Annual Report 2010

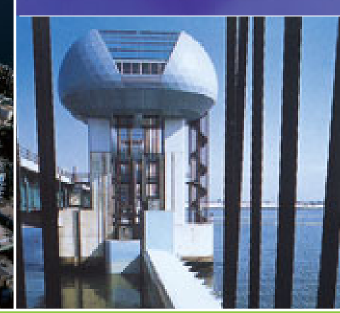
NIPPON YAKIN KOGYO CO., LTD.

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 ¥93.04 per U.S.1.00 dollar, the rate prevailing as of March 31, 2010.

Financial Highlights

Five years ended March 31

Consolidated Data	2006	2007	2008	2009	**2010**
<Millions of yen>					
Net sales	¥148,987	194,940	248,721	163,680	**97,343**
Ordinary income (loss)	10,730	23,913	29,343	(16,425)	**(6,635)**
Net income (loss)	5,980	15,284	17,519	(11,322)	**(12,585)**
Net assets	39,630	55,136	69,196	55,861	**44,005**
Total assets	163,427	196,005	192,226	148,853	**142,934**
<Yen>					
Net assets per share	¥ 266.49	440.26	553.90	446.98	**351.03**
Net income (loss) per share	62.43	139.40	141.51	(91.49)	**(101.72)**
Diluted earnings per share	50.16	—	—	—	**—**
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Shareholders' equity ratio	24.2	27.8	35.7	37.2	**30.4**
Return on equity	16.2	32.5	28.5	(18.3)	**(25.5)**
Price earnings ratio	8.41	7.83	5.64	(2.34)	**(3.64)**
<Millions of yen>					
Cash flows from operating activities	¥ 13,689	5,549	22,689	11,605	**(999)**
Cash flows from investing activities	(4,564)	(4,538)	(12,011)	(5,320)	**(2,736)**
Cash flows from financing activities	(10,546)	1,048	(14,326)	(3,185)	**2,796**
Cash and cash equivalents at the term end	¥ 6,538	8,721	5,077	7,803	**6,870**
Number of employees	2,139	2,198	2,252	2,263	**2,193**

Non-Consolidated Data	2006	2007	2008	2009	**2010**
<Millions of yen>					
Net sales	¥112,179	155,242	199,511	129,763	**73,003**
Ordinary income (loss)	9,363	19,352	24,817	(4,347)	**(9,429)**
Net income (loss)	5,706	11,335	14,774	(3,559)	**(12,888)**
Paid-in capital	14,743	22,251	22,251	22,251	**22,251**
Net assets	38,270	49,039	60,666	55,330	**43,125**
Total assets	126,329	159,220	159,589	130,653	**125,705**
<Thousands of shares>					
Total number of shares outstanding	166,519	123,973	123,973	123,973	**123,973**
<Yen>					
Net assets per share	¥ 251.61	396.05	490.11	447.18	**348.62**
Cash dividend per share					
Ordinary shares	5.000	8.000	10.000	8.000	**—**
Preferred shares					
Type1	2.236	—	—	—	**—**
Type2	2.736	—	—	—	**—**
Type3	3.236	—	—	—	**—**
Including interim dividend	(—)	(—)	(5.000)	(5.000)	**(—)**
Net income (loss) per share	59.44	103.38	119.34	(28.76)	**(104.17)**
Diluted earnings per share	47.84	—	—	—	**—**
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Shareholders' equity ratio	30.3	30.8	38.0	42.3	**34.3**
Return on equity	16.0	26.0	26.9	(6.1)	**(26.2)**
Price earnings ratio	8.83	10.55	6.69	(7.44)	**(3.55)**
Payout Ratio	8.4	7.7	8.4	(27.8)	**—**
Number of employees	155	159	164	171	**205**

Notes:
1. The figures for net sales do not include consumption tax.
2. 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.
3. 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.
4. Description of diluted EPS (net income per share) is omitted as the Company posted a net loss for the years ended March 31, 2009 and 2010. (Currently, there exist no share warrants of the Company issued and outstanding.)

Kazuta Sugimori
President

Dear shareholders,

In presenting the annual report for our 128th year of business (commenced April 1, 2009 and ended March 31, 2010), I would like to highlight some notable developments for our shareholders.

The year under review saw a certain amount of improvement in the slack demand situation triggered by the financial crisis in the autumn of 2008. Each passing month brought recovery in production levels in the stainless and specialty steel industry as the price of nickel, a principal raw material, gradually rose, inventory adjustment in Japan and overseas markets ran its course, and demand for automobiles and home appliances increased following the introduction of the Eco-Point system. In the second half, however, concern about a double-dip recession triggered another contraction in domestic demand, and selling prices weakened. After the turn of the year, Asian markets began showing strong purchase propensity in response to another upturn in the price of nickel raw material. However, recovery in domestic demand remained elusive, and manufacturers were unable to fully reflect raw material prices in selling prices.

The Group experienced gradual improvement in production conditions, and in the first half sales volumes showed a recovery trend, driven by exports. Nevertheless, the Company posted an ordinary loss and a net loss for the year under review as a result of factors including a delay in demand recovery in the domestic market from the second half onward and a time lag in the penetration of selling price increases implemented in response to increases in raw material prices. Due to this adverse profit and loss situation, we regretfully decided to forgo payment of a year-end dividend.

In the stainless and specialty steel industry, the problem of excess supply capacity in China, formerly called the 2006 problem, is in fact occurring. It has become increasingly important for companies to emphasize high-quality products that provide competitive advantage.

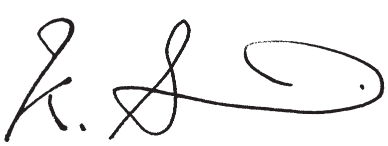
With regard to the Group, decline in demand for high-performance alloys (high-nickel alloys), our mainstay products, has been less severe than for ordinary stainless materials. High-performance alloys have excellent physical properties, such as heat resistance, corrosion resistance, and low coefficients of thermal expansion, and expansion of applications is anticipated in the environment and energy fields, market sectors expected to grow in the coming years. These applications include flue gas desulfurization units and other pollution prevention facilities, seawater desalination facilities, energy-related facilities such as oil and gas plants, parts and materials for fuel cells, and nuclear power facilities. For these reasons, the Group intends to redouble efforts to increase sales of these products.

Specifically, the Oheyama Plant, which smelts ferronickel (an alloy of iron and nickel), a principal raw material, will develop technologies to make full use of various types of Nickel ore from around the world (including low-grade Nickel ore that contains many impurities). The Kawasaki Plant, which uses the ferronickel smelted at the Oheyama Plant, will devise manufacturing methods to expand the scope of use of ferronickel and reduce costs of raw materials. We will also reinforce collaboration among the sales, manufacturing, materials, and administrative divisions and reduce variable costs and fixed costs through means including reduction of inventory loss, diversification of scrap raw materials, and appropriate personnel assignment.

