Annual Report 2009

NIPPON YAKIN KOGYO CO., LTD.

Profile

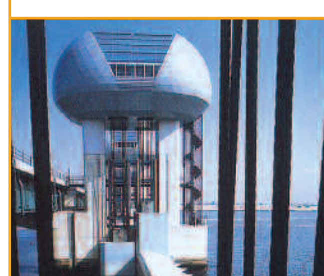
Nippon Yakin Kogyo was established in 1925.

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.

Contents

Note: Amounts stated in U.S. dollars have been converted at ¥98.23 per U.S.1.00 dollar, the rate prevailing as of March 31, 2009.



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

Financial Highlights

Five years ended March 31

Consolidated Data	2005	2006	2007	2008	**2009**
<Millions of yen>					
Net sales	¥158,144	148,987	194,940	248,721	**163,680**
Ordinary income (loss)	17,216	10,730	23,913	29,343	**(16,425)**
Net income (loss)	22,551	5,980	15,284	17,519	**(11,322)**
Net assets	34,154	39,630	55,136	69,196	**55,861**
Total assets	167,880	163,427	196,005	192,226	**148,853**
<Yen>					
Net assets per share	¥ 207.23	266.49	440.26	553.90	**446.98**
Net income (loss) per share	255.81	62.43	139.40	141.51	**(91.49)**
Diluted earnings per share	175.28	50.16	—	—	**—**
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Shareholders' equity ratio	20.3	24.2	27.8	35.7	**37.2**
Return on equity	108.8	16.2	32.5	28.5	**(18.3)**
Price earnings ratio	2.18	8.41	7.83	5.64	**(2.34)**
<Millions of yen>					
Cash flows from operating activities	¥ 13,433	13,689	5,549	22,689	**11,605**
Cash flows from investing activities	(2,460)	(4,564)	(4,538)	(12,011)	**(5,320)**
Cash flows from financing activities	(7,744)	(10,546)	1,048	(14,326)	**(3,185)**
Cash and cash equivalents at the term end	¥ 7,910	6,538	8,721	5,077	**7,803**
Number of employees	2,115	2,139	2,198	2,252	**2,263**

Non-Consolidated Data	2005	2006	2007	2008	**2009**
<Millions of yen>					
Net sales	¥120,227	112,179	155,242	199,511	**129,763**
Ordinary income (loss)	14,336	9,363	19,352	24,817	**(4,347)**
Net income (loss)	16,185	5,706	11,335	14,774	**(3,559)**
Paid-in capital	14,743	14,743	22,251	22,251	**22,251**
Net assets	33,277	38,270	49,039	60,666	**55,330**
Total assets	125,774	126,329	159,220	159,589	**130,653**
<Thousands of shares>					
Total number of shares outstanding	166,519	166,519	123,973	123,973	**123,973**
<Yen>					
Net assets per share	¥ 197.65	251.61	396.05	490.11	**447.18**
Cash dividend per share					
Ordinary shares	5.000	5.000	8.000	10.000	**8.000**
Preferred shares					
Type1	2.228	2.236	—	—	**—**
Type2	2.728	2.736	—	—	**—**
Type3	3.228	3.236	—	—	**—**
Including interim dividend	(—)	(—)	(—)	(5.000)	**(5.000)**
Net income (loss) per share	182.91	59.44	103.38	119.34	**(28.76)**
Diluted earnings per share	125.79	47.84	—	—	**—**
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Shareholders' equity ratio	26.5	30.3	30.8	38.0	**42.3**
Return on equity	70.2	16.0	26.0	26.9	**(6.1)**
Price earnings ratio	3.04	8.83	10.55	6.69	**(7.44)**
Payout Ratio	2.7	8.4	7.7	8.4	**(27.8)**
Number of employees	137	155	159	164	**171**

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.
5. Description of diluted EPS (net income per share) is omitted as the Company posted a net loss for the reporting term. (Currently, there exist no share warrants of the Company issued and outstanding.)

Kazuta Sugimori
President

Dear shareholders,

In presenting the annual report for our 127th year of business (commenced April 1, 2008, and ended March 31, 2009), I would like to highlight some notable developments for our shareholders.

In the stainless and specialty steel industry for the year under review, manufacturers were obliged to make significant production cutbacks amid an extremely tough environment for receiving orders. The environment was affected by reluctant buying as users anticipated lower selling prices due to the fall in prices of nickel and chrome—the principal raw materials—and the inventory adjustment worldwide due to the decline in real demand caused by the worsened global economy.

Although the Group conducted an unprecedented large-scale production cutback to reduce inventories, net sales decreased due to the fall in selling prices associated with sharp drops in demand and raw material prices. In terms of profits, an ordinary loss and a net loss for the year were recorded because we had to report a large loss on valuation of inventories, reflecting the fall in selling prices and raw material prices.

Despite these extremely harsh income and expenditure conditions, we distributed a year-end dividend of ¥3 per ordinary share to continue the stable distribution of dividends to our shareholders. This follows the earlier implementation of an interim dividend of ¥5 per share, bringing the total annual dividend to ¥8 per share.

Given the sluggish global economy, uncertainty about the future of the Japanese economy remains strong, and an extremely difficult business environment is expected to continue. On the other hand, concentrated investment in the environment and energy fields, a trend that is highly anticipated to boost the economy in several countries, could serve as a tail wind for sales expansion of high-performance alloys—one of our strategic product areas.

The Group has shortened delivery times significantly through the detailed segmentation of delivery date management on a daily basis rather than the previous monthly basis by drawing on the argon oxygen decarburization with AOD with Vacuum System for Special Alloys (AVS), which started full-fledged operation in January 2008, and the new supply chain management system compliant with the production of a wide variety of items in small quantities (a management system for optimized operating processes from the receipt of an order to the completion of the finished product), which became operational on a full-scale basis in January 2009.

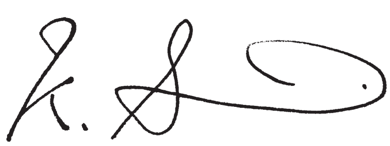
As for sales activities, the Group opened the Bangkok Representative Office, the London Representative Office in 2008, and increased the number of staff at the Shanghai Representative Office in 2009 to extend the global sales network. In addition, the Group newly set up the High-Performance Alloy Sales Promotion Department, which integrates the sales promotion function in Japan and overseas, in February 2009.

