Annual Report 2008

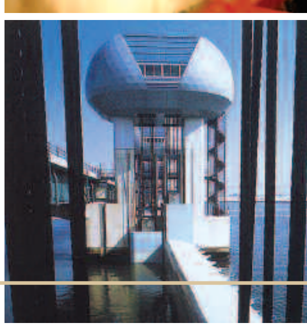
NIPPON YAKIN KOGYO CO., LTD.

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 ¥100.19 per U.S.1.00 dollar, the rate prevailing as of March 31, 2008.

Financial Highlights

Five years ended March 31

Consolidated Data	2004	2005	2006	2007	**2008**
<Millions of yen>					
Net sales	¥121,454	158,144	148,987	194,940	**248,721**
Ordinary income	5,648	17,216	10,730	23,913	**29,343**
Net income	4,269	22,551	5,980	15,284	**17,519**
Net assets	7,287	34,154	39,630	55,136	**69,196**
Total assets	157,161	167,880	163,427	196,005	**192,226**
<Yen>					
Net assets per share	¥ (92.64)	207.23	266.49	440.26	**553.90**
Net income per share	51.33	255.81	62.43	139.40	**141.51**
Diluted earnings per share	10.79	175.28	50.16	—	**—**
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Shareholders' equity ratio	4.6	20.3	24.2	27.8	**35.7**
Return on equity	85.2	108.8	16.2	32.5	**28.5**
Price earnings ratio	6.88	2.18	8.41	7.83	**5.64**
<Millions of yen>					
Cash flows from operating activities	¥ 3,656	13,433	13,689	5,549	**22,689**
Cash flows from investing activities	1,918	(2,460)	(4,564)	(4,538)	**(12,011)**
Cash flows from financing activities	(5,118)	(7,744)	(10,546)	1,048	**(14,326)**
Cash and cash equivalents at the term end	¥ 4,688	7,910	6,538	8,721	**5,077**
Number of employees	2,115	2,115	2,139	2,198	**2,252**

Non-Consolidated Data	2004	2005	2006	2007	**2008**
<Millions of yen>					
Net sales	¥ 86,886	120,227	112,179	155,242	**199,511**
Ordinary income	4,569	14,336	9,363	19,352	**24,817**
Net income	4,667	16,185	5,706	11,335	**14,774**
Paid-in capital	12,736	14,743	14,743	22,251	**22,251**
Net assets	12,815	33,277	38,270	49,039	**60,666**
Total assets	114,059	125,774	126,329	159,220	**159,589**
<Thousands of shares>					
Total number of shares outstanding	158,330	166,519	166,519	123,973	**123,973**
<Yen>					
Net assets per share	¥ (26.24)	197.65	251.61	396.05	**490.11**
Cash dividend per share					
Ordinary shares	—	5.000	5.000	8.000	**10.000**
Preferred shares					
Type1	—	2.228	2.236	—	**—**
Type2	—	2.728	2.736	—	**—**
Type3	—	3.228	3.236	—	**—**
Including interim dividend	(—)	(—)	(—)	(—)	**(5.000)**
Net income per share	56.05	182.91	59.44	103.38	**119.34**
Diluted earnings per share	11.79	125.79	47.84	—	**—**
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Shareholders' equity ratio	11.2	26.5	30.3	30.8	**38.0**
Return on equity	45.5	70.2	16.0	26.0	**26.9**
Price earnings ratio	6.30	3.04	8.83	10.55	**6.69**
Payout Ratio	—	2.7	8.4	7.7	**8.4**
Number of employees	134	137	155	159	**164**

Notes:
1. The figures for net sales do not include consumption tax.
2. 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.
3. The amounts of diluted earnings per share are not shown for the years ended March 31, 2007 and 2008 because there are no potential common shares.
4. Effective from the year ended March 31, 2007, 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.

Kazuta Sugimori
President

Dear shareholders,

In presenting the annual report for our 126th year of business (commenced April 1, 2007 and ended March 31, 2008), I would like to highlight some notable developments for our shareholders.

The Japanese economy has experienced a change of course over the consolidated fiscal year under review — from the gradual recovery trend that had been prevailing, toward a slowing of growth. There are several causes for concern over the domestic economy's future direction, ranging from the deteriorating global economy triggered by the sub-prime problems in the United States to the impact of the rapid changes in foreign exchange, share prices and crude oil and other commodity prices.

In the stainless specialty steel industries, due to the impact of the volatility of the price of nickel — the principal raw material — the industry has entered an inventory adjustment phase on a global basis since the summer and there has been a dramatic shift in the market environment between the first half of the year and the second half of the year. While the production cutbacks in nickel-related stainless steel became protracted over this period, there was also some shift of demand toward chrome stainless steel and this shift has led to a change in the configuration of overall stainless steel demand.

New building and expansion of facilities in the Asian Region, particularly in China, have been progressing as planned and the volume of supply has increased significantly. This has resulted in stainless steel production volume in the Asian Region accounting for more than half of the global volume in the fiscal year 2007. Although the rapid increase in the supply capacity is yet to manifest itself in the form of a supply and demand gap, there is a need to take a note of this as an issue latent in the stainless specialty steel industries.

Significantly, while raw material prices experience major swings, the application of selling prices that parallel such raw material prices (the raw material price surcharge program) has become increasingly accepted by our customers and, going forward, it will be critical that we further solidify the institutionalization of this program.

The Group has adapted to these prevailing conditions and has made solid progress toward the achievement of its objectives in the final year of its medium-term management plan (April 2005 – March 2008).

Specifically, in addition to the realization and maintenance of the raw material price surcharge program, the Group has been focusing on enhancing profitability by aggressively pursuing reforms in its business structure through the further promotion of the high-performance alloy strategy.

Consequently, we are pleased to announce that profits for the current consolidated fiscal year totaled ¥29,343 million (US$292,874 thousand), a 22.7% increase over the previous fiscal year. Net profits for the term rose 14.6% over the same period, to ¥17,519 million (US$174,858 thousand).

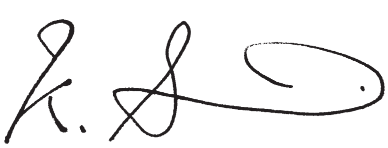
Taking these financial results into account, we have decided to provide shareholders with a year-end dividend of ¥5 per ordinary share. This follows the earlier implementation of an interim dividend of ¥5, bringing the annual dividend to a total of ¥10 per share.

Looking forward, we expect the growth capacity of the stainless specialty steel industries to be maintained as global demand continues to increase. With respect to raw materials, in addition to the rising cost of nickel, which had been a center of changes, we are also seeing the prices of other raw materials such as chrome and mineral resources begin to fluctuate. Such trends are expected to have an increasing impact upon the financial performance of the Group. Additionally, a continuing monitoring of the rapid increase in supply capacity in the Asian Region will also be required.