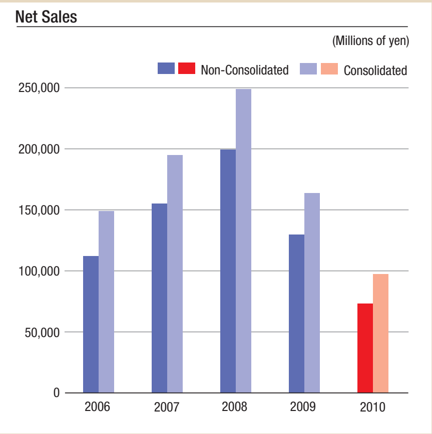
Furthermore, with the aim of ensuring waste-free, timely sales and production activities for the high-variety, low-volume products characteristic of the high-performance alloys business, we will introduce a business simulator to cover everything from cost setting to revenue and profit in accordance with changes in the external environment, such as raw material variation.

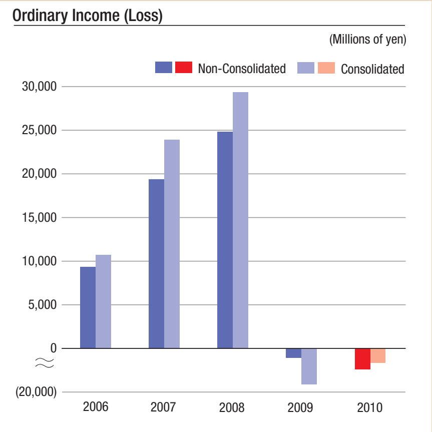
The use of websites to conduct business has become a worldwide trend. At the end of last year we revised the English language corporate website and expanded the Chinese website, and in April of this year we renewed the Japanese website. We reinforced the communication function of the websites by enriching the information content, with an emphasis on high-performance products. We also added to the sites inquiry forms for customers to use to make inquiries or request price quotes and put in place a system and assigned personnel to provide a rapid response to inquiries from Japan and overseas received over the Web.

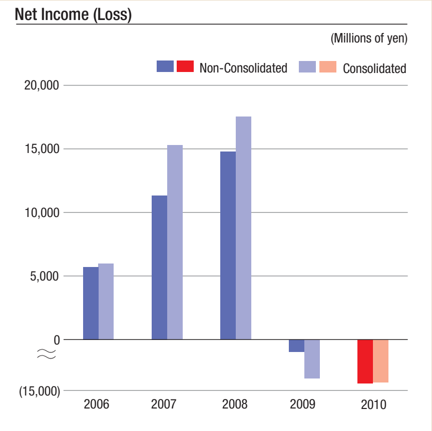
We will strive to open new frontiers in the sense of identifying where changes in demand will lead. The Group will continue to work in unison to steadily identify potential customer needs by focusing attention on market sectors and regions where demand can be expected and become a Global Top Company by achieving appropriate prices and offering quality and delivery times that satisfy customers. I request your steadfast support and cooperation for our endeavors.

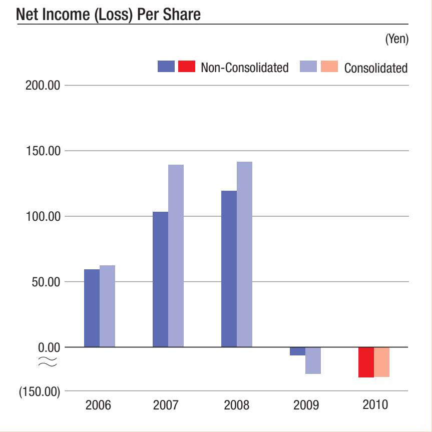


Kazuta Sugimori
President









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.

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.

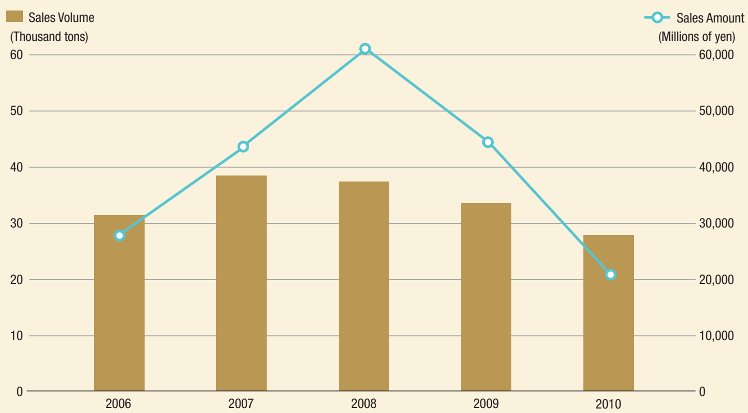
Natural gas is transported from the producing countries to consumer countries in liquid form, known as liquefied natural gas, or LNG. LNG tankers are thus essential to the energy industry. To liquefy natural gas and maintain it in the liquid state, it must be cooled to approximately minus 162 degrees 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 NAS 36LG invar alloy for the internal walls of box-shaped membrane-type LNG tanks. NAS 36LG 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 NAS 36LG invar alloy thus plays a very significant role in enabling the safe marine transportation of LNG.

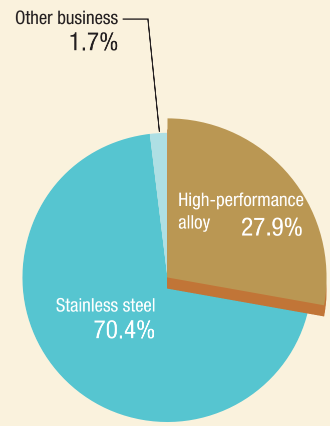
Sales Volume and Sales Amount of High-performance alloy

(Non-Consolidated)



Net Sales Breakdown
(Year ended March 2010)

(Non-Consolidated)



NAS NM15M 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. NAS 800H, which excels in heat resistance, is being used in the body of such waste combustion kilns.

Type			Chemical composition (%)			
NAS	UNS Number	DIN/EN Number	Ni	Cr	Mo	Mn
NAS 254N	S32053	—	24.00~26.00	22.00~24.00	5.00~6.00	≦1.00
NAS 354N	N08354	—	34.00~36.00	22.00~24.00	7.00~8.00	≦1.00
NAS NW276	N10276	2.4819	Bal	14.50~16.50	15.00~17.00	≦1.00
NAS NW22	N06022	2.4602	Bal	20.00~22.50	12.50~14.50	≦0.50
NAS 36LG	K93600	—	35.00~36.50	—	—	0.20~0.40
NAS NM15M	—	—	4.00~4.60	16.50~17.50	—	14.00~15.00
NAS 800H	N08810	1.4876	30.00~35.00	19.00~23.00	—	≦1.50

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.