In addition to the improvement of Groupwide sales promotion systems, the Group will further develop its sales activities by emphasizing the added value of high-performance alloys, which is represented by the keywords “Life Cycle Cost,” an advantage in terms of long-term total cost via the prolongation of the service life of the target product, and “Life Cycle Assessment,” the contribution to the global environment via effective utilization of rare or limited volume of resources by prolonging the service life and reducing waste and energy generated with less frequent maintenance operations.

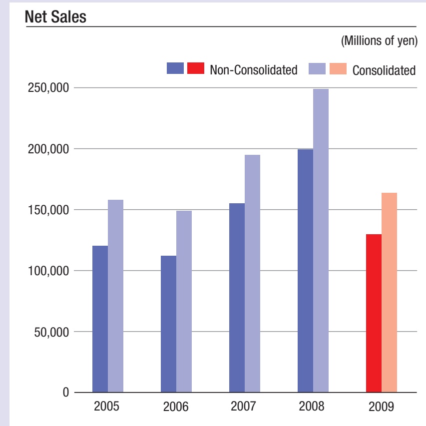
The Group intends to move ahead with the aforementioned measures to establish its business foundation as a stainless and specialty steel manufacturer capable of ensuring stable profits regardless of environments.

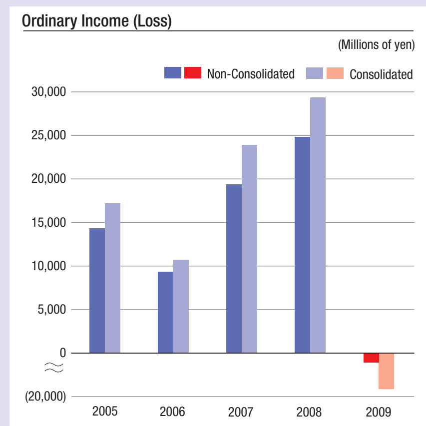
Finally, as for the cancellation of the JIS Mark at the Chigasaki plant of Nas Toa Co., Ltd., our consolidated subsidiary, about which you probably have had a great deal of concerns and inconveniences, Nas Toa Co., Ltd. was able to again obtain the JIS Mark certification in March 2009 as a result of our dedicated efforts to establish a Groupwide quality assurance system to prevent the recurrence of such quality-related problems and restore the confidence of our customers.

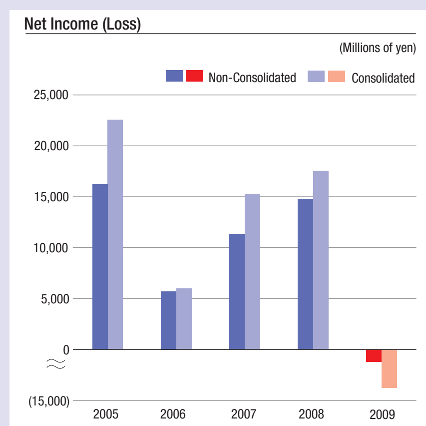
The Group reflects deeply on this scandal and as a manufacturer fully appreciates the significance of CSR as a manufacturer. Therefore, the Group will make appropriate efforts toward a thorough understanding of compliance among the group companies, and continue to strengthen the quality assurance system for higher customer satisfaction. As always, we appreciate your support and cooperation.

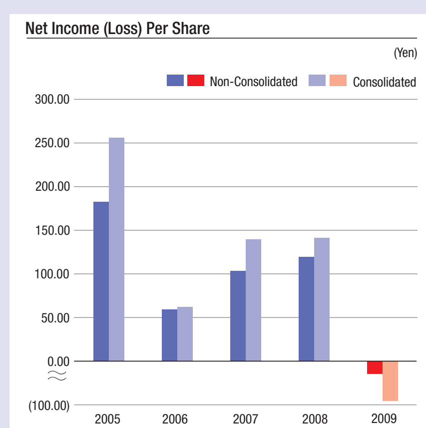


Kazuta Sugimori
President









Strategic Focus

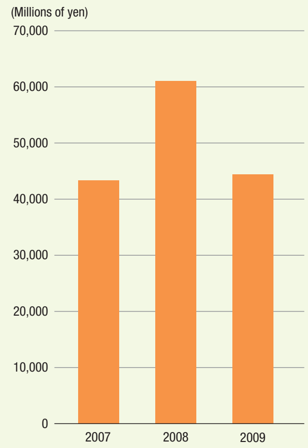
The all-purpose high-performance alloys and stainless steels of Nippon Yakin Kogyo are manufactured by an integrated production system.

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.

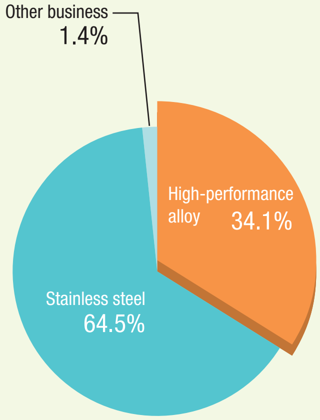
Sales of High-performance alloy

(Non-Consolidated)



Net Sales Breakdown
(Year ended March 2009)

(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.

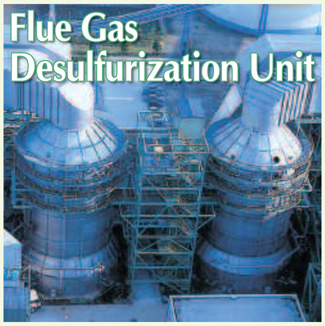
Our NAS36 invar alloy has a coefficient of thermal expansion that is only one-tenth that of steel and close to the coefficients of plastics or carbon fibers. Thus, the field of application of invar for the precision molding of CFRP is rising at a very steep pace.

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.

Sheathed heaters play important but often unseen roles as heating elements in household appliances such as ovens, microwave ovens, and air conditioners. They are also used frequently in industrial drying furnaces and as heaters for train compartments.

The heating element of a sheathed heater is coiled in a spiral shape. The heating element is protected by being held in the center of a metallic pipe made of NAS 800L or NAS H840. The area around the heating element is filled with electrical insulating powder and the pipe is compressed.

Because the heating coil itself is heated to high temperatures, NAS 800L and NAS H840 are used due to their superior resistance to high-temperature oxidizing, and high-temperature creep strength.



The flue gas desulfurization (FGD) unit is part of the auxiliary facilities of thermal-power plants designed to prevent atmospheric pollution.

The inside of the FGD unit at coal-fired power generation plants is a highly corrosive environment with high-concentration chlorides, which are formed by the concentration of chlorine in the fuel.