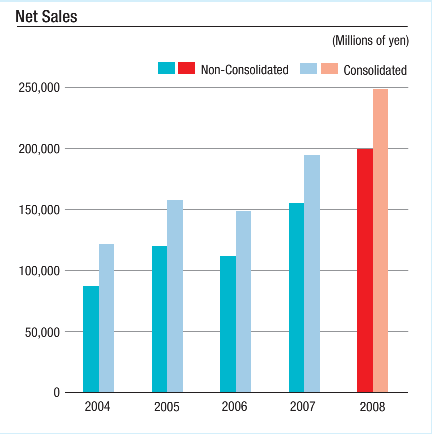
The operating environment as we move forward will be a challenging one, but the Group will take measures to further strengthen its business foundation as a stainless and specialty steel manufacturer as outlined in the "Medium Term Management Plan 2010 (Challenge to become the Global Top Company)," which was announced in April 2008.

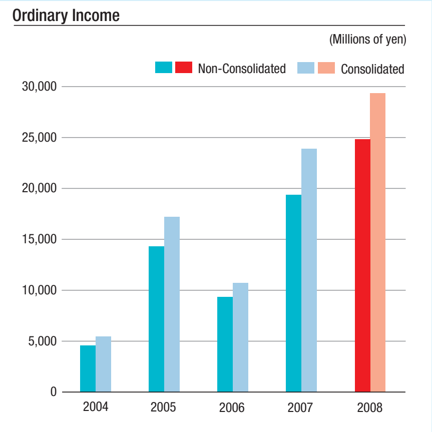
Specifically, in addition to further enhancing the content and scale of high-performance alloys, measures will be taken to pursue and implement further cost reductions. Together with the promotion of the raw material price surcharge program, this will enable us to minimize the risks related to the fluctuation of the raw material prices and establish a stable profitability base to further improve our financial position.

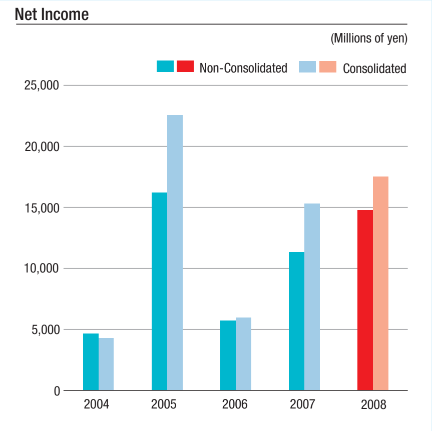
The Group will take on the challenge of creating new value and become an attractive stainless and specialty steel manufacturer in the global market. We will make all appropriate efforts toward the achievement of our objectives and, as always, we appreciate your support and cooperation.

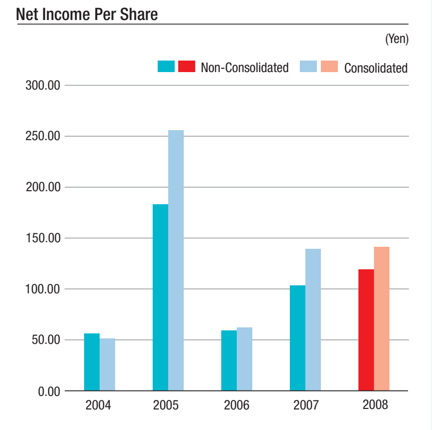


Kazuta Sugimori
President









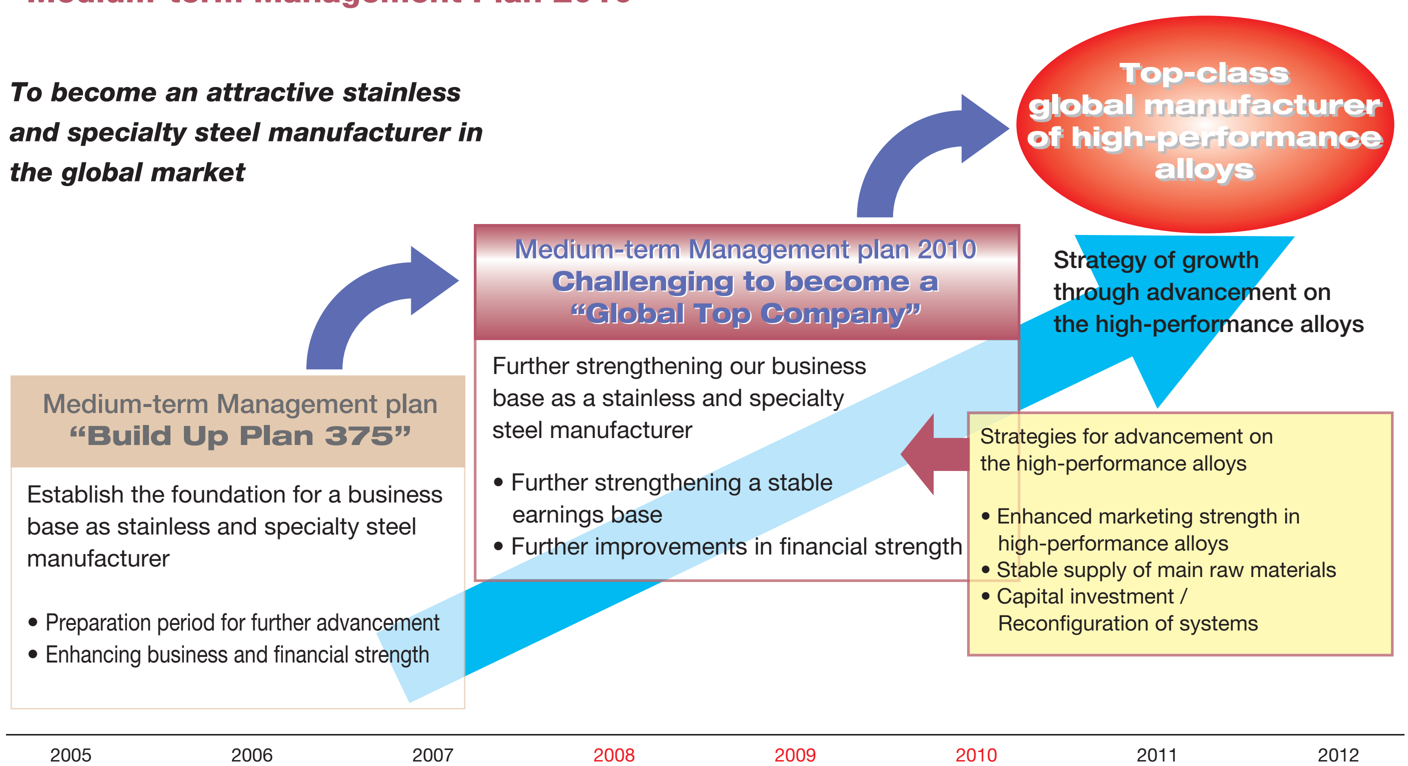
Medium-term Management Plan 2010
(Challenging to become a "Global Top Company")

Under the concept of "Challenging to become a "Global Top Company" in order to further advance along the high-performance alloys – Aiming to become a top-class global manufacturer of high-performance alloys" we are aiming for top-class global standing in cost-competitiveness, quality, and delivery of high-performance alloys, and aiming to capture the top market share in high-performance flat products (high-nickel alloys).