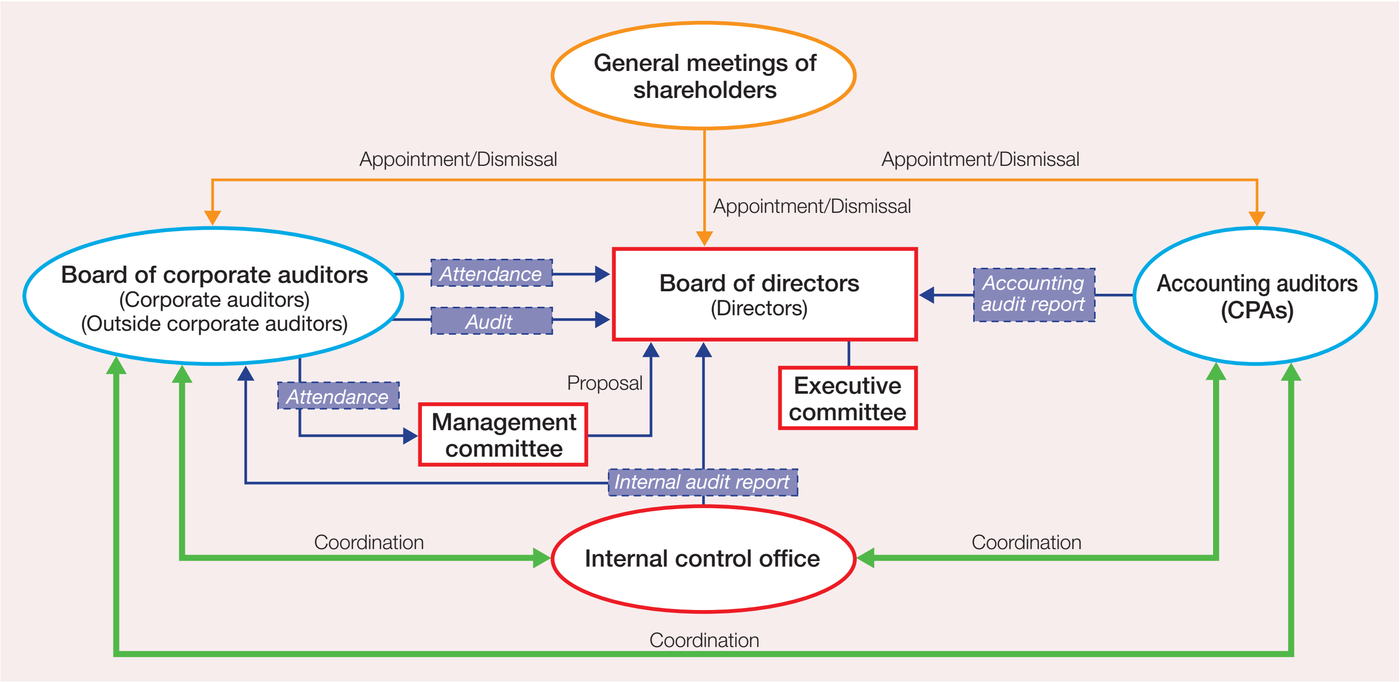
Directors of the Company are limited to 25 by provisions of the Articles of Incorporation.

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.

Kawasaki Plant 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.

Oheyama Plant, is a Ferro-nickel 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)

Business Results

The following is a summary of the results for stainless steel and other processed products, the Group's business.

In the first half of the fiscal year under review, the Group was able to weather the worst of the recession triggered by the financial crisis thanks to an increase in exports, principally to China, and recovery in demand for products for the automotive and home appliance industries. The second half, however, brought extreme business instability in which the Group implemented another round of production cuts necessitated by yen appreciation coupled with softening of domestic demand for ordinary stainless materials due to a prolonged slump in the housing and construction-related industries.

Prices of nickel and other raw materials bottomed out at the start of the fiscal year under review and rose throughout the remainder of the period. However, selling price adjustments lagged behind increases in raw material prices throughout the year, resulting in a 41% decrease in consolidated net sales from the previous period to ¥97,343 million (US$1,046,249 thousand).

The Group has positioned high-performance alloys as its most strategically important products. Although sales volumes for these products fell sharply in the first half, they showed a robust recovery in the second half. The recovery was especially strong for highly corrosion-resistant steel and highly heat-resistant steel. Nevertheless, as was the case with ordinary stainless materials, penetration of selling price adjustments failed to keep pace with increases in raw materials prices, and the Company's net sales of these products decreased by 54% year on year to ¥20,506 million (US$220,400 thousand).

Domestic sales accounted for ¥74,843 million (US$804,417 thousand) (77%) of total consolidated net sales of ¥97,343 million (US$1,046,249 thousand), while export sales accounted for ¥22,500 million (US$241,831 thousand) (23%).

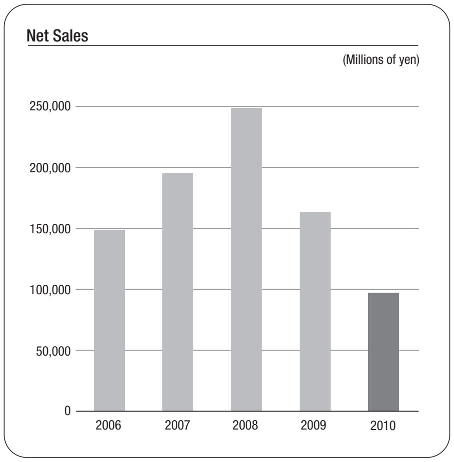
The Company posted a net loss of ¥12,585 million (US$135,264 thousand) for the fiscal year under review, as a result of factors including the recording of extraordinary losses of approximately ¥2.5 billion in connection with a review of the potential for recovery of deferred tax assets and radical business restructuring at consolidated subsidiary Nas Toa Co., Ltd.

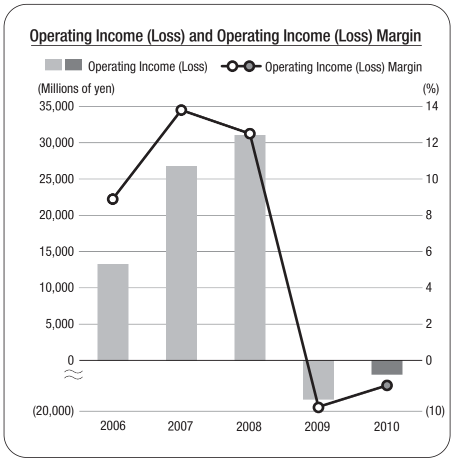
Issues Facing the Company

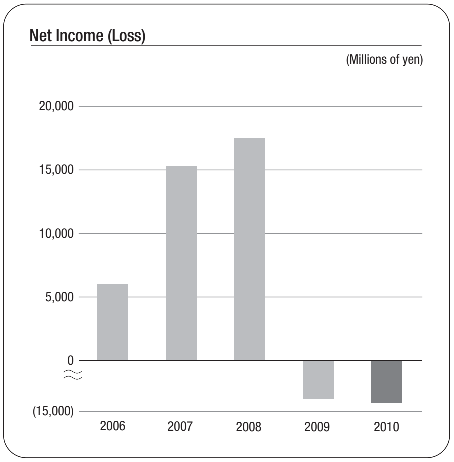
The business environment in which the Group operates is certain to remain adverse owing to a delay in full-scale economic recovery in Japan and concerns about the impact on the global economy of economic turmoil in Europe.

Nevertheless, since steady economic growth is expected to continue in developing countries such as China and India and in resource producing countries, the Company expects healthy expansion in demand for stainless and specialty steel, primarily in export markets. Also, in fiscal 2010 the Group intends to steadily proceed with selling price adjustments, which have lagged behind increases in the price of nickel and other raw materials.