In environments where chloride ion concentrations exceed 10,000 ppm, NAS 254N, NAS 354N super stainless steel, NAS NW276, and NAS NW22 high-corrosion-resistant nickel alloys are used to deliver long, inexpensive service lives of the unit.

As marine structures are exposed to extremely harsh environments, super stainless steel that contains rich amounts of chromium, nickel, molybdenum, and nitrogen are used instead of standard-grade stainless steel.

NAS 254N, which was developed by Nippon Yakin Kogyo, is a material with excellent total cost performance that is well suited for marine structure use, with outstanding corrosion resistance, long service life, and easy maintenance.

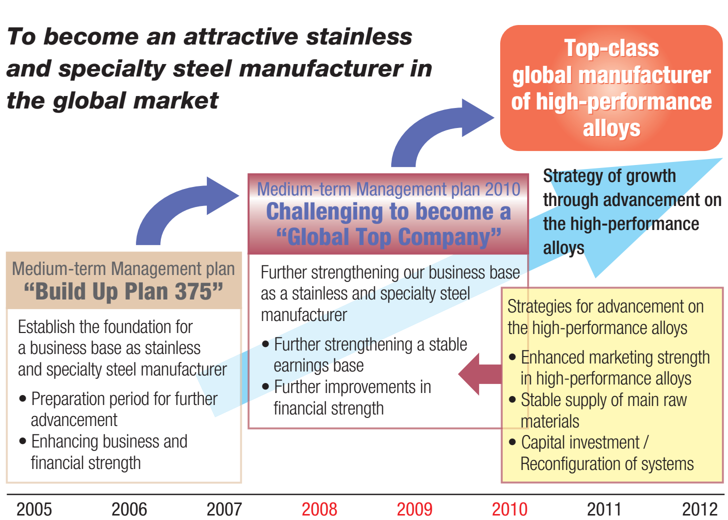
Overlays are generally constructed by welding or bolting sheets together. NAS 254N is amenable to both methods.

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

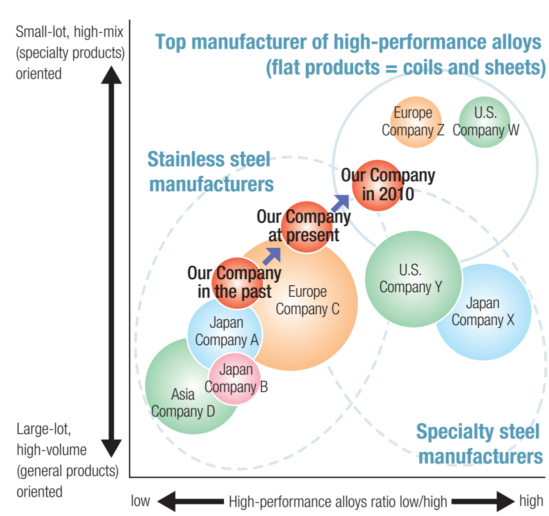
Quantitative targets

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

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



Positioning of Nippon Yakin Kogyo



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 12 to quickly respond to changes in the management environment.

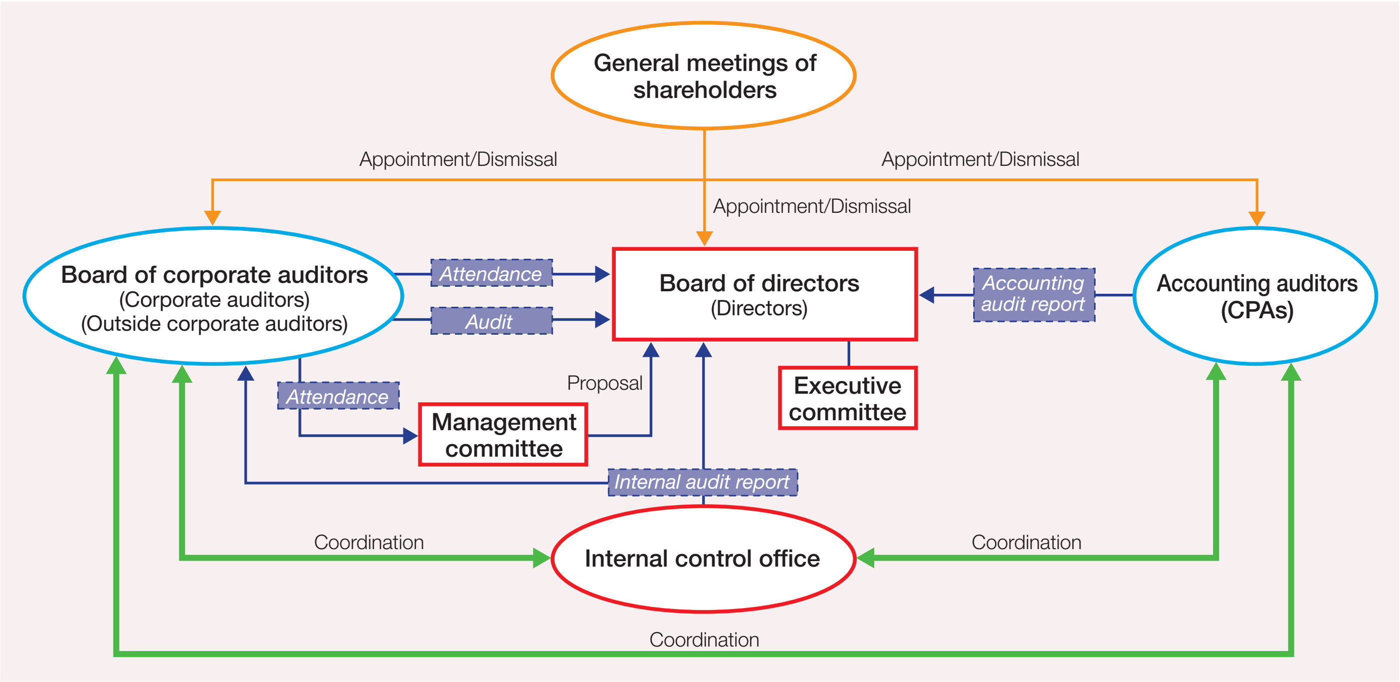
Directors of the Company are limited to 25 by provisions of the Articles of Incorporation.

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, Internal Control 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 paragraph1.

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 Internal Control Office, which reports directly to the president. Further corporate auditor and the Internal Control 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

A summary of results for "Stainless steel and other processed products," which is the business of the Group, is presented below.