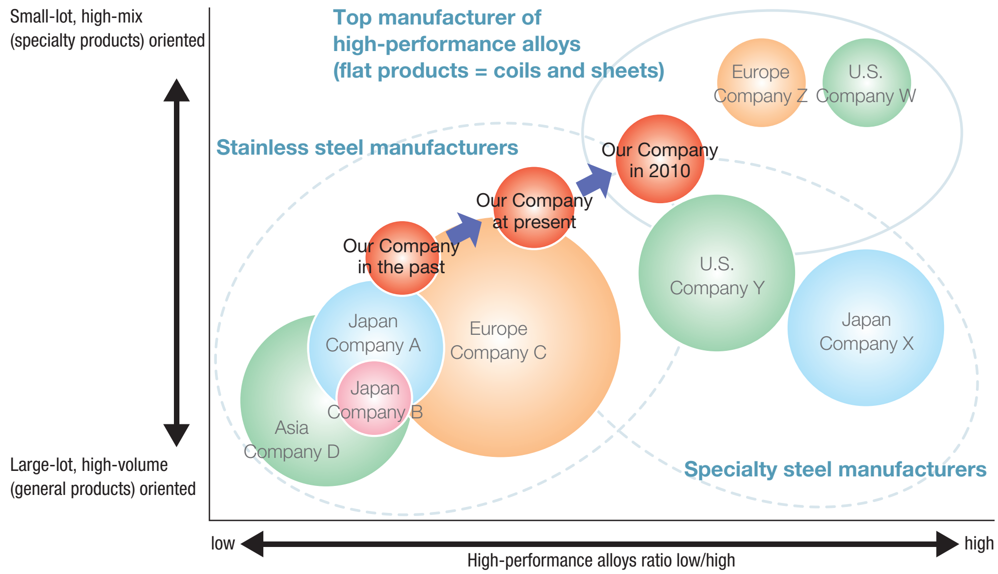
Quantitative targets

Sales of high-performance alloys to total sales:	**50%**	or more (non-consolidated basis)
ROA (return on asset):	**10%**	or more (consolidated basis)
Equity ratio:	**40%**	or more (consolidated basis)

Positioning of the new "Medium-term Management Plan 2010"



Positioning of Nippon Yakin Kogyo



Plan period

April 2008 through March 2011 (3 years)

Specific strategies

1. Enhancing marketing strength in high-performance alloys

▶ Marketing

- Strengthening overseas locations
- Enhancing marketing strength in each growth area for sales, primarily energy and environmental fields
- Strengthen approaches to international customers and distributors

▶ Production

- Maximize the effects of new refining facilities to reduce lead times and improve productivity
- Thoroughly implement cost reduction to improve competitive strength

2. Capital investment — ¥24 billion in capital investment planned for next 3 years

- Investment in enhancing competitive strength in high-performance alloys, as well as environment-related investment, systems-related investment, infrastructure investment, are planned as investments in the concept of the Medium-term Management Plan.

▶ Details

- Enhanced competitive strength in high-performance alloys, expanded capacity: ¥6.5 billion
- Environment-related investment: ¥1.5 billion
- Systems-related investment: ¥2.0 billion
- Infrastructure investment, investment in affiliated companies etc.: ¥14.0 billion

3. Reconfiguration of systems for production of high-performance alloys — Operation scheduled for January 2009

- Configuring new business process and systems for high-mix, small-lot production

4. Addressing raw material supply in the recent resources environment

- Stable supply of main raw materials, diversified procurement
  - ➡ Diversification of procurement “routes” and procurement “items”
- Establishing Ferro-Nickel production systems utilizing diversified ores etc.

Consolidated earning plan (target figures for final year)

Fiscal year 2010

Sales:	**¥238.0 billion**
Operating income:	**¥21.0 billion**
Ordinary income:	**¥18.0 billion**
Net income:	**¥10.5 billion**

Strategic Focus

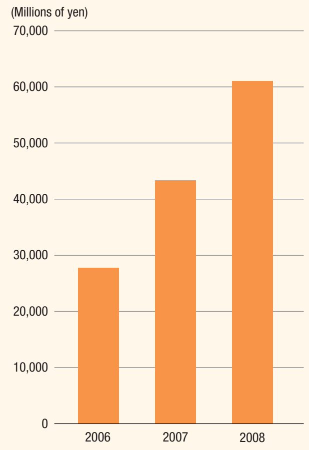
The all-purpose high-performance alloys and stainless steels of Nippon Yakin Kogyo are manufactured by an integrated production system.

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.

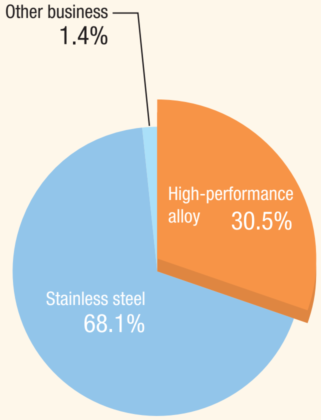
Sales of High-performance alloy

(Non-Consolidated)



Net Sales Breakdown
(Year ended March 2008)

(Non-Consolidated)

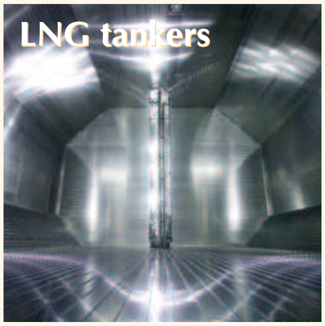


Against the background of the worldwide movement to conserve energy and to improve environmental impact, the airplane makers are focusing their efforts on developing new, lighter aircraft models that are more fuel-efficient.

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.

NASNM15M as a stainless steel with excellent ion non-magnetic properties resisting magnetization even when major processing is performed. Exploiting such properties, it is used in the case and frame of mobile telephones requiring the non-magnetic properties to avoid an adverse impact on precision electronic components inside and require the high strength to support an extremely thin body.

Measures are being undertaken to reuse waste that contains carbon and hydrogen in electrical generation plants by using the gas derived by carbonizing and gasifying the waste. N800H, which excels in heat resistance, is being used in the body of such waste combustion kilns.

Capital investment (AVS introduced January 2008)

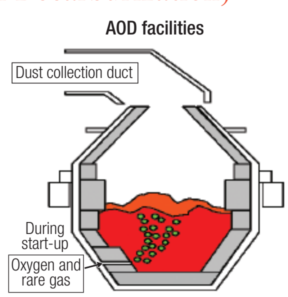
AOD method (Argon Oxygen Decarburization)

Strengths:

- High oxygen injection speed means higher refining speed at high carbon densities.

Drawbacks:

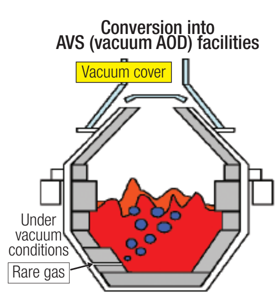
- Low refining efficiency at very low carbon densities means operation becomes more difficult and time becomes longer for higher quality high-performance alloys.



Vacuum AOD = AVS (AOD with Vacuum system for Special alloys) introduction

Features

- Preserves strengths of AOD and improves weaknesses, adds vacuum equipment to AOD and uses atmospheric refining at higher carbon densities, then reduces pressure as carbon densities become lower, and refines using oxygen in the molten metal and oxides in slag, without injecting oxygen.