Active participation in such growth markets will become even more important to the Group in the







coming years. In particular, since growth in demand for high-performance alloys, strategically important products for the Company, can be expected in these markets, it will become important to expand the overseas sales network to reliably identify this demand. By achieving competitive quality, delivery times, and cost as a Global Top Company, the goal set forth in the medium-term management plan, we will develop an operating structure that will make it possible to win orders in any business environment.

On April 1, 2010, the Company absorbed manufacturing subsidiaries YAKIN Kawasaki Co., Ltd. and YAKIN Oheyama Co., Ltd. and information systems subsidiary Nas Business Service Co., Ltd. The Company has two principal aims in absorbing these subsidiaries. The first aim is to redevelop the organizational structure so as to maximally demonstrate the characteristics of the Group, which engages in end-to-end production from raw materials to finished products, in response to changes in the economic and management environment. The second aim is to realize greater efficiency in management and appropriate corporate governance while complying with changes in the law and the accounting system. In circumstances of sudden, dramatic changes in product markets and raw material markets, the Company believes that the reorganization will make it possible to establish a structure for more rapid decision-making and to implement sales expansion measures and cost reduction measures through the unification of production and sales.

In February of this year, consolidated subsidiary Nas Toa Co., Ltd., which has faced a continuing slump in earnings, began implementing a Business Revitalization Plan formulated to radically improve its earnings structure. Nas Toa's stainless welded steel pipe business is a core business of the Group, and the company intends to reinforce its business and stabilize earnings by collaborating with its consolidated subsidiary NAS TOA (THAILAND) CO., LTD., which engages in the same business in Thailand. Through these initiatives, management intends to improve the earnings of the Group as a whole. We request the steadfast support and cooperation of our shareholders in the coming years.

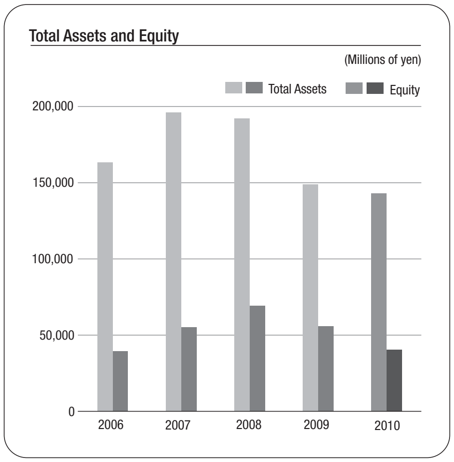
Capital Investment

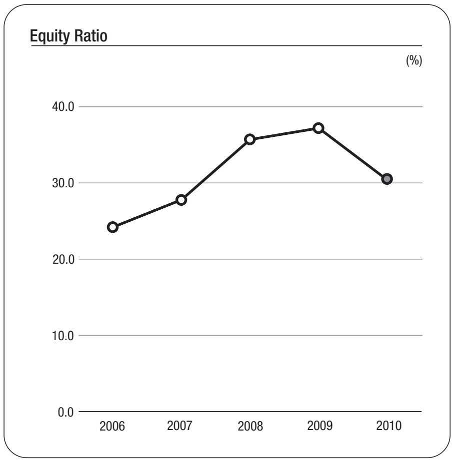
Last year the Company conducted a fundamental review of the medium-term management plan. Following the review, the Group is limiting capital spending to investments to increase sales of high-performance alloys, the most strategically important products, and environment-related investments. In the fiscal year under review, the Group carefully examined the timing of implementation of capital investment and strove to increase investment efficiency by means including measures to extend the useful life of facilities.

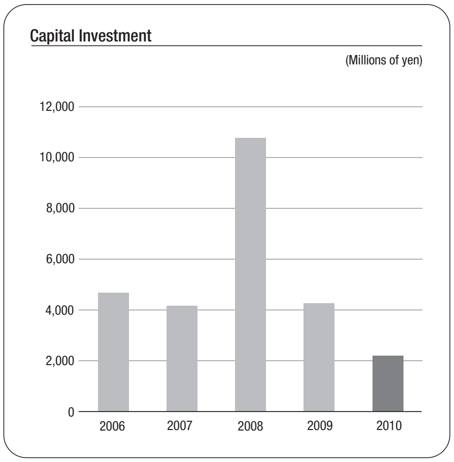
As a result, capital investments in the period totaled ¥2,191 million (US$23,549 thousand).

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, 2009 and 2010	2009 (¥ million)	**2010 (¥ million)**
Assets		
Current assets		
Cash and deposits	7,891	**7,330**
Notes and accounts receivable *3 and *5	18,648	**19,993**
Marketable securities	30	**30**
Merchandise and finished products	6,182	**6,592**
Work in progress	7,340	**12,226**
Raw materials and purchased supplies	11,279	**7,118**
Deferred tax assets	1,182	**722**
Accrued income tax repayments	2,184	**—**
Consumption taxes receivable	1,624	**1,509**
Other current assets	534	**580**
Allowance for doubtful receivables	(638)	**(565)**
Total current assets	56,258	**55,535**
Fixed assets		
Tangible fixed assets		
Buildings and structures *3	48,474	**48,698**
Accumulated depreciation	(32,241)	**(33,255)**
Buildings and structures (net) *3	16,233	**15,443**
Machinery, equipment and vehicles *3	136,459	**136,287**
Accumulated depreciation	(112,998)	**(115,451)**
Machinery, equipment and vehicles (net) *3	23,460	**20,836**
Land *2 and *3	42,213	**40,198**
Construction in progress	741	**574**
Other tangible fixed assets	6,821	**6,672**
Accumulated depreciation	(5,678)	**(5,599)**
Other tangible fixed assets (net)	1,142	**1,072**
Total tangible fixed assets	83,789	**78,123**
Intangible fixed assets		
Software	2,028	**1,621**
Other intangible fixed assets	137	**117**
Total intangible fixed assets	2,165	**1,738**
Investments and other assets		
Investment securities *1	4,137	**5,460**
Deferred tax assets	1,630	**1,293**
Other investments and other assets	1,155	**855**
Allowance for doubtful receivables	(282)	**(69)**
Total investments and other assets	6,641	**7,539**
Total fixed assets	92,595	**87,399**
Total assets	148,853	**142,934**

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

	2009 (¥ million)	**2010 (¥ million)**
Liabilities		
Current liabilities		
Notes and accounts payable	16,173	**17,606**
Short-term debt *3	26,727	**25,668**
Current portion of long-term debt *3	15,526	**6,373**
Accrued income taxes	27	**468**
Accrued consumption taxes	880	**195**
Reserve for employees' bonuses	985	**849**
Other current liabilities	3,544	**3,342**
Total current liabilities	63,862	**54,502**
Long-term liabilities		
Long-term debt *3	15,917	**27,821**
Deferred tax liabilities	28	**2,550**
Deferred tax liabilities on land revaluation *2	2,687	**1,926**
Reserve for employees' retirement benefits	9,676	**9,296**
Reserve for environmental measures	—	**439**
Other long-term liabilities	823	**2,395**
Total long-term liabilities	29,129	**44,427**
Total liabilities	92,992	**98,929**
Net assets		
Equity		
Common stock	22,251	**22,251**
Capital surplus	7,492	**7,492**
Retained earnings	22,776	**10,888**
Treasury stock	(121)	**(130)**
Total Equity	52,398	**40,500**
Valuation and translation adjustments		
Unrealized gain on available-for-sale securities	(191)	**889**
Land revaluation reserve *2	3,127	**2,059**
Foreign currency translation adjustments	(29)	**(25)**
Total valuation and translation adjustments	2,908	**2,923**
Minority interests	556	**581**
Total net assets	55,861	**44,005**
Total liabilities and net assets	148,853	**142,934**