During the consolidated year under review, the enhanced inventory adjustment following the previous year in both the domestic and overseas markets resulted in a considerable decline in demand, affected by the economic setback worldwide. In particular, the market in the second half of the year lacked vitality partly due to reluctant buying on the user side in anticipation of lower prices due to the drop in prices of raw materials such as nickel, and chrome.

As for this segment, the Group maintained its basic policy of achieving appropriate production consistent with real demand and appropriate selling prices that match well with raw material prices. However, reflecting the sharp decline in demand and the fall in selling prices associated with the fall in raw material prices in the second half, consolidated net sales for the year ended March 31, 2009, totaled ¥163,680 million (US$1,666,293 thousand), a 34.2% decrease from the previous year.

With respect to high-performance alloys, which have been positioned as the highest priority strategic products by the Group, the adverse effect of the worsened economy could not be avoided despite our efforts to increase sales volumes mainly of high-corrosion-resistant, and high-thermal-resistant stainless steel. A series of postponements, reviews and suspensions of many projects on the user side and the fall in selling prices related to the decline in nickel prices resulted in segment sales of ¥44,422 million (US$452,224 thousand), a 27.2% decrease from the previous year.

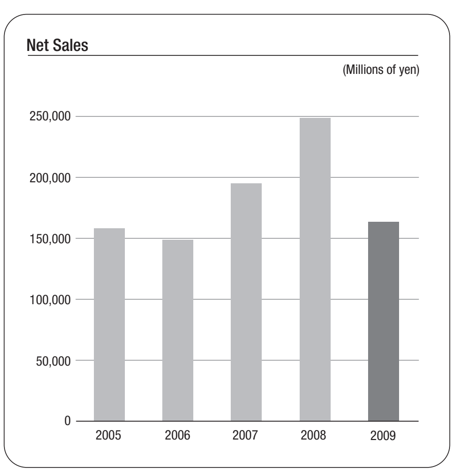
Of the total consolidated sales of ¥163,680 million (US$1,666,293 thousand), domestic sales were ¥121,944 million (US$1,241,413 thousand) and export sales were ¥41,736 million (US$424,880 thousand). Domestic sales accounted for 74.5% of total consolidated sales, whereas export sales provided the remaining 25.5%.

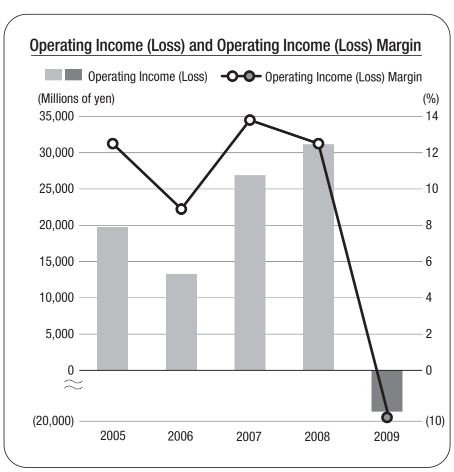
(2) Issues Facing the Company

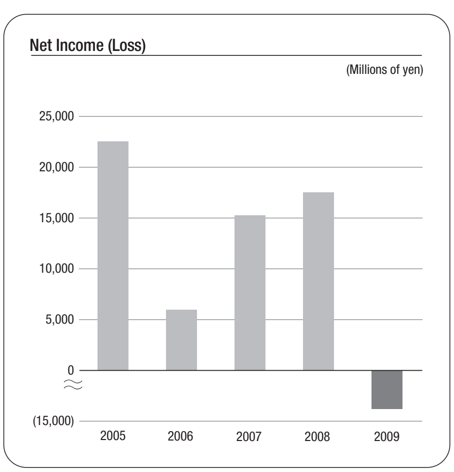
Given the sluggish global economy, uncertainty about the future of the Japanese economy remains strong, and an extremely difficult business environment is expected to continue.

In the stainless and specialty steel industry, global demand is expected to show a growing trend over the medium to long term in view of the potential growth capacity for increasing demand in diverse fields. Consequently, the Group will need to continuously monitor the demand-supply relationship and the price trends of mineral resources including nickel and chrome, whose prices are expected to continue to have a great impact on our products. Furthermore, with respect to the rapid increase in the supply capacity of the Asian region, we will continue to monitor that situation as well.

In these circumstances, the demand for stainless and specialty steel owing to the environment-related projects worldwide, positively influenced by the economic stimulus measures in China, the Green New Deal by the Obama administration in the United States, and the rising demand for water in the developing countries of the Middle East and Southeast Asia, could become a tail wind for our aptly matched sales strategy of focusing on







high-performance alloys. To address this major global trend and ensure profits, the Group opened the Bangkok, and the London Representative Offices in 2008, and increased the number of staff at the Shanghai Representative Office in 2009 to extend its global sales network. In addition, the Group newly set up the High-Performance Alloy Sales Promotion Department, which integrates the sales promotion function in Japan and overseas, in February 2009.

Meanwhile, we will strive to improve the quality of our mainstay high-performance alloys, reduce costs and shorten delivery times by maximally drawing on the argon oxygen decarburization with AOD with Vacuum System for Special Alloys (AVS), which started full-fledged operation in January 2008, and the new supply chain management system compliant with the production of a wide variety of items in small quantities (a management system for optimized operating processes from the receipt of an order to the completion of the finished product), which became operational on a full-scale basis in January 2009. With these measures, the Group intends to establish its business foundation as a stainless, and specialty steel manufacturer capable of ensuring stable profits regardless of environments.

As for the cancellation of the JIS Mark at the Chigasaki plant of Nas Toa Co., Ltd., our consolidated subsidiary, about which you probably have had a great deal of concerns and inconveniences, Nas Toa Co., Ltd. was able to again obtain the JIS Mark certification in March 2009 as a result of our dedicated efforts to establish a Groupwide quality assurance system to prevent the recurrence of such quality-related problems and restore the confidence of our customers.

The Group reflects deeply on this scandal and fully appreciates the significance of CSR as a manufacturer. Therefore, the Group will make appropriate efforts toward a thorough understanding of compliance among the Group companies, and continue to strengthen the quality assurance system for higher customer satisfaction. As always, we appreciate your support and cooperation.