Effectiveness of introducing AVS

1) Easier production of high-performance alloys (primarily very low carbon specifications)
   - Wide range of vacuum levels enables application to a variety of high-performance alloys.
   - Pressure reduction effectively enables refining of very-low carbon steel and low nitrogen steel.
2) Achievement of cost reduction through shorter operating time
   - Pressure reduction effectively shortens refining time (similar to general products for some steel varieties)
   - Enables multiple casting in continuous casting equipment.
3) Utilizing the capability of VOD to free capacity for new product development.
   - Aiming for specialized new products utilizing the features of vacuum refining equipment.

Corporate Governance

The Company, in order to enhance the management stability and reliability, is taking measures to enhance corporate governance through timely and appropriate disclosure of management information; we see this as a priority issue in management.

The number of directors constituting the Board of Directors of the Company is 13 to quickly respond to changes in the management environment.

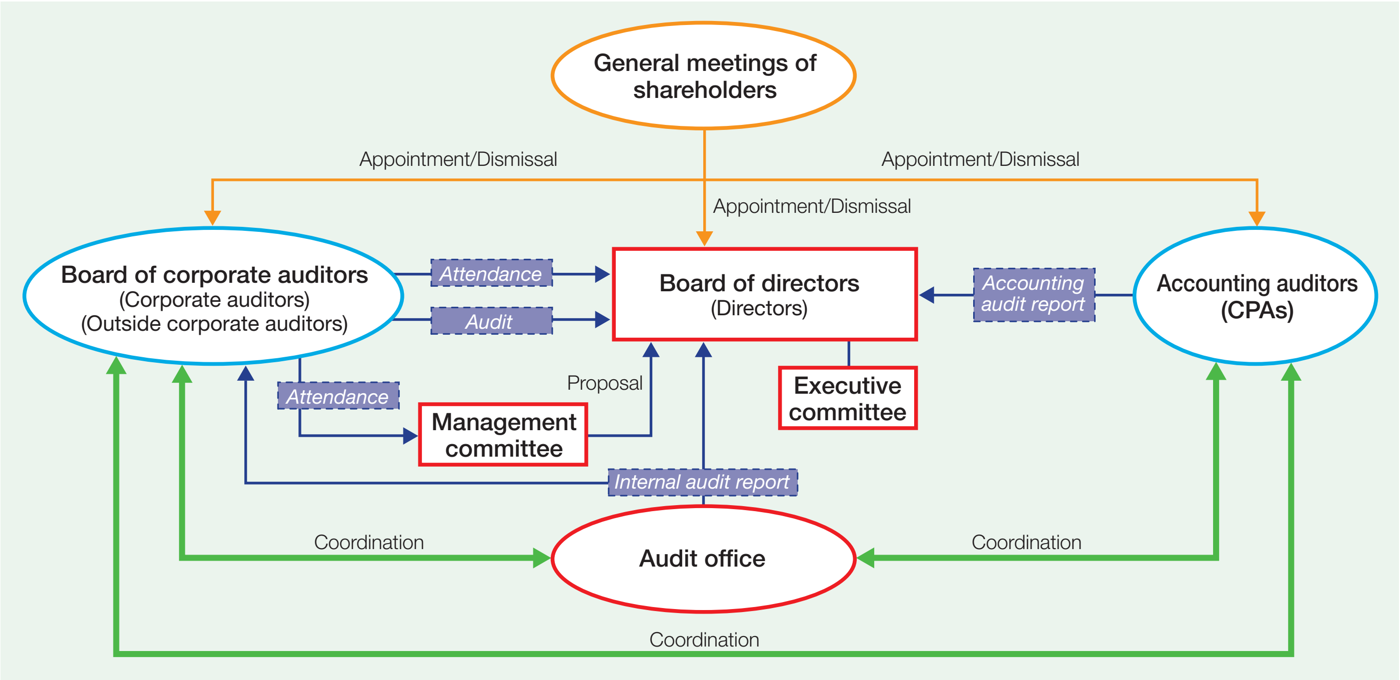
Directors of the Company are limited to 25 by provisions of the Articles of Incorporation.

The Company, with respect to the selection resolution of directors, the articles of incorporation provides that the election shall be by a majority of the shareholders with voting rights present with a quorum of one third of all shareholders with voting rights present. Further, selection resolution for directors, according to the provisions of the articles of incorporation, shall not be by cumulative votes.

The Company has adopted an auditor system and with respect to performance of duties by directors, in addition to the supervision by the Board of Directors, audit by corporate auditor (The Board of Corporate Auditors is organized that includes outside auditors) is performed. Further, Audit Office has been organized as an office reporting directly to the president and performs regular internal audit relating to execution of business and the results of such audits are reported to the directors, corporate auditors and accounting auditors on a timely basis. Further accounting auditors provide explanation to the Board of Corporate Auditors with respect to the content of an accounting audit and conducts exchange of information.

With the purpose of ensuring that the directors and corporate auditors are able to adequately fulfill their expected roles, as provided for in the article of incorporation, by a resolution of the Board of Directors, directors (including those that had been directors) and corporate auditors (including those who had been corporate auditors) are exempted from liability for compensation for damages provided for in Company Law Article 423 paragraph 1, to the extent permitted by law pursuant to the provisions in the Company Law Article 426 paragraph 1.

Corporate auditor with respect to year end financial closing and interim closing, observes inventory by the accounting auditors and receipts reports and explanations



with respect to the methods and results of the audit and audits the performance of tasks of the accounting auditors. Further, corporate auditor and the accounting auditor mutually submit audit schedules and exchange information with respect to the contents thereof.

Corporate auditor has received at the Management Committee, reports of the results of internal audit relating to performance of tasks implemented by the Audit Office, which reports directly to the president. Further corporate auditor and the Audit Office mutually submit their audit plans and exchange information with respect to the audit target departments.

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.

Financial Review (consolidated basis)

(1) Business Results

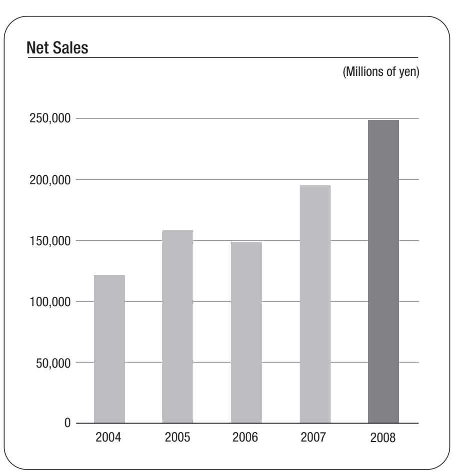
Summary of the "Stainless steel and other processed product" which is the business of the Group is presented below.

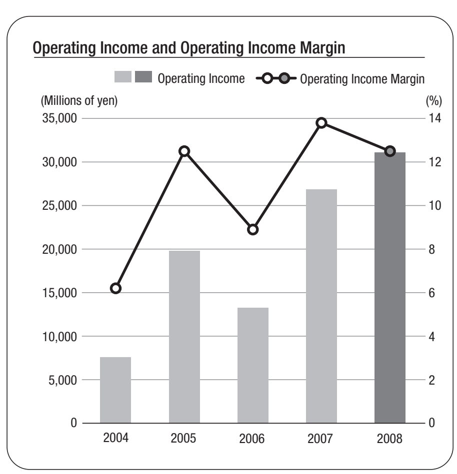
During the consolidated term under review, the anticipation of lower selling prices associated with the fall in raw material prices resulted in inventory adjustment phase in both the domestic and overseas markets since the summer. In addition, domestically, since the implementation of the Revised Building Standards Law, the demand from the construction sector stagnated and the market in the second half of the year lacked vitality.