Consolidated Statements of Operations

Terms ended March 31, 2009 and 2010	2009 (¥ million)	**2010 (¥ million)**
Sales	163,680	**97,343**
Cost of sales *2 and *5	165,983	**91,608**
Gross profit	(2,303)	**5,735**
Selling, general and administrative expenses *1 and *2	12,922	**11,047**
Operating income (loss)	(15,226)	**(5,312)**
Non-operating income		
Interest income	27	**12**
Dividend income	156	**101**
Rent of fixed assets	43	**36**
Exchange gain	398	**48**
Interest on refund	—	**98**
Other non-operating income	240	**75**
Total non-operating income	863	**370**
Non-operating expenses		
Interest paid	1,438	**1,325**
Syndicated loan fees	11	**—**
Loss on sale of trade nates receivable	148	**74**
Other non-operating expenses	466	**294**
Total non-operating expenses	2,063	**1,694**
Ordinary income (loss)	(16,425)	**(6,635)**
Extraordinary profits		
Amendment to prior income statement	1	**2**
Gain on sales of fixed assets *3	0	**7**
Gain on sale of investment securities	2	**—**
Reversal of allowance for doubtful accounts	132	**138**
Other extraordinary profits	0	**0**
Total extraordinary profits	135	**147**
Extraordinary losses		
Loss on sale of tangible fixed assets *4	62	**0**
Impairment loss *6	—	**2,529**
Loss on valuation of investment securities	1,461	**3**
Loss on valuation of inventories	489	**94**
Provision to reserve for environmental measures	—	**439**
Other extraordinary losses	223	**304**
Total extraordinary losses	2,235	**3,369**
Income (loss) before income taxes and minority interests	(18,526)	**(9,857)**
Income taxes (corporate tax, residential tax and enterprise tax)	65	**371**
Prior year income tax payments	78	**—**
Income tax adjustment	(7,339)	**2,326**
Total income tax payments	(7,195)	**2,697**
Minority interest-income (loss)	(8)	**31**
Net income (loss)	(11,322)	**(12,585)**

*1 to *6 above refer to the section, "Notes to Consolidated Statements of Income," under the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Terms ended March 31, 2009 and 2010	2009 (¥ million)	**2010 (¥ 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	7,494	**7,492**
Changes of items during the period		
Disposal of treasury stock	(2)	**—**
Total changes of items during the period	(2)	**—**
Balance at the end of current period	7,492	**7,492**
Retained earnings		
Balance at the end of previous period	35,336	**22,776**
Changes of items during the period		
Cash dividends	(1,238)	**(371)**
Net income (loss)	(11,322)	**(12,585)**
Disposal of treasury stock	(1)	**(0)**
Reversal of land revaluation reserve	—	**1,068**
Total changes of items during the period	(12,560)	**(11,888)**
Balance at the end of current period	22,776	**10,888**
Treasury stock		
Balance at the end of previous period	(100)	**(121)**
Changes of items during the period		
Purchase of treasury stock	(29)	**(10)**
Disposal of treasury stock	8	**0**
Total changes of items during the period	(21)	**(10)**
Balance at the end of current period	(121)	**(130)**
Total equity		
Balance at the end of previous period	64,981	**52,398**
Changes of items during the period		
Cash dividends	(1,238)	**(371)**
Net income (loss)	(11,322)	**(12,585)**
Purchase of treasury stock	(29)	**(10)**
Disposal of treasury stock	6	**0**
Reversal of land revaluation reserve	—	**1,068**
Total changes of items during the period	(12,583)	**(11,898)**
Balance at the end of current period	52,398	**40,500**
Valuation and translation adjustments		
Unrealized gain on available-for-sale securities		
Balance at the end of previous period	430	**(191)**
Changes of items during the period		
Changes outside scope of equity — net	(620)	**1,080**
Total changes of items during the period	(620)	**1,080**
Balance at the end of current period	(191)	**889**

	2009 (¥ million)	**2010 (¥ million)**
Net deferred losses on hedges		
Balance at the end of previous period	(166)	**—**
Changes of items during the period		
Changes outside scope of equity — net	166	**—**
Total changes of items during the period	166	**—**
Balance at the end of current period	—	**—**
Land revaluation reserve		
Balance at the end of previous period	3,127	**3,127**
Changes of items during the period		
Reversal of land revaluation reserve	—	**(1,068)**
Total changes of items during the period	—	**(1,068)**
Balance at the end of current period	3,127	**2,059**
Foreign currency translation adjustments		
Balance at the end of previous period	190	**(29)**
Changes of items during the period		
Changes outside scope of equity — net	(219)	**4**
Total changes of items during the period	(219)	**4**
Balance at the end of current period	(29)	**(25)**
Total valuation and translation adjustments		
Balance at the end of previous period	3,581	**2,908**
Changes of items during the period		
Reversal of land revaluation reserve	—	**(1,068)**
Changes outside scope of equity — net	(673)	**1,084**
Total changes of items during the period	(673)	**16**
Balance at the end of current period	2,908	**2,923**
Minority interests		
Balance at the end of previous period	634	**556**
Changes of items during the period		
Changes outside scope of equity — net	(78)	**26**
Total changes of items during the period	(78)	**26**
Balance at the end of current period	556	**581**
Total net assets		
Balance at the end of previous period	69,196	**55,861**
Changes of items during the period		
Cash dividends	(1,238)	**(371)**
Net income (loss)	(11,322)	**(12,585)**
Purchase of treasury stock	(29)	**(10)**
Disposal of treasury stock	6	**0**
Changes outside scope of equity — net	(752)	**1,110**
Total changes of items during the period	(13,334)	**(11,856)**
Balance at the end of current period	55,861	**44,005**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Terms ended March 31, 2009 and 2010	2009 (¥ million)	**2010 (¥ million)**
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	(18,526)	**(9,857)**
Depreciation and amortization	5,405	**5,712**
Impairment loss	—	**2,529**
Amortization of negative goodwill	(0)	**(1)**
Decrease in allowance for doubtful receivables	(134)	**(219)**
Increase (decrease) in reserve for employees' bonuses	(890)	**(136)**
Increase (decrease) in reserve for directors' bonuses	(136)	**—**
Decrease in reserve for employees' retirement benefits	(523)	**(379)**
Decrease in reserve for directors' retirement benefits	—	**439**
Interest and dividends received	(182)	**(113)**
Interest expense	1,438	**1,325**
Gain on sale of investment securities	(2)	**—**
Loss on valuation of investment securities	1,461	**3**
Loss on sale of tangible fixed assets	62	**(7)**
Loss of disposal of tangible fixed assets	165	**224**
Decrease in trade notes receivable	20,732	**(1,345)**
Increase (decrease) in inventories	25,173	**(1,134)**
Decrease in trade accounts payable	(10,189)	**1,434**
Increase (decrease) in accrued consumption taxes	(1,844)	**(569)**
Other	(263)	**239**
Subtotal	21,745	**(1,856)**
Interest and dividends received	177	**119**
Interest paid	(1,445)	**(1,293)**
Special retirement benefits paid	—	**(53)**
Income taxes paid	(8,872)	**2,085**
Net cash provided by operating activities	11,605	**(999)**
Cash flows from investing activities		
Expenditures for deposits in time deposits	(59)	**(421)**
Proceeds from maturity of time deposits	75	**49**
Purchases of noncurrent assets	(5,043)	**(2,552)**
Proceeds from sale of noncurrent assets	15	**77**
Purchases of investment securities	(366)	**(14)**
Proceeds from sale of investment securities	4	**—**
Other	55	**125**
Net cash used in investing activities	(5,320)	**(2,736)**
Cash flows from financing activities		
Net decrease (increase) in short-term debt	1,752	**(1,058)**
Proceeds from long-term debt	980	**18,930**
Repayment of long-term debt	(4,378)	**(16,178)**
Proceeds from increase in accounts payable — installment purchase	—	**1,726**
Payment of installment payable	—	**(167)**
Payment for purchase of treasury stock	(29)	**(10)**
Payment of cash dividends	(1,238)	**(371)**
Cash dividends paid to minority shareholders	(11)	**(1)**
Other	(263)	**(74)**
Net cash used in financing activities	(3,185)	**2,796**
Foreign currency translation adjustment of cash and cash equivalents	(374)	**5**
Net (decrease) increase in cash and cash equivalents	2,726	**(933)**
Cash and cash equivalents at the beginning of the term	5,077	**7,803**
Balance of cash and cash equivalents at the end of the term	7,803	**6,870**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Term ended March 31, 2010 (April 1, 2009 to March 31, 2010)