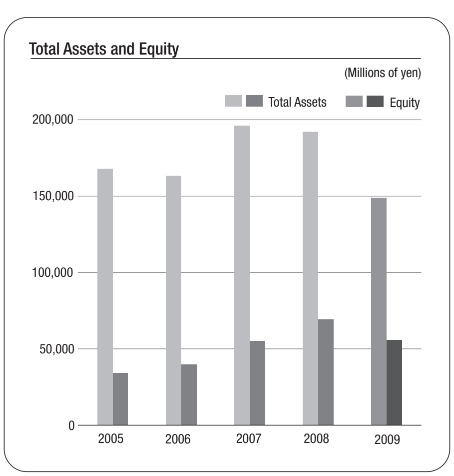
(3) Capital Investment

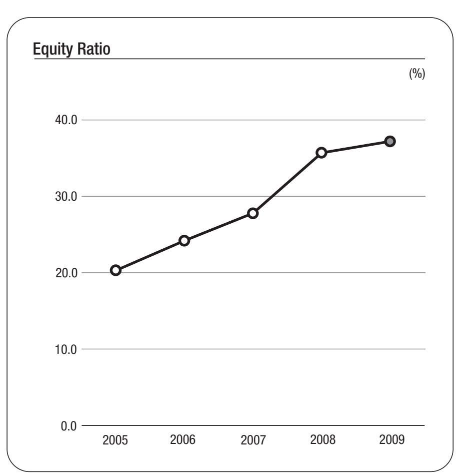
With respect to the Group's capital investment, given the unprecedented global economic crisis that the Group faces currently, we radically reviewed the content of specific investment projects that had been scheduled in the "Medium-term Management Plan 2010 (Challenge to Become the Global Top Company)" to carefully select priority projects. As a result, the capital investment priorities were specified to be only those for sales expansion of high-performance alloys, which are positioned as the most important strategic products, and environment-related ones. The projected aggregate investment amount was revised to approximately ¥14.0 billion for the plan's three years (fiscal 2008 through fiscal 2010), thereby reducing the initial planned amount by approximately ¥10.0 billion.

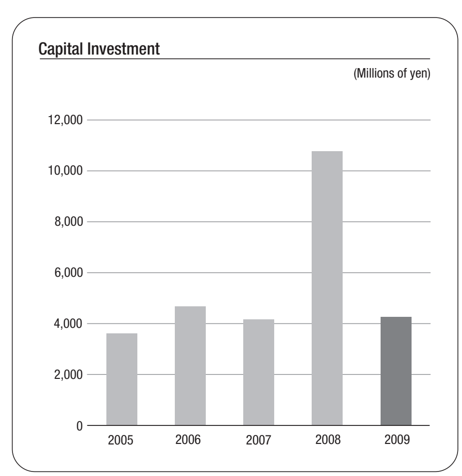
The actual capital investment for the year under review totaled ¥4,264 million (US$43,408 thousand).

(4) Fund Procurement

Working capital and equipment funds were financed by the Company's own capital and bank borrowings.







Consolidated Balance Sheets

As of March 31, 2008 and 2009	2008 (¥ million)	**2009 (¥ million)**
Assets		
Current assets		
Cash and deposits	5,141	**7,891**
Notes and accounts receivable *3 and *5	39,380	**18,648**
Marketable securities	70	**30**
Inventories	49,975	**—**
Merchandise and finished products	—	**6,182**
Work in progress	—	**7,340**
Raw materials and purchased supplies	—	**11,279**
Deferred tax assets	2,609	**1,182**
Accrued income tax repayments	—	**2,184**
Consumption taxes receivable	—	**1,624**
Other current assets	923	**534**
Allowance for doubtful receivables	(854)	**(638)**
Total current assets	97,245	**56,258**
Fixed assets		
Tangible fixed assets		
Buildings and structures *3	48,047	**48,474**
Accumulated depreciation	(31,347)	**(32,241)**
Buildings and structures (net) *3	16,700	**16,233**
Machinery, equipment and vehicles *3	135,584	**136,459**
Accumulated depreciation	(110,609)	**(112,998)**
Machinery, equipment and vehicles (net) *3	24,975	**23,460**
Land *2 and *3	42,071	**42,213**
Construction in progress	875	**741**
Other tangible fixed assets	6,519	**6,821**
Accumulated depreciation	(5,619)	**(5,678)**
Other tangible fixed assets (net)	899	**1,142**
Total tangible fixed assets	85,520	**83,789**
Intangible assets		
Software	1,532	**2,028**
Other intangible assets	116	**137**
Total intangible assets	1,648	**2,165**
Investments and other assets		
Investment securities *1	5,952	**4,137**
Deferred tax assets	824	**1,630**
Other investments and other assets	1,237	**1,155**
Allowance for doubtful receivables	(200)	**(282)**
Total investments and other assets	7,813	**6,641**
Total fixed assets	94,981	**92,595**
Total assets	192,226	**148,853**

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

	2008 (¥ million)	**2009 (¥ million)**
Liabilities		
Current liabilities		
Notes and accounts payable	26,361	**16,173**
Short-term debt *3	25,280	**26,727**
Current portion of long-term debt *3	4,348	**15,526**
Current portion of corporate bonds	220	**—**
Accrued income taxes	6,597	**27**
Accrued consumption taxes	1,100	**880**
Reserve for employees' bonuses	1,875	**985**
Reserve for directors' bonuses	136	**—**
Other current liabilities	4,827	**3,544**
Total current liabilities	70,745	**63,862**
Long-term liabilities		
Long-term debt *3	30,493	**15,917**
Deferred tax liabilities	8,012	**28**
Deferred tax liabilities on land revaluation *2	2,687	**2,687**
Reserve for employees' retirement benefits	10,199	**9,676**
Other long-term liabilities	895	**823**
Total long-term liabilities	52,286	**29,129**
Total liabilities	123,030	**92,992**
Net assets		
Equity		
Common stock	22,251	**22,251**
Capital surplus	7,494	**7,492**
Retained earnings	35,336	**22,776**
Treasury stock	(100)	**(121)**
Total Equity	64,981	**52,398**
Valuation and translation adjustments		
Unrealized gain on available-for-sale securities	430	**(191)**
Net deferred losses on hedges	(166)	**—**
Land revaluation reserve *2	3,127	**3,127**
Foreign currency translation adjustments	190	**(29)**
Total valuation and translation adjustments	3,581	**2,908**
Minority interests	634	**556**
Total net assets	69,196	**55,861**
Total liabilities and net assets	192,226	**148,853**