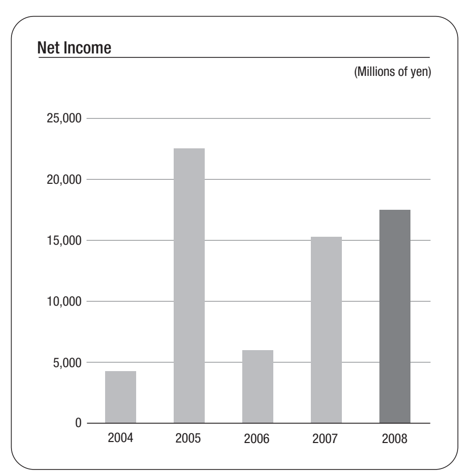
However, for the Group, with the implementation of the raw material surcharge program and emphasis on profitable products, the sales increased and recorded ¥248,721 million (US$2,482,493 thousand), a 27.6% increase over the previous term.

Of the business, with respect to the high-performance alloys products, which has been positioned as the highest priority strategic issue by the Group, the business continued to be active, centering on energy and environment related usage. With the effect of rapid rise of sales price due to the rapid rise in raw material prices, sales volume suffered a slight decline but in addition to pursuing the raw material price surcharge program, by focusing on orders for high-ticket products the sales of high-performance alloys increased significantly and recorded ¥61,017 million (US$609,013 thousand), a 40.9% increase over the previous term.

Of the total consolidated sales of ¥248,721 million (US$2,482,493 thousand), domestic sales was ¥195,130 million (US$1,947,599 thousand) and export sales was ¥53,591 million (US$534,894 thousand). Domestic sales accounted for 78% of total consolidated sales while export sales provided the remaining 22%.







(2) Issues Facing the Company

Lack of transparency of future direction due to factors such as the slowing of the US economy and high crude oil prices continues to be strong and, domestically, the risk of downward fluctuation of the economy has been increasing with the slowing in personal consumption and corporate fixed capital investment.

In the stainless specialty steel industries, with growth capacity being maintained, the global demand is expected to show a growing trend but with respect to the trend in raw materials, in addition to nickel, which had been a center of changes, today chrome, which is one of the major raw materials and other mineral resources have begun to fluctuate and the trend of these raw materials are expected to make a greater impact than heretofore upon the management performance of the Group. Further, with respect also to the rapid increase in supply capacity in the Asian Region, a continuing monitoring of the situation will be required.

While the condition is one in which such various changes are projected, the Group, in embarking on the initial year of the "Medium-Term Management Plan 2010 (Challenge to become the Global Top Company)," which was announced in April, 2008, is committed to achieve further strengthening of our business base as a stainless and specialty steel manufacture whose base had been established under the previous medium-term management plan.

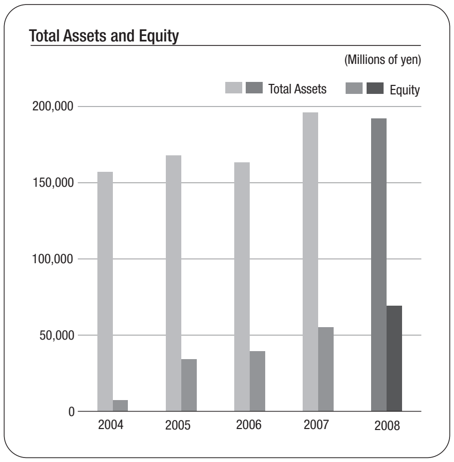
(3) Capital Investment

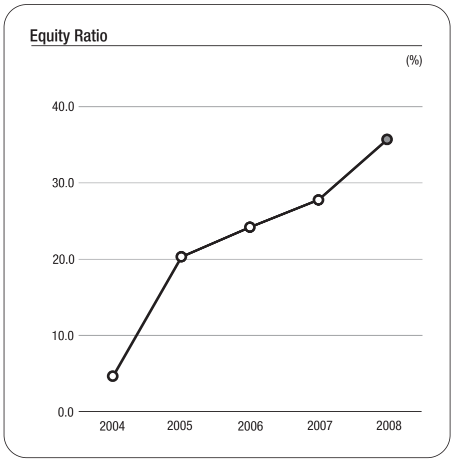
With respect to the Group's fixed capital investment in the consolidated term under review, emphasis has been placed upon renewing obsolete equipment to enable enhancement of capacity and stable operations and on environmental response. The aggregate investment amount totaled ¥10,769 million.

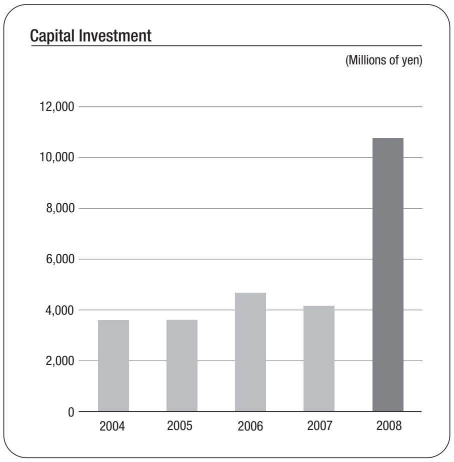
In addition, based on the previous medium-term management plan, in order to prepare for the further enhancement and expansion of high-performance alloys, AVS (vacuum AOD) facility, which had been in construction at YAKIN Kawasaki Co., Ltd., a Group company, was completed in December 2007 and began commercial production from January 2008.

(4) Fund Procurement

Working capital and investments funding have been financed by owned capital and bank borrowing.







Consolidated Balance Sheets

As of March 31, 2007 and 2008	2007 Amount (¥ million)		2007 Percentage (%)	**2008 Amount (¥ million)**		**2008 Percentage (%)**
Assets						
I. Current assets						
1. Cash and deposits		8,789			**5,141**	
2. Notes and accounts receivable *3 and *5		43,519			**39,380**	
3. Marketable securities		70			**70**	
4. Inventories		50,859			**49,975**	
5. Deferred tax assets		2,162			**2,609**	
6. Other current assets		1,271			**923**	
Allowance for doubtful receivables		(826)			**(854)**	
Total current assets		105,845	54.0		**97,245**	**50.6**
II. Fixed assets						
(1) Tangible fixed assets						
1. Buildings and structures *3	45,187			**48,047**		
Accumulated depreciation	30,574	14,612		**31,347**	**16,700**	
2. Machinery, equipment and vehicles *3	132,685			**135,584**		
Accumulated depreciation	109,363	23,322		**110,609**	**24,975**	
3. Land *2 and *3		41,886			**42,071**	
4. Construction in progress		816			**875**	
5. Other tangible fixed assets	6,532			**6,519**		
Accumulated depreciation	5,719	813		**5,619**	**899**	
Total tangible fixed assets		81,448	41.6		**85,520**	**44.5**
(2) Intangible assets						
1. Software		—			**1,532**	
2. Other intangible assets		419			**116**	
Total intangible assets		419	0.2		**1,648**	**0.8**
(3) Investments and other assets						
1. Investment securities *1		6,366			**5,952**	
2. Deferred tax assets		920			**824**	
3. Other investments and other assets		1,828			**1,237**	
Allowance for doubtful receivables		(822)			**(200)**	
Total investments and other assets		8,292	4.2		**7,813**	**4.1**
Total fixed assets		90,159	46.0		**94,981**	**49.4**
Total assets		196,005	100.0		**192,226**	**100.0**

