the year ended March 31, 2007, and the initial date for the dividend payment falls in the following period

Resolution Regular meeting of shareholders held on June 27, 2007

	Total dividends (¥ million)	Dividend source	Dividends per share (yen)
Ordinary shares	991	Retained earnings	8.00

Base date March 31, 2007
Initial date for payment June 28, 2007

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, 2007

Cash and deposits:	¥8,789 million
Time deposits with a maturity over three months:	(¥118 million)
Investment securities with a maturity within three months:	¥50 million
Cash and Cash equivalents:	¥8,721 million

2. Material non-monetary transactions

Exercise of share subscription rights attached to unsecured privately placed convertible bonds

Increase in capital stock	¥7,508 million
Increase in capital surplus	¥7,492 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

(¥ million)

	Acquisition cost	Accumulated depreciation	Net leased property
(Tangible fixed assets)			
Machinery, equipment, and vehicles	2,063	710	1,354
Other tangible fixed assets	1,710	859	851
(Intangible assets)			
Other intangible assets	241	114	127
Total	4,014	1,683	2,332

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	681
Over one year	1,651
Total	2,332

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

(3) Lease payments and depreciation expense

(¥ million)

Lease payments:	696
Depreciation expense:	696

(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, 2007)

1. Available-for-sale securities with market quotation

(¥ million)

	Acquisition cost	Balance sheet accounts	Unrealized gain (loss)
(The figure in the Balance Sheet is larger than acquisition cost.)			
Stock	2,032	5,131	3,099
Securities	—	—	—
Total	2,032	5,131	3,099
(The figure in the Balance Sheet is not larger than the acquisition cost.)			
Stock	334	316	(18)
Securities	121	116	(5)
Total	455	432	(23)
Total	2,487	5,563	3,076

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

(¥ million)

Sales price	Gain on sale	Loss on sale
101	58	—

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:	¥383 million
Unlisted overseas stock:	¥77 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 creditworthiness. We therefore consider the risk of default by other parties to be effectively nil.

(5) *Risk management system*

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

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

2. Market value information

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

Retirement Benefits

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, 2007)

(a)	Retirement benefit obligations	(¥10,461 million)
(b)	Unfunded portion of retirement benefit obligations	(¥10,461 million)
(c)	Reserve for employee's retirement benefits	(¥10,461 million)

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

3. Retirement benefit costs

(April 1, 2006 to March 31, 2007)

(a)	Service cost	¥608 million
(b)	Interest cost	¥195 million
(c)	Amortization of actuarial losses	¥227 million
	Net retirement benefit costs (a+b+c)	¥1,030 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: (Lump-sum amortization when recognized)	1 year
(e)	Amortization period for actuarial losses: (Lump-sum amortization when recognized)	1 year

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	620
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	3,675
Denial of valuation loss on tangible fixed assets	2,705
Loss on impairment of fixed assets	904
Difference on land revaluation	350
Denial of valuation loss on inventories	23
Denial of valuation loss on marketable securities	756
Unrealized gain/loss included in fixed assets	220
Excess amount of provision for doubtful accounts	469
Others	2,050
Subtotal	11,770
Valuation allowance	(6,620)
Total deferred tax assets	5,150
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	1,236
Others	212
Total deferred tax liabilities	13,938
Net deferred tax assets	3,082
Net deferred tax liabilities	11,870

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	2,162
Fixed assets: Deferred tax assets	920
Long-term liabilities: Deferred tax liabilities	9,183
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

Term under review (as of March 31, 2007)
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, 2006 to March 31, 2007)

(¥ million)

	East / Southeast Asia	Europe	Oceania
I. Overseas sales	31,067	3,369	695
II. Consolidated sales	—	—	—
III. Ratio of overseas sales to consolidated sales (%)	15.9	1.7	0.4

	North America	Middle East	Other	Total
I. Overseas sales	1,181	305	760	37,376
II. Consolidated sales	—	—	—	194,940
III. Ratio of overseas sales to consolidated sales (%)	0.6	0.2	0.4	19.2

Notes:
1. Overseas sales are those by the Company and its consolidated subsidiaries in countries or regions other than Japan.
2. The method to classify countries and regions and the major countries and regions within the country and region classifications are as listed below.

(1) Method to classify countries and regions: Geographic proximity
(2) Major countries and regions belonging to each geographic categories:
East / Southeast Asia: South Korea, China, Taiwan, Thailand, Singapore, etc.
Europe: Germany, United Kingdom, Italy, 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: Egypt, Columbia, etc.
(3) Previously, overseas sales for European customers were included in "other." Due to an increase in effects on the Company's performance in terms of value amounts, they are presented as a separate component. Relevant amounts for the previous term came to ¥2,093 million, representing 1.4% of the total overseas sales on the consolidated basis.