Basis for Preparing the Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 12 companies

(2) 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 two 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

(4) Intangible fixed 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.

Changes in Accounting Standards

Beginning from the fiscal year under review, the partial third revision of "Accounting Standards for Retirement Benefits" (Corporate Accounting Standard No.19, July 31, 2008) has been applied.

The operating loss, ordinary loss and loss before income taxes and minority interests resulting from this change had no material impact.

(9) Reserve for Environmental Measures

To provide for expenses related to the removal of asbestos and PCB (polychlorinated biphenyls) waste disposal, the Company posted a reasonably estimated amount at the end of the fiscal year under review.

Additional Information

As it is now possible to reasonably estimate expenses related to said disposal in the fiscal year under review, an estimated amount was posted as a reserve.

Accordingly, loss before income taxes and minority interests increased by ¥439 million.

(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 Accounting Titles

Consolidated statements of operations

"Syndicate loan fees" (¥11 million in the fiscal year under review), which had been classified separately until the previous consolidated fiscal year, is included in "Other non-operating expenses" under "Non-operating expenses" because it amounts to less than one-tenth of total non-operating expenses.

Consolidated statements of cash flows

"Impairment loss" for cash flows from operating activities was included under "Other" in the previous fiscal year, but has been reclassified due to its increased financial importance.

"Impairment loss" included in "Other" in the previous fiscal year was ¥21 million.

Notes to Consolidated Balance Sheets

*1. Investment in nonconsolidated subsidiaries and affiliates

Investment securities (equity shares): ¥512 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: ¥762 million

*3. Assets pledged as collateral and corresponding liabilities

Assets pledged as collateral	Corresponding liabilities
(Details) Buildings and structures: ¥8,751 million <¥8,543 million>	Current portion of long-term debt: ¥6,287 million
Machinery, equipment, and vehicles: ¥13,323 million <¥13,213 million>	Long-term debt: ¥22,477 million Short-term debt: ¥2,781 million
Land: ¥31,205 million <¥30,452 million>	Notes discounted: ¥1,049 million
Tangible fixed assets: ¥53,280 million <¥52,209 million> (Figures in brackets indicate factory mortgage)	
Notes receivable: ¥160 million <¥160 million> (Figures in brackets indicate trust beneficiary rights on asset securitization)	
Total: ¥53,440 million	Total: ¥32,594 million

4. Contingent liabilities

Details: Guarantee for payment of bank loans
Guarantee: Employees
Amount: ¥108 million
Total ¥108 million

*5. Notes discounted and endorsed

Notes discounted: ¥1,651 million
Notes endorsed: ¥372 million

Notes to Consolidated Statements of Income

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

Shipping expenses and storage fees: ¥1,932 million
Salary and bonuses: ¥2,761 million
Provision to reserve for employees' bonuses: ¥266 million
Provision for reserve for retirement allowance: ¥321 million

*2. Research and development expenses

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥755 million.

*3. Details

Machinery and equipment: ¥7 million

*4. Details

Machinery and equipment: ¥0 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 ¥(13,536) million.

*6. Impairment loss

In the fiscal year ended March 31, 2010, the Group posted impairment losses for the following asset groups.

Location	Use	Category	Impairment loss
Chigasaki City, Kanagawa Prefecture	Business assets	Machinery and equipment, land, etc.	¥2,316 million
Katsuura City, etc., Chiba Prefecture	Idle assets	Land, etc.	¥ 212 million

To understand the impairment loss, the Group has classified business assets by business units and idle assets by individual units of property.

In the fiscal year ended March 31, 2010, among business assets are those whose recoverable value has declined due to lower profitability, while among idle assets are those whose recoverable value has declined due to falling land prices. In both cases the Group devalued those assets to their recoverable value and recognized an impairment loss of ¥2,529 million in extraordinary losses.

The recoverable value of idle assets is determined by their net sales value. The calculation of the fair market value used in such case is performed by making a reasonable adjustment of the fixed asset tax valuation.

Notes to Consolidated Statement of Changes in Equity

For the fiscal year 2009 (April 1, 2009 through March 31, 2010)

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	242	28	0	269
Total	242	28	0	269

Note: The increase of 28 thousand ordinary shares in treasury resulted from purchase of fractional unit shares. The decreases of 0 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 25, 2009

	Total dividends (¥ million)	Dividends per share (yen)
Ordinary shares	371	3.00

Base date	March 31, 2009
Initial date for payment	June 26, 2009

(2) Dividends for which the base date falls in the year ended March 31, 2009, and the initial date for the dividend payment falls in the following period

This is not applicable.