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

	2007		**2008**	
	Amount (¥ million)	Percentage (%)	**Amount (¥ million)**	**Percentage (%)**
Liabilities				
I. Current liabilities				
1. Notes and accounts payable	29,016		**26,361**	
2. Short-term debt *3	34,759		**25,280**	
3. Current portion of long-term debt *3	4,198		**4,348**	
4. Current portion of corporate bonds	—		**220**	
5. Accrued income taxes	8,708		**6,597**	
6. Accrued consumption taxes	704		**1,100**	
7. Reserve for employees' bonuses	1,691		**1,875**	
8. Reserve for directors' bonuses	114		**136**	
9. Other current liabilities	4,439		**4,827**	
Total current liabilities	83,630	42.7	**70,745**	**36.8**
II. Long-term liabilities				
1. Corporate bonds	220		**—**	
2. Long-term debt *3	33,817		**30,493**	
3. Deferred tax liabilities	9,183		**8,012**	
4. Deferred tax liabilities on land revaluation *2	2,687		**2,687**	
5. Reserve for employees' retirement benefits	10,461		**10,199**	
6. Reserve for directors' retirement benefits	713		**—**	
7. Other long-term liabilities	158		**895**	
Total long-term liabilities	57,239	29.2	**52,286**	**27.2**
Total liabilities	140,869	71.9	**123,030**	**64.0**
Net assets				
I. Equity				
1. Common stock	22,251	11.4	**22,251**	**11.6**
2. Capital surplus	7,492	3.8	**7,494**	**3.9**
3. Retained earnings	19,440	9.9	**35,336**	**18.4**
4. Treasury stock	(49)	(0.0)	**(100)**	**(0.1)**
Total Equity	49,133	25.1	**64,981**	**33.8**
II. Valuation and translation adjustments				
1. Unrealized gain on available-for-sale securities	1,800	0.9	**430**	**0.2**
2. Net deferred losses on hedges	283	0.1	**(166)**	**(0.1)**
3. Land revaluation reserve *2	3,114	1.6	**3,127**	**1.7**
4. Foreign currency translation adjustments	183	0.1	**190**	**0.1**
Total valuation and translation adjustments	5,380	2.7	**3,581**	**1.9**
III. Minority interests	623	0.3	**634**	**0.3**
Total net assets	55,136	28.1	**69,196**	**36.0**
Total liabilities and net assets	196,005	100.0	**192,226**	**100.0**

Consolidated Statements of Income

Terms ended March 31, 2007 and 2008	2007 Amount (¥ million)		2007 Percentage (%)	**2008 Amount (¥ million)**		**2008 Percentage (%)**
I. Sales		194,940	100.0		**248,721**	**100.0**
II. Cost of sales *2 and *5		153,561	78.8		**203,899**	**82.0**
Gross profit		41,379	21.2		**44,822**	**18.0**
III. Selling, general and administrative expenses *1 and *2		14,536	7.4		**13,705**	**5.5**
Operating income		26,842	13.8		**31,117**	**12.5**
IV. Non-operating income						
1. Interest income	44			**33**		
2. Dividend income	67			**81**		
3. Rent	34			**34**		
4. Exchange gain	—			**272**		
5. Other non-operating income	118	264	0.1	**215**	**636**	**0.3**
V. Non-operating expenses						
1. Interest paid	1,455			**1,798**		
2. Expenses for syndicated loan organization	83			**23**		
3. Loss on sale of trade nates receivable	—			**297**		
4. Exchange loss	1,080			**—**		
5. Other non-operating expenses	576	3,194	1.6	**292**	**2,410**	**1.0**
Ordinary income		23,913	12.3		**29,343**	**11.8**
VI. Extraordinary profits						
1. Amendment to prior income statement	10			**2**		
2. Gain on sales of fixed assets *3	580			**0**		
3. Gain on sale of investment securities	58			**72**		
4. Reversal of allowance for doubtful receivables	2			**28**		
5. Other extraordinary profits	1	651	0.3	**1**	**103**	**0.0**
VII. Extraordinary losses						
1. Loss on disposal of tangible fixed assets	328			**356**		
2. Loss on sale of tangible fixed assets *4	9			**14**		
3. Loss on valuation of investment securities	5			**107**		
4. Loss on sale of investment securities	—			**31**		
5. Provision for doubtful receivables	334			**—**		
6. Loss on impairment of fixed assets	33			**—**		
7. Loss on valuation of inventories	—			**99**		
8. Provision to directors' retirement benefits	529			**—**		
9. Other extraordinary losses	54	1,292	0.7	**4**	**611**	**0.2**
Income before income taxes and minority interests		23,271	11.9		**28,835**	**11.6**
Income taxes (corporate tax, residential tax and enterprise tax)	10,035			**11,305**		
Income tax adjustment	(2,162)	7,873	4.0	**(43)**	**11,262**	**4.6**
Minority interest-income		114	0.1		**55**	**0.0**
Net income		15,284	7.8		**17,519**	**7.0**

*1 to *5 above refer to the section, "Notes to Consolidated Statements of Income," under the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Term ended March 31, 2008	2008 Equity (¥ million) Common stock	Capital surplus	Retained earnings	Treasury stock	Total equity
Balance at March 31, 2007	22,251	7,492	19,440	(49)	49,133
Net changes in the term					
Cash dividends	**—**	**—**	**(1,610)**	**—**	**(1,610)**
Net income	**—**	**—**	**17,519**	**—**	**17,519**
Purchase of Treasury stock	**—**	**—**	**—**	**(52)**	**(52)**
Disposal of Treasury stock	**—**	**2**	**—**	**1**	**3**
Reversal of land revaluation reserve	**—**	**—**	**(13)**	**—**	**(13)**
Changes outside scope of equity — net	**—**	**—**	**—**	**—**	**—**
Total net changes in the term	**—**	**2**	**15,897**	**(51)**	**15,848**
Balance at March 31, 2008	**22,251**	**7,494**	**35,336**	**(100)**	**64,981**

	2008 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, 2007	1,800	283	3,114	183	5,380	623	55,136
Net changes in the term							
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(1,610)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**17,519**
Purchase of Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(52)**
Disposal of Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**3**
Reversal of land revaluation reserve	**—**	**—**	**13**	**—**	**13**	**—**	**—**
Changes outside scope of equity — net	**(1,370)**	**(449)**	**—**	**7**	**(1,812)**	**11**	**(1,801)**
Total net changes in the term	**(1,370)**	**(449)**	**13**	**7**	**(1,799)**	**11**	**14,060**
Balance at March 31, 2008	**430**	**(166)**	**3,127**	**190**	**3,581**	**634**	**69,196**