Consolidated Statements of Operations

Terms ended March 31, 2008 and 2009	2008 (¥ million)	**2009 (¥ million)**
Sales	248,721	**163,680**
Cost of sales *2 and *5	203,899	**165,983**
Gross profit	44,822	**(2,303)**
Selling, general and administrative expenses *1 and *2	13,705	**12,922**
Operating income (loss)	31,117	**(15,226)**
Non-operating income		
Interest income	33	**27**
Dividend income	81	**156**
Rent of fixed assets	34	**43**
Exchange gain	272	**398**
Other non-operating income	215	**240**
Total non-operating income	636	**863**
Non-operating expenses		
Interest paid	1,798	**1,438**
Syndicated loan fees	23	**11**
Loss on sale of trade nates receivable	297	**148**
Other non-operating expenses	292	**466**
Total non-operating expenses	2,410	**2,063**
Ordinary income (loss)	29,343	**(16,425)**
Extraordinary profits		
Amendment to prior income statement	2	**1**
Gain on sales of fixed assets *3	0	**0**
Gain on sale of investment securities	72	**2**
Reversal of allowance for doubtful accounts	28	**132**
Other extraordinary profits	1	**0**
Total extraordinary profits	103	**135**
Extraordinary losses		
Loss on disposal of tangible fixed assets	356	**—**
Loss on sale of tangible fixed assets *4	14	**62**
Loss on valuation of investment securities	107	**1,461**
Loss on sale of investment securities	31	**—**
Loss on valuation of inventories	99	**489**
Other extraordinary losses	4	**223**
Total extraordinary losses	611	**2,235**
Income (loss) before income taxes and minority interests	28,835	**(18,526)**
Income taxes (corporate tax, residential tax and enterprise tax)	11,305	**65**
Prior year income tax payments	—	**78**
Income tax adjustment	(43)	**(7,339)**
Total income tax payments	11,262	**(7,195)**
Minority interest-income (loss)	55	**(8)**
Net income (loss)	17,519	**(11,322)**

*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

Terms ended March 31, 2008 and 2009	2008 (¥ million)	**2009 (¥ million)**
Equity		
Common stock		
Balance at the end of previous period	22,251	**22,251**
Balance at the end of current period	22,251	**22,251**
Capital surplus		
Balance at the end of previous period	7,492	**7,494**
Changes of items during the period		
Disposal of treasury stock	2	**(2)**
Total changes of items during the period	2	**(2)**
Balance at the end of current period	7,494	**7,492**
Retained earnings		
Balance at the end of previous period	19,440	**35,336**
Changes of items during the period		
Cash dividends	(1,610)	**(1,238)**
Net income (loss)	17,519	**(11,322)**
Disposal of treasury stock	—	**(1)**
Reversal of land revaluation reserve	(13)	**—**
Total changes of items during the period	15,897	**(12,560)**
Balance at the end of current period	35,336	**22,776**
Treasury stock		
Balance at the end of previous period	(49)	**(100)**
Changes of items during the period		
Purchase of treasury stock	(52)	**(29)**
Disposal of treasury stock	1	**8**
Total changes of items during the period	(51)	**(21)**
Balance at the end of current period	(100)	**(121)**
Total equity		
Balance at the end of previous period	49,133	**64,981**
Changes of items during the period		
Cash dividends	(1,610)	**(1,238)**
Net income (loss)	17,519	**(11,322)**
Purchase of treasury stock	(52)	**(29)**
Disposal of treasury stock	3	**6**
Reversal of land revaluation reserve	(13)	**—**
Total changes of items during the period	15,848	**(12,583)**
Balance at the end of current period	64,981	**52,398**
Valuation and translation adjustments		
Unrealized gain on available-for-sale securities		
Balance at the end of previous period	1,800	**430**
Changes of items during the period		
Changes outside scope of equity — net	(1,370)	**(620)**
Total changes of items during the period	(1,370)	**(620)**
Balance at the end of current period	430	**(191)**
Net deferred losses on hedges		
Balance at the end of previous period	283	**(166)**
Changes of items during the period		
Changes outside scope of equity — net	(449)	**166**
Total changes of items during the period	(449)	**166**
Balance at the end of current period	(166)	**—**
Land revaluation reserve		
Balance at the end of previous period	3,114	**3,127**
Changes of items during the period		
Reversal of land revaluation reserve	13	**—**
Total changes of items during the period	13	**—**
Balance at the end of current period	3,127	**3,127**
Foreign currency translation adjustments		
Balance at the end of previous period	183	**190**
Changes of items during the period		
Changes outside scope of equity — net	7	**(219)**
Total changes of items during the period	7	**(219)**
Balance at the end of current period	190	**(29)**
Total valuation and translation adjustments		
Balance at the end of previous period	5,380	**3,581**
Changes of items during the period		
Reversal of land revaluation reserve	13	**—**
Changes outside scope of equity — net	(1,812)	**(673)**
Total changes of items during the period	(1,799)	**(673)**
Balance at the end of current period	3,581	**2,908**
Minority interests		
Balance at the end of previous period	623	**634**
Changes of items during the period		
Changes outside scope of equity — net	11	**(78)**
Total changes of items during the period	11	**(78)**
Balance at the end of current period	634	**556**
Total net assets		
Balance at the end of previous period	55,136	**69,196**
Changes of items during the period		
Cash dividends	(1,610)	**(1,238)**
Net income (loss)	17,519	**(11,322)**
Purchase of treasury stock	(52)	**(29)**
Disposal of treasury stock	3	**6**
Changes outside scope of equity — net	(1,801)	**(752)**
Total changes of items during the period	14,060	**(13,334)**
Balance at the end of current period	69,196	**55,861**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Terms ended March 31, 2008 and 2009	2008 (¥ million)	**2009 (¥ million)**
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	28,835	**(18,526)**
Depreciation and amortization	5,040	**5,405**
Amortization of negative goodwill	(1)	**(0)**
Loss on valuation of inventories	1,379	**—**
Decrease in allowance for doubtful receivables	(594)	**(134)**
Increase (decrease) in reserve for employees' bonuses	184	**(890)**
Increase (decrease) in reserve for directors' bonuses	22	**(136)**
Decrease in reserve for employees' retirement benefits	(263)	**(523)**
Decrease in reserve for directors' retirement benefits	(713)	**—**
Interest and dividends received	(114)	**(182)**
Interest expense	1,798	**1,438**
Gain on sale of investment securities	(42)	**(2)**
Loss on valuation of investment securities	107	**1,461**
Loss on sale of tangible fixed assets	14	**62**
Loss of disposal of tangible fixed assets	420	**165**
Decrease in trade notes receivable	4,139	**20,732**
Increase (decrease) in inventories	(491)	**25,173**
Decrease in trade accounts payable	(2,655)	**(10,189)**
Increase (decrease) in accrued consumption taxes	396	**(1,844)**
Other	311	**(263)**
Subtotal	37,770	**21,745**
Interest and dividends received	114	**177**
Interest paid	(1,790)	**(1,445)**
Income taxes paid	(13,405)	**(8,872)**
Net cash provided by operating activities	22,689	**11,605**
Cash flows from investing activities		
Expenditures for deposits in time deposits	(47)	**(59)**
Proceeds from maturity of time deposits	52	**75**
Purchases of noncurrent assets	(9,750)	**(5,043)**
Proceeds from sale of noncurrent assets	20	**15**
Purchases of investment securities	(2,462)	**(366)**
Proceeds from sale of investment securities	205	**4**
Other	(29)	**55**
Net cash used in investing activities	(12,011)	**(5,320)**
Cash flows from financing activities		
Net decrease (increase) in short-term debt	(9,491)	**1,752**
Proceeds from long-term debt	1,024	**980**
Repayment of long-term debt	(4,199)	**(4,378)**
Payment for purchase of treasury stock	(52)	**(29)**
Payment of cash dividends	(1,601)	**(1,238)**
Cash dividends paid to minority shareholders	(11)	**(11)**
Other	3	**(263)**
Net cash used in financing activities	(14,326)	**(3,185)**
Foreign currency translation adjustment of cash and cash equivalents	5	**(374)**
Net (decrease) increase in cash and cash equivalents	(3,644)	**2,726**
Cash and cash equivalents at the beginning of the term	8,721	**5,077**
Balance of cash and cash equivalents at the end of the term	5,077	**7,803**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Term ended March 31, 2009 (April 1, 2008 to March 31, 2009)