Notes to Consolidated Statements of Cash Flows

Reconciliation of amounts reported in the balance sheets to cash and cash equivalents as of March 31, 2010

Cash and deposits:	¥7,330 million
Time deposits with a maturity over three months:	(¥470 million)
Investment securities with a maturity within three months:	¥10 million
Cash and Cash equivalents:	¥6,870 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 fixed 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	2,106	1,357	749
Other tangible fixed assets	1,467	1,072	396
(Intangible fixed assets)			
Other intangible fixed assets	255	186	69
Total	3,829	2,615	1,214

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	509
Over one year	705
Total	1,214

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:	¥658 million
Depreciation expense:	¥658 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.

Financial Instruments

1. Financial instruments

(1) Policies for financial instruments

The Group's policy is to limit its fund management to short-term deposits, etc. and raise funds through bank borrowings. The Group also uses derivatives transactions to reduce the risk of losses from changes in the prices of assets and liabilities, changes in interest rates and exchange rates, and changes in markets.

(2) Details and risks of financial instruments and the risk management system for financial instruments

Notes and accounts receivable, which are trade receivables, are exposed to the credit risk of customers. Although accounts receivable denominated in foreign currencies are exposed to the risk of exchange rate fluctuations, some of them are hedged using forward exchange contracts. With respect to credit risk, the business administration of each Group company works to reduce risk by regularly monitoring the status of major customers and managing the balance of receivables by credit class of customers and counterparty based on its credit management rules.

Securities and investment securities are primarily stocks in companies with which the Group has a business relationship and are exposed to the risk of market price fluctuations. To reduce the risk, the Group regularly checks the financial position of issuers (business partners) and market prices and continuously reviews the status of holdings, taking the market conditions and relationships with its business partners into account.

Most notes and accounts payable, which are trade payables, are due within one year. Of these, payables denominated in foreign currencies are exposed to the risk of exchange rate fluctuations, but some are hedged using forward exchange contracts.

Of borrowings, short-term debt is raised for working capital, while long-term debt, lease obligations related to financing leases and some accrued liabilities are raised mainly for capital investment. The repayment term is five years after the fiscal year end at longest. Some of them are exposed to interest rate risks but are hedged using derivatives transactions (interest rate swaps).

Derivatives transactions of the Group include forward exchange contracts to hedge the risk of exchange rate fluctuations of trade receivables and payables denominated in foreign currencies, interest rate swaps to hedge the fluctuation risk of interests paid to borrowings, and commodities derivatives transactions to hedge the risk of price fluctuations of commodities such as nickel. For the hedging method and hedged items, the hedging policy and the valuation method of hedge effectiveness of hedge accounting, please refer to "(10) Material hedge accounting transactions" of "4. Accounting standard" in the aforementioned Basis for Preparing the Consolidated Financial Statements.

With respect to the credit risk related to derivatives transactions, we believe that the risk derived from the default of counterparties is minimal as we limit the counterparties to banks and general trading companies with high creditworthiness in Japan. The derivatives transactions are executed and managed in accordance with management rules that set out transaction methods and authorities. At consolidated subsidiaries, derivatives transactions are executed and managed in almost the same manner as they are in the Company.

Although trade payables and borrowings are exposed to liquidity risk, the Group manages the risk in the way that a responsible division tries to maintain liquidity on hand by preparing and updating the cash planning on a timely basis based on reports from each division.

(3) Supplementary explanation of matters relating to fair market values of financial instruments

The fair market values of financial instruments include values based on market prices as well as values rationally calculated if a market price does not exist. As the calculation of fair market values includes variable factors, the fair market values may change if difference preconditions are used.

2. Fair market values of financial instruments

The book values on the consolidated balance sheet as of March 31, 2010, fair market values, and differences are as shown below. Items for which a fair market value is deemed difficult to calculate are not included (see Notes 2).

(¥ million)

	Book value on the consolidated balance sheet	Fair market value	Difference
(1) Cash and deposits	7,330	7,330	—
(2) Notes and accounts receivable	19,993	19,993	—
(3) Securities and investment securities	4,300	4,300	—
Total assets	31,623	31,623	—
(1) Notes and accounts payable	17,606	17,606	—
(2) Short-term debt	25,668	25,668	—
(3) Long-term debt	34,194	34,343	149
Total liabilities	77,468	77,617	149
Derivatives transactions	—	—	—

Notes 1: Calculation methods of fair market values of financial instruments and matters relating to securities and derivatives transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable

As fair market values of these items approximate book values because they are settled in a short period of time, the books values are used as the fair market values.

(3) Securities and investment securities

For stocks, prices on exchanges are used as the fair market values. For bonds, prices on exchanges and prices presented by financial institutions with which the Company has business are used as the fair market values.

Liabilities

(1) Notes and accounts payable and (2) Short-term debt

As fair market values of these items approximate book values since they are settled in a short period of time, the books values are used as the fair market values.

(3) Long-term debt

The fair market value of long-term debt is calculated using the present value obtained by discounting the total amount of principal and interest by an interest rate that is assumed to be used when a similar new debt is borrowed.

Derivatives transactions

Please refer to "Derivatives transactions" in Notes to Consolidated Financial Statements.

Notes 2: Financial instruments for which a fair market value is deemed difficult to figure out

Category	Book value in consolidated balance sheet
Unlisted stocks	¥1,190 million

As it is deemed extremely difficult to figure out the fair market values of these financial instruments, they are not included in "(3) Securities and investment securities."

Notes 3: Scheduled amounts of redemptions of monetary claims and securities with maturity after the consolidated fiscal year end

(¥ million)

	Within one year	Over one year and within five years	Over five years and within 10 years	Over 10 years
Cash and deposits	7,330	—	—	—
Notes and accounts receivable	19,903	—	—	—
Securities and investment securities				
Available-for-sale securities with maturity	20	—	—	—
Total	27,343	—	—	—

Notes 4: Scheduled amounts of redemptions of long-term debt after the consolidated fiscal year end

Please refer to the "detail list of debt" in the consolidated supplementary schedules.

Additional information

The Accounting Standards for Financial Instruments (Accounting Standards Board of Japan (ASBJ) Statement No.10, March 10, 2008) and the "Guidance on Disclosures about Fair market value of Financial Instruments" (ASBJ Guidance No.19, March 10, 2008) are applied from the consolidated fiscal year under review.

Market Value of Available-for-Sale Securities

Term under review (as of March 31, 2010)

1. Available-for-sale securities

(¥ million)

	Balance sheet accounts	Acquisition cost	Unrealized gain (loss)
(The figure in the Balance Sheet is larger than acquisition cost.)			
Stock	3,968	2,893	1,075
Securities	64	50	14
Sub-Total	4,032	2,943	1,088
(The figure in the Balance Sheet is not larger than the acquisition cost.)			
Stock	238	294	(56)
Securities	30	30	—
Sub-Total	268	324	(56)
Total	4,300	3,268	1,033

Note: Unlisted stock (¥679 million posted in the consolidated balance sheet) has no market value, and because its fair market value is not readily determinable, it has not been included under "Other securities" in the above table.