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statements of Cash Flows

Terms ended March 31, 2007 and 2008	2007 Amount (¥ million)	**2008 Amount (¥ million)**
I. Cash flows from operating activities		
Income before income taxes and minority interests	23,271	**28,835**
Depreciation and amortization	4,164	**5,040**
Loss on impairment of fixed assets	33	**—**
Amortization of goodwill	33	**(1)**
Loss on valuation of inventories	—	**1,379**
Decrease in allowance for doubtful receivables	(103)	**(594)**
Increase in reserve for employees' bonuses	244	**184**
Increase in reserve for directors' bonuses	114	**22**
Decrease in reserve for employees' retirement benefits	(160)	**(263)**
Increase (decrease) in reserve for directors' retirement benefits	713	**(713)**
Interest and dividends received	(111)	**(114)**
Interest expense	1,455	**1,798**
Gain on sale of investment securities	(58)	**(42)**
Loss on valuation of investment securities	5	**107**
(Gain) loss on sale of tangible fixed assets	(571)	**14**
Loss of disposal of tangible fixed assets	305	**420**
(Increase) decrease in trade notes receivable	(14,192)	**4,139**
Increase in inventories	(14,904)	**(491)**
Increase (decrease) in trade accounts payable	9,424	**(2,655)**
Increase in accrued consumption taxes	619	**396**
Extraordinary retirement allowance	(63)	**—**
Other	281	**311**
Subtotal	10,499	**37,770**
Interest and dividends received	111	**114**
Interest paid	(1,449)	**(1,790)**
Income taxes paid	(3,612)	**(13,405)**
Net cash provided by operating activities	5,549	**22,689**
II. Cash flows from investing activities		
Expenditures for deposits in time deposits	(21)	**(47)**
Proceeds from maturity of time deposits	1	**52**
Purchases of noncurrent assets	(4,350)	**(9,750)**
Proceeds from sale of noncurrent assets	733	**20**
Purchases of investment securities	(897)	**(2,462)**
Proceeds from sale of investment securities	101	**205**
Other	(106)	**(29)**
Net cash used in investing activities	(4,538)	**(12,011)**
III. Cash flows from financing activities		
Net decrease in short-term debt	(11,430)	**(9,491)**
Proceeds from long-term debt	17,274	**1,024**
Repayment of long-term debt	(4,105)	**(4,199)**
Proceeds from issuance of Moving Strike Convertible Bonds (MSCB)	15,000	**—**
Payment for purchase of treasury stock	(15,020)	**(52)**
Payment of cash dividends	(664)	**(1,601)**
Cash dividends paid to minority shareholders	(8)	**(11)**
Other	0	**3**
Net cash provided by (used in) financing activities	1,048	**(14,326)**
IV. Foreign currency translation adjustment of cash and cash equivalents	124	**5**
V. Net increase (decrease) in cash and cash equivalents	2,183	**(3,644)**
VI. Cash and cash equivalents at the beginning of the term	6,538	**8,721**
VII. Balance of cash and cash equivalents at the end of the term	8,721	**5,077**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Term ended March 31, 2008 (April 1, 2007 to March 31, 2008)

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 29
Nas Business Service Co., Ltd.	January 31
Nas Toa (Thailand) Co., Ltd.	February 29

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.

(Book value amount is calculated by deducting an amount corresponding to the decline in profit.)

Changes in Accounting Policies

Effective from the year ended March 31, 2008, the Company and its consolidated subsidiaries have adopted new accounting standards for the valuation of inventories, in line with Accounting Standard for Measurement of Inventories (issued by the Accounting Standards Board of Japan [ASBJ] on July 5, 2006).

As a result, operating and ordinary income decreased by ¥1,279 million, and income before income taxes by ¥1,379 million.

(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

Changes in Accounting Policies

Effective from the year ended March 31, 2008, the Company and its consolidated subsidiaries have adopted new accounting standards for the depreciation of property, plant and equipment acquired on April 1, 2007 or after in line with provisions in the recent amendment to the Income Tax Law.

The changes have no material impact on operating income, ordinary income and income before income taxes.

Additional information

In line with the provisions of the amendment to the Income Tax Law mentioned above, the Company and its consolidated subsidiaries have applied new accounting standards to the residual value under the previous accounting standards for the depreciation of property, plant and equipment acquired on March 31, 2007 or before in the amount equivalent to 5% of acquisition cost on an equal amount basis over five years, beginning with the year following that in which the residual value falls to an amount equivalent to 5% of the acquisition cost. These expenses are included in depreciation expenses.

As a result, operating and ordinary income, and income before income taxes, all declined by ¥731 million.

(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.

(9) Lease transactions

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

(10) 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.

(11) 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

Changes in Accounting Titles

(Consolidated balance sheets)

To reflect the increase in its material importance, from the fiscal year under review, software included in "Other" under intangible fixed assets in the previous term is now separately classified (consolidated basis).

Software included in "Other" in the previous term totaled ¥310 million.

(Consolidated statements of income)

Losses on sale of trade notes receivable, included under "Other" in Non-operating expenses in the previous term, have been classified separately from the reporting period as they now account for more than 10/100 of Non-operating expenses.

Losses on sale of trade notes receivable included in "Other" in Non-operating expenses in the previous term totaled ¥218 million.

Notes to Consolidated Balance Sheets

*1. Investment in nonconsolidated subsidiaries and affiliates

Investment securities (equity shares): ¥508 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: ¥2,487 million

*3. Assets pledged as collateral and corresponding liabilities

Assets pledged as collateral	Corresponding liabilities
(Details)	
Buildings and structures: ¥8,348 million <¥8,111 million>	Current portion of long-term debt: ¥4,348 million
Machinery, equipment, and vehicles: ¥18,267 million <¥18,267 million>	Long-term debt: ¥25,493 million
Land: ¥35,577 million <¥34,981million>	Short-term debt: ¥4,390 million
	Notes discounted: ¥2,881 million
Tangible fixed assets: ¥62,193 million <¥61,359 million> (Figures in brackets indicate factory mortgage)	
Notes receivable: ¥868 million <¥868 million> (Figures in brackets indicate trust beneficiary rights on asset securitization)	
Marketable securities: ¥ — million	
Total: ¥63,061 million	Total: ¥37,111 million

4. Contingent liabilities

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥181 million
Total	¥181 million

*5. Notes discounted and endorsed

Notes discounted:	¥3,924 million
Notes endorsed:	¥946 million

Notes to Consolidated Statements of Income

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

Shipping expenses and storage fees:	¥2,497 million
Salary and bonuses:	¥3,498 million
Provision to reserve for employees' bonuses:	¥496 million
Provision to reserve for directors' bonuses:	¥136 million
Provision to directors' retirement benefits:	¥— million
Provision for reserve for retirement allowance:	¥344 million
Amortization of goodwill:	¥— million

***2. Research and development expenses**

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥1,030 million.

***3. Details**

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

***4. Details**

Land:	¥8 million
Machinery and equipment:	¥6 million

***5.** Term-end inventory assets represent amounts after deduction from the book value of an amount corresponding to decline in profit. Cost of sales includes an appraisal loss on inventory of ¥1,279 million.