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.

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

(3) Tangible fixed assets (excluding lease 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

Additional information

Effective from the reporting business term, the Company and its consolidated subsidiaries in Japan have changed their accounting policy for the depreciation of machinery and equipment in line with amendments to the Income Tax Law enacted in fiscal 2008. Accordingly, the useful life of machinery and equipment has been changed to more effectively reflect the actual useful lives.

The effect of this change on operating loss and ordinary loss, and on loss before income taxes and minority interests, is insignificant.

(4) Intangible assets (excluding lease 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) Lease assets

Lease assets are depreciated by the straight-line method, with the lease period as the useful lives and with no residual value.

Finance lease transactions in which there is no transfer of ownership and for which contracts were concluded prior to April 1, 2008 will continue to be accounted for by a method corresponding to that used for ordinary operating lease contracts.

(6) 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.

(7) Reserve for employees' bonuses

To pay employees' bonuses, the reserve is provided for based on an estimated amount to be paid during that period.

(8) 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.

(9) 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.

(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

Standards for leasing transactions

Previously, finance leases that are not deemed to transfer ownership of the leased property to the lessee were capitalized on the balance sheets. From the fiscal year beginning April 1, 2008, however, companies are able to apply "Accounting Standard for Lease Transactions" (ASBJ Statement No.13, issued March 30, 2007; revised from standard originally issued by the Corporate Accounting Council on June 17, 1993), and "Guidance on Accounting Standard for Lease Transactions," (ASBJ Guidance No.16, issued March 30, 2007; revised from standard originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994). From the period under review, the Company has applied this standard, treating such leases as ordinary buying and selling transactions.

With regard to finance leases in which there is no transfer of ownership for which contracts were concluded prior to April 1, 2008, they will continue to be accounted for by a method corresponding to that used for ordinary operating lease contracts.

These changes have no effect on operating loss, ordinary loss, or loss before income taxes and minority interests.

Unification of Accounting Policies Applied to Overseas Subsidiaries

Beginning with the period under review, the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Practical Issues Task Force No.18, May 17, 2006) is being applied.

These changes have no effect on operating loss, ordinary loss, or loss before income taxes and minority interests.

Loss on disposal of tangible fixed assets

Loss on disposal of tangible fixed assets was previously recognized as extraordinary loss. However, as the majority of such losses stemmed from regular maintenance and overhaul of production plant equipment, and constituted a recurring expense, to modify the periodical allocation of losses to more accurately reflect the reality of the Company's business operations, the management determined that it would be advisable to include losses on disposal of tangible fixed assets (including costs for the dismantling of facilities) in the ordinary loss account. Accordingly, losses on disposal of tangible fixed assets (including facility dismantling expenses) on a consolidated basis, excluding those resulting from extraordinary one-off events, have been included in non-operating expenses with effect from the reporting fiscal year.

Accordingly, ordinary loss increased ¥165 million on a consolidated basis compared with amounts calculated using the previous method.

Changes in Accounting Titles

Consolidated balance sheets

Consequent to amendments to the regulations covering the preparation of consolidated financial statements (Cabinet Office Ordinance No.50 of August 7, 2008), items posted under Inventories up to and including fiscal 2007 have been restated with effect from the reporting term under the three classifications of Merchandise and finished products, Work in progress, and Raw materials and purchased supplies. Figures for these three items for the previous term were ¥12,426 million, ¥23,193 million, and ¥14,355 million, respectively.

Consolidated statements of cash flows

Losses on valuation of inventories were shown separately for fiscal years up to fiscal 2007, but with effect from the reporting period these losses are included in "Increase (decrease) in inventories." The value of losses on valuation of inventories included in decrease in inventories for the reporting period was ¥12,750 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: ¥2,447 million

*3. Assets pledged as collateral and corresponding liabilities

Assets pledged as collateral	Corresponding liabilities
(Details) Buildings and structures: ¥8,371 million <¥8,187 million> Machinery, equipment, and vehicles: ¥16,241 million <¥16,241 million> Land: ¥35,774 million <¥35,178million>	Current portion of long-term debt: ¥15,526 million Long-term debt: ¥10,917 million Short-term debt: ¥4,861 million Notes discounted: ¥1,540 million
Tangible fixed assets: ¥60,387 million <¥59,606 million> (Figures in brackets indicate factory mortgage)	
Notes receivable: ¥293 million <¥293 million> (Figures in brackets indicate trust beneficiary rights on asset securitization)	
Total: ¥60,679 million	Total: ¥32,843 million

4. Contingent liabilities

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥142 million
Total	¥142 million

*5. Notes discounted and endorsed

Notes discounted:	¥2,135 million
Notes endorsed:	¥675 million

Notes to Consolidated Statements of Income

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

Shipping expenses and storage fees:	¥2,176 million
Salary and bonuses:	¥3,458 million
Provision to reserve for employees' bonuses:	¥316 million
Provision for reserve for retirement allowance:	¥540 million

*2. Research and development expenses

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥933 million.