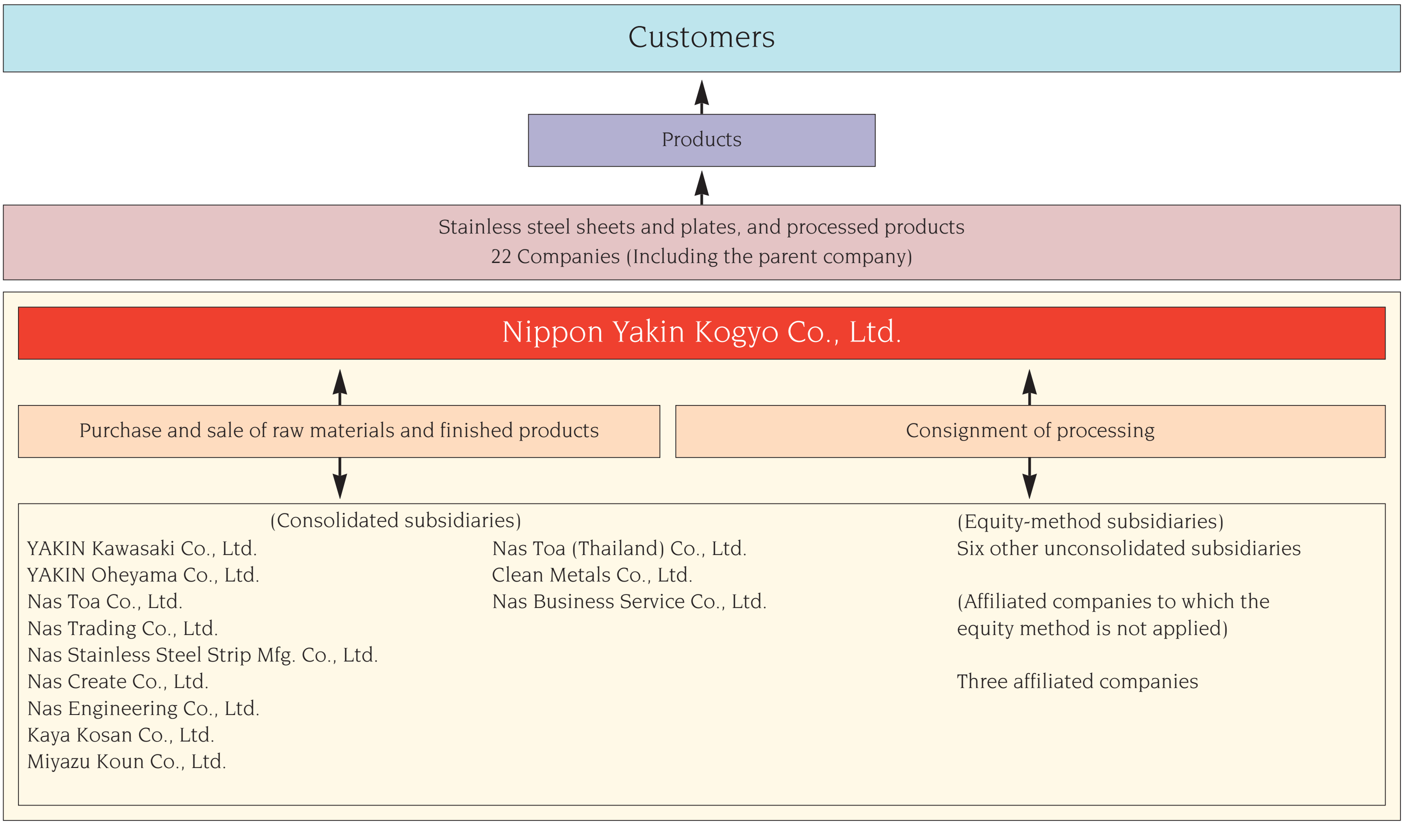
Per Share Information

	(¥)
Shareholders' equity per share	440.26
Earnings per share	139.40

Description of diluted earnings per share (EPS) is omitted, as there exist no outstanding latent shares with dilutive effects.
Note:
Bases for calculating earnings per share are as follows.

	Term under review ended March 31, 2007
(Earnings per share)	
Net income for the term (¥ million)	15,284
Amounts not available to distribution to common shareholders (¥ million)	—
Net income applicable to ordinary shares (¥ million)	15,284
Average numbers of ordinary shares during the term (in thousands)	109,643
(Diluted earnings per share)	
Adjustment to net income (¥ million)	—
Scale of increase in ordinary shares of common stock (in thousands)	—

Subsidiaries and Affiliates



Corporate Directory

Board of Directors and Corporate Auditors

President
Yoichi Saji

Senior Managing Director
Hajime Kimura
Katsuyoshi Hirooka
Yuzo Kumazawa

Managing Directors
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
Takashi Okada
Hisao Uchiumi

(as of June 27, 2007)

Corporate Data

Established in
August 1925

Main Lines of Business
Production & Sale of:
– Ferro Nickel
– Stainless steel: plate, strip, bar, and forged steel
– Specialty steel: structural alloy, alloys for electronic materials, and others
– Processed stainless steel product: NAS coat (for roofs), checker plate, angle, flat bar, and other processed product

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