Notes to Consolidated Statement of Changes in Equity

For the fiscal year 2007 (April 1, 2007 through March 31, 2008)

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	123,973	—	—	123,973
Total	123,973	—	—	123,973
Treasury stock				
Ordinary shares	152	45	3	194
Total	152	45	3	194

Note: The increase of 45 thousand ordinary shares in treasury resulted from purchase of fractional unit shares. The decreases of 3 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.

2. Share warrants

This is not applicable.

3. Dividends

(1) Payment of dividends

Resolution Regular meeting of shareholders held on June 27, 2007

	Total dividends (¥ million)	Dividends per share (yen)
Ordinary shares	991	8.00

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

Resolution Board of directors held on November 13, 2007

	Total dividends (¥ million)	Dividends per share (yen)
Ordinary shares	619	5.00

Base date	September 30, 2007
Initial date for payment	December 6, 2007

(2) Dividends for which the base date falls in the year ended March 31, 2008, and the initial date for the dividend payment falls in the following period

Resolution Regular meeting of shareholders held on June 26, 2008

	Total dividends (¥ million)	Dividend source	Dividends per share (yen)
Ordinary shares	619	Retained earnings	5.00

Base date	March 31, 2008
Initial date for payment	June 27, 2008

Notes to Consolidated Statements of Cash Flows

Reconciliation of amounts reported in the balance sheets to cash and cash equivalents as of March 31, 2008

Cash and deposits:	¥5,141 million
Time deposits with a maturity over three months:	(¥114 million)
Investment securities with a maturity within three months:	¥50 million
Cash and Cash equivalents:	¥5,077 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	2,429	914	1,515
Other tangible fixed assets	1,996	1,028	969
(Intangible assets)			
Other intangible assets	305	115	190
Total	4,730	2,056	2,674

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	790
Over one year	1,884
Total	2,674

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

Lease payments:	¥821 million
Depreciation expense:	¥821 million

(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, 2008)

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	1,341	2,562	1,221
Securities	—	—	—
Sub-Total	1,341	2,562	1,221
(The figure in the Balance Sheet is not larger than the acquisition cost.)			
Stock	2,883	2,129	(754)
Securities	121	90	(31)
Sub-Total	3,003	2,219	(784)
Total	4,344	4,781	437

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

Sales price	¥205 million
Gain on sale	¥72 million
Loss on sale	¥31 million

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:	¥683 million
Unlisted overseas stock:	¥— 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, 2008)

(a) Retirement benefit obligations	(¥10,199 million)
(b) Unfunded portion of retirement benefit obligations	(¥10,199 million)
(c) Reserve for employee's retirement benefits	(¥10,199 million)

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

3. Retirement benefit costs

(April 1, 2007 to March 31, 2008)

(a) Service cost	¥566 million
(b) Interest cost	¥191 million
(c) Amortization of actuarial losses	¥104 million
Net retirement benefit costs (a+b+c)	¥862 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	672
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	3,588
Denial of valuation loss on tangible fixed assets	2,236
Loss on impairment of fixed assets	916
Difference on land revaluation	344
Denial of valuation loss on inventories	428
Denial of valuation loss on marketable securities	786
Unrealized gain/loss included in fixed assets	301
Excess amount of provision for doubtful accounts	353
Others	1,750
Subtotal	11,374
Valuation allowance	(6,182)
Total deferred tax assets	5,193
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 other securities	6
Others	(38)
Total deferred tax liabilities	12,458
Net deferred tax assets	3,433
Net deferred tax liabilities	10,699

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	2,609
Fixed assets: Deferred tax assets	824
Long-term liabilities: Deferred tax liabilities	8,012
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

Description is omitted as the difference between the statutory tax rate and the effective tax rate under tax-effect accounting is smaller than one-twentieth of the statutory tax rate.

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, 2007 to March 31, 2008)

(¥ million)

	East / Southeast Asia	Europe	Oceania
I. Overseas sales	41,350	7,167	1,551
II. Consolidated sales	—	—	—
III. Ratio of overseas sales to consolidated sales (%)	16.6	2.9	0.6

	North America	Middle East	Other	Total
I. Overseas sales	1,510	360	1,653	53,591
II. Consolidated sales	—	—	—	248,721
III. Ratio of overseas sales to consolidated sales (%)	0.6	0.1	0.7	21.5

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

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

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

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

Per Share Information

(¥)

Shareholders' equity per share	553.90
Earnings per share	141.51

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, 2008
(Earnings per share)	
Net income for the term (¥ million)	17,519
Amounts not available to distribution to common shareholders (¥ million)	—
Net income applicable to ordinary shares (¥ million)	17,519
Average numbers of ordinary shares during the term (in thousands)	123,798

Subsequent Event

On June 11, 2008, JIC Quality Assurance Ltd. carried out an inspection of the Chigasaki plant of our JIS Mark-approved consolidated subsidiary Nastoa Co., Ltd. It was found that some of the Nastoa products had not been subjected to JIS hydraulic and non-destructive testing and that testing had not been in conformity with JIC Quality Assurance testing methods.

As a result, quality management at Nastoa was found to have fallen short of the standards laid down by the "decree on certification of conformity with Japanese Industrial Standards" and Nastoa was ordered to revoke the following quality guarantees.

•Reference code for revocation: QA0307059
•Certification standards
JIS G 3446: Stainless-steel piping for machinery
JIS G 3448: General stainless steel piping
JIS G 3459: Stainless steel piping
JIS G 3463: Stainless-steel piping for boilers and heat exchangers

In the past, no complaints were made regarding stainless steel welded piping produced by Nastoa failing under pressure testing. However, we recognize that some products have failed to meet pressure-testing standards, and promise to take every possible measure to resolve quality guarantee issues.

This event may have significant material impact on the financial position and business results of the Group, but at the moment this cannot be quantified.

Subsidiaries and Affiliates

Customers

↑

Products

↑

Stainless steel sheets and plates, and processed products
22 Companies (Including the parent company)

Nippon Yakin Kogyo Co., Ltd.

Purchase and sale of raw materials and finished products	Consignment of processing

(Consolidated subsidiaries)

YAKIN Kawasaki Co., Ltd.
YAKIN Oheyama Co., Ltd.
Nas Toa Co., Ltd.
Nas Trading Co., Ltd.
Nas Stainless Steel Strip Mfg. Co., Ltd.
Nas Create Co., Ltd.
Nas Engineering Co., Ltd.
Kaya Kosan Co., Ltd.
Miyazu Koun Co., Ltd.
Nas Toa (Thailand) Co., Ltd.
Clean Metals Co., Ltd.
Nas Business Service Co., Ltd.

(Equity-method subsidiaries)
Six other unconsolidated subsidiaries

(Affiliated companies to which the equity method is not applied)

Three affiliated companies

Corporate Directory

Board of Directors and Corporate Auditors

Chairman
Yoichi Saji

President
Kazuta Sugimori

Senior Managing Director
Hajime Kimura

Managing Directors
Akio Nonaka
Shizuho Kanazawa
Michio Morooka
Kuniaki Osada

Directors
Makoto Okada
Kazuyuki Saka
Shinichi Sasayama
Sunao Ootabu
Hisashi Kubota
Kazunori Nakatani

Standing Corporate Auditors
Nagakazu Masuda
Hideyuki Sakakibara

Corporate Auditors
Hisao Uchiumi
Hayao Tanaka

(as of June 26, 2008)

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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