*3. Details

Machinery and equipment: ¥0 million

*4. Details

Machinery and equipment: ¥62 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 ¥12,750 million.

Notes to Consolidated Statement of Changes in Equity

For the fiscal year 2008 (April 1, 2008 through March 31, 2009)

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	194	63	16	242
Total	194	63	16	242

Note: The increase of 63 thousand ordinary shares in treasury resulted from purchase of fractional unit shares. The decreases of 16 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 26, 2008

	Total dividends (¥ million)	Dividends per share (yen)
Ordinary shares	619	5.00
Base date	March 31, 2008	
Initial date for payment	June 27, 2008	

Resolution Board of directors held on October 31, 2008

	Total dividends (¥ million)	Dividends per share (yen)
Ordinary shares	619	5.00
Base date	September 30, 2008	
Initial date for payment	November 28, 2008	

(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 25, 2009

	Total dividends (¥ million)	Dividend source	Dividends per share (yen)
Ordinary shares	371	Retained earnings	3.00
Base date	March 31, 2009		
Initial date for payment	June 26, 2009		

Notes to Consolidated Statements of Cash Flows

Reconciliation of amounts reported in the balance sheets to cash and cash equivalents as of March 31, 2009

Cash and deposits:	¥7,891 million
Time deposits with a maturity over three months:	(¥98 million)
Investment securities with a maturity within three months:	¥10 million
Cash and Cash equivalents:	¥7,803 million

Notes to Lease Transactions

Finance lease transactions (Lessee)
Lease transactions that do not transfer ownership of the leased property

Nature of lease assets

a. Tangible fixed assets

Machinery and equipment, vehicles, tools, furniture and fixtures

b. Intangible assets

Software

Method of depreciation of lease assets

These are as shown in changes in accounting policies included in 4. Accounting standard under "Basis for Preparing the Consolidated Financial Statements."

Finance lease transactions in which there is no transfer of ownership and for which contracts were concluded prior to April 1, 2008 will continue to be accounted for by a method corresponding to that used for ordinary operating lease contracts.

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	2,245	1,168	1,077
Other tangible fixed assets	1,763	1,080	684
(Intangible assets)			
Other intangible assets	288	159	128
Total	4,296	2,407	1,889

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	658
Over one year	1,231
Total	1,889

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: ¥791 million

Depreciation expense: ¥791 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, 2009)

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	663	864	202
Securities	—	—	—
Sub-Total	663	864	202
(The figure in the Balance Sheet is not larger than the acquisition cost.)			
Stock	2,515	2,036	(479)
Securities	70	66	(4)
Sub-Total	2,585	2,102	(483)
Total	3,247	2,967	(281)

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

Sales price ¥44 million

Gain on sale ¥2 million

Loss on sale ¥— 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, 2009)

(a) Retirement benefit obligations	(¥9,676 million)
(b) Unfunded portion of retirement benefit obligations	(¥9,676 million)
(c) Reserve for employee's retirement benefits	(¥9,676 million)

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

3. Retirement benefit costs

(April 1, 2008 to March 31, 2009)

(a) Service cost	¥590 million
(b) Interest cost	¥186 million
(c) Amortization of actuarial losses	¥157 million
Net retirement benefit costs (a+b+c)	¥933 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	400
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	3,926
Denial of valuation loss on tangible fixed assets	2,481
Loss on impairment of fixed assets	923
Difference on land revaluation	344
Denial of valuation loss on inventories	75
Denial of valuation loss on marketable securities	628
Unrealized gain/loss included in fixed assets	288
Excess amount of provision for doubtful accounts	328
Tax loss carried forward	10,454
Others	1,334
Subtotal	21,182
Valuation allowance	(7,700)
Total deferred tax assets	13,482
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	15
Others	880
Total deferred tax liabilities	13,385
Net deferred tax assets	2,812
Net deferred tax liabilities	2,714

Note: Net deferred tax assets (liabilities) for the term under review were in the following accounting titles in Balance Sheets.

	(¥ million)
Current assets: Deferred tax assets	1,182
Fixed assets: Deferred tax assets	1,630
Long-term liabilities: Deferred tax liabilities	28
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

No entry has been made for this item as the Company posted a loss before income taxes and minority interests for the reporting term.

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, 2008 to March 31, 2009)

(¥ million)

	East / Southeast Asia	Europe	Oceania
I. Overseas sales	33,008	4,739	1,292
II. Consolidated sales	—	—	—
III. Ratio of overseas sales to consolidated sales (%)	20.2	2.9	0.8

	North America	Middle East	Other	Total
I. Overseas sales	1,293	171	1,233	41,736
II. Consolidated sales	—	—	—	163,680
III. Ratio of overseas sales to consolidated sales (%)	0.8	0.1	0.8	25.5

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.

Related-Party Transactions

Additional information

The accounting treatment stipulated in "Accounting Standard for Related Party Disclosure" (Business Accounting Standards No.11, issued on October 17, 2006) and "Practical Guidelines for Application of Accounting Standard for Related Party Disclosure" (Guidelines No.13, issued on October 17, 2006 on practical application of corporate accounting standards) have been applied with effect from the reporting term.

This change has no effect on the scope of related-party transactions.

Per Share Information

	(¥)
Net assets per share	446.98
Net loss per share	91.49

No information has been posted for EPS after adjustment for the dilutive effect of dormant shares, as the Company posted a net loss per share and there are no share warrants outstanding.

Note: Bases for calculating net loss per share are as follows.

	Term under review ended March 31, 2009
(Earnings per share)	
Net loss for the term (¥ million)	11,322
Amounts not available to distribution to common shareholders (¥ million)	—
Net loss applicable to ordinary shares (¥ million)	11,322
Average numbers of ordinary shares during the term (in thousands)	123,752

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
Michio Morooka
Kuniaki Osada

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

Standing Corporate Auditors
Takao Isakari
Hideyuki Sakakibara

Corporate Auditors
Hisao Uchiumi
Hayao Tanaka
(as of June 29, 2009)

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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