Derivatives Transactions

1. Market value information

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

2. Derivatives transactions subject to hedge accounting

Interest rate-related

Hedge accounting method	Transaction type	Main hedged item	Contract value (¥ Million)	Contract value Over one year (¥ Million)	Fair market value (¥ Million)
Interest rate swaps subject to special treatment	Interest rate swap transaction Floating rate receivable/ Fixed rate payable	Long-term debt	21,970	18,468	Note

Note: Since interest rate swaps subject to special treatment and long-term debt, a hedged item, are accounted for as one unit, the market value of interest rate swaps subject to special treatment is presented inclusive of the market value of said long-term debt.

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, 2010)

(a) Retirement benefit obligations	(¥9,296 million)
(b) Unfunded portion of retirement benefit obligations	(¥9,296 million)
(c) Reserve for employee's retirement benefits	(¥9,296 million)

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

3. Retirement benefit costs

(April 1, 2009 to March 31, 2010)

(a) Service cost	¥581 million
(b) Interest cost	¥174 million
(c) Amortization of actuarial losses	(¥28 million)
Net retirement benefit costs (a+b+c)	¥727 million

Note: Retirement benefit expenses of consolidated subsidiaries that use a simplified method are stated in "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	345
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	3,794
Denial of valuation loss on tangible fixed assets	2,009
Loss on impairment of fixed assets	1,957
Difference on land revaluation	340
Denial of valuation loss on inventories	12
Denial of valuation loss on marketable securities	2,047
Unrealized gain/loss included in fixed assets	297
Excess amount of provision for doubtful accounts	391
Tax loss carried forward	13,242
Others	926
Subtotal	25,361
Valuation allowance	(15,905)
Total deferred tax assets	9,456
Deferred tax liabilities:	
Difference on land revaluation	1,926
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	144
Others	44
Total deferred tax liabilities	11,918
Net deferred tax assets	2,014
Net deferred tax liabilities	4,476

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	722
Fixed assets: Deferred tax assets	1,293
Long-term liabilities: Deferred tax liabilities	2,550
Long-term liabilities: Deferred tax liabilities on land revaluation	1,926

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, 2009 to March 31, 2010)

(¥ million)

	East / Southeast Asia	Europe	Oceania
I. Overseas sales	18,484	2,047	277
II. Consolidated sales	—	—	—
III. Ratio of overseas sales to consolidated sales (%)	19.0	2.1	0.3

	North America	Middle East	Other	Total
I. Overseas sales	544	19	1,129	22,500
II. Consolidated sales	—	—	—	97,343
III. Ratio of overseas sales to consolidated sales (%)	0.6	0.0	1.2	23.1

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

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

Per Share Information

(¥)

Net assets per share	351.03
Net loss per share	101.72

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, 2010
(Earnings per share)	
Net loss for the term (¥ million)	12,585
Amounts not available to distribution to common shareholders (¥ million)	—
Net loss applicable to ordinary shares (¥ million)	12,585
Average numbers of ordinary shares during the term (in thousands)	123,724

Subsequent Event

Merger with consolidated subsidiaries (simplified merger and short-form merger)

On April 1, 2010, the Company merged its consolidated subsidiaries YAKIN Kawasaki Co., Ltd. (hereinafter “YAKIN Kawasaki”), YAKIN Oheyama Co., Ltd. (hereinafter “YAKIN Oheyama”) and Nas Business Service Co., Ltd. (hereinafter “Nas Business Service” and referred to as the “Three Companies” together with YAKIN Kawasaki and YAKIN Oheyama) by absorption.

(1) Purpose of the merger

In 2003, the Company spun off YAKIN Kawasaki and YAKIN Oheyama to improve management efficiency through the complete delegation of authority to these companies. Since then YAKIN Kawasaki has been endeavoring to implement technical sales to sell high-performance products and integrate development and manufacturing, while YAKIN Oheyama has been focusing on efficient management through cost reduction as a base to manufacture raw materials at low prices.

Facing with recent unprecedented changes in the economic and management environments, however, it has become a pressing management issue to redevelop a system for making maximum use of the Group’s strength in producing materials through products in a vertically integrated manner and to further improve management efficiency. It is also necessary to build an appropriate system of governance in response to changes in laws and the accounting system such as the enhancement of an internal control system and the application of the lower of cost or market method. Given these developments, the Company merged the consolidated subsidiaries as described above, recognizing that integrated operation is necessary.

Although Nas Business Service is engaged in the development and maintenance of information systems for the Group, the Company also merged it for the purpose of promptly implementing various business reforms and developing systems.

(2) Summary of the merger

(i) Date of the merger (Effective date)

April 1, 2010

(ii) Method of the merger

The merger was conducted as an absorption-type merger with the Company as the surviving company, and the Three Companies were dissolved. A general meeting of shareholders will not be held in the Company in accordance with the provision (simplified merger) of Article 796, Paragraph 3 of the Companies Act and in the Three Companies in accordance with the provision (short-form merger) of Article 784, Paragraph 1 of the Companies Act.

(iii) Merger ratio and consideration

As the Company owns all shares in the Three Companies, there is no arrangement for the merger ratio. In addition, as the merger does not involve the issue of new shares or an increase in capital stock, no consideration will be paid.

(iv) Equity warrants and bonds with equity warrants of the dissolving companies

The Three Companies do not issue equity warrants or bonds with equity warrants.

(3) Overview of the interested parties of the merger

(As of March 31, 2010)

Corporate name	Nippon Yakin Kogyo Co., Ltd. (surviving company)	YAKIN Kawasaki Co., Ltd. (dissolving company)	YAKIN Oheyama Co., Ltd. (dissolving company)	Nas Business Service Co., Ltd. (dissolving company)
Main business	Manufacture and sale of steel plates, steel forgings and processed goods of stainless steel, heat-resistant steel, and high nickel alloys	Manufacture, processing and sale of non-ferrous metals such as stainless steel, special steel and nickel and their alloys	Refining and sale of iron and ferronickel	Development and operation of computer information systems and the purchase of bills and receivables
Capital stock	¥ 22,251 million	¥ 1,600 million	¥ 300 million	¥ 10 million
Total assets	¥125,705 million	¥83,784 million	¥11,296 million	¥270 million
Net assets	¥ 43,125 million	¥14,509 million	¥ 4,740 million	¥ 75 million

(4) Overview of interested party in the merger

There is no change to the corporate name, business, the head office address, the title and name of the representative, capital stock or the fiscal year end of the Company.

Subsidiaries and Affiliates

Customers

↑

Products

↑

Stainless steel sheets and plates, and processed products
21 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)
Two affiliated companies

*The Company absorbed consolidated subsidiaries Yakin Kawasaki, Yakin Oheyama and Nas Business Service as of April 1, 2010.

Corporate Directory

Board of Directors and Corporate Auditors

President
Kazuta Sugimori

Vice President
Hajime Kimura

Managing Directors
Akio Nonaka
Michio Morooka
Shinichi Sasayama
Hisashi Kubota

Senior Adviser
Yoichi Saji

Directors
Shigenobu Yamasaki
Kazuyuki Saka
Kazunori Nakatani
Makoto Hashinokuchi
Tadashi Hasegawa

Standing Corporate Auditors
Takao Isakari
Kazuo Ichiki

Corporate Auditors
Hisao Uchiumi
Hayao Tanaka
(as of June 25, 2010)

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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