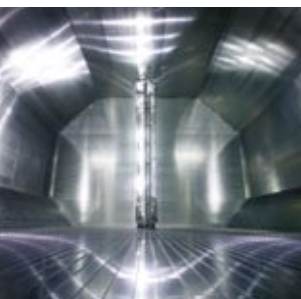




Annual Report **2011**

 **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

1	Financial Highlights	13	Consolidated Statements of Comprehensive Income
2	Message from the President	14	Consolidated Statements of Changes in Equity
4	Strategic Focus	16	Consolidated Statements of Cash Flow
6	Corporate Social Responsibility	17	Notes to Consolidated Financial Statements
8	Financial Review	25	Subsidiaries and Affiliates
10	Consolidated Balance Sheets	25	Corporate Directory
12	Consolidated Statements of Operations		

Note: Amounts stated in U.S. dollars have been converted at ¥83.15 per U.S.1.00 dollar, the rate prevailing as of March 31, 2011.

# Financial Highlights

Five years ended March 31

<b>Consolidated Data</b>	2007	2008	2009	2010	2011
<Millions of yen>					
Net sales.....	¥194,940	248,721	163,680	97,343	<b>138,781</b>
Ordinary income (loss) .....	23,913	29,343	(16,425)	(6,635)	<b>(439)</b>
Net income (loss) .....	15,284	17,519	(11,322)	(12,585)	<b>(10,467)</b>
Comprehensive income .....	—	—	—	—	<b>(10,684)</b>
Net assets.....	55,136	69,196	55,861	44,005	<b>32,629</b>
Total assets .....	196,005	192,226	148,853	142,934	<b>146,330</b>
<Yen>					
Net assets per share.....	¥ 440.26	553.90	446.98	351.03	<b>263.54</b>
Net income (loss) per share .....	139.40	141.51	(91.49)	(101.72)	<b>(84.61)</b>
Diluted earnings per share .....	—	—	—	—	—
<%>					
Shareholders' equity ratio .....	27.8	35.7	37.2	30.4	<b>22.3</b>
Return on equity.....	32.5	28.5	(18.3)	(25.5)	<b>(27.5)</b>
<Times>					
Price earnings ratio .....	7.83	5.64	(2.34)	(3.64)	<b>(2.22)</b>
<Millions of yen>					
Cash flows from operating activities .....	¥ 5,549	22,689	11,605	(999)	<b>(399)</b>
Cash flows from investing activities .....	(4,538)	(12,011)	(5,320)	(2,736)	<b>(3,251)</b>
Cash flows from financing activities .....	1,048	(14,326)	(3,185)	2,796	<b>3,516</b>
Cash and cash equivalents at the term end.....	¥ 8,721	5,077	7,803	6,870	<b>6,724</b>
Number of employees.....	2,198	2,252	2,263	2,193	<b>2,182</b>
<b>Non-Consolidated Data</b>	2007	2008	2009	2010	2011
<Millions of yen>					
Net sales.....	¥155,242	199,511	129,763	73,003	<b>112,258</b>
Ordinary income (loss) .....	19,352	24,817	(4,347)	(9,429)	<b>(1,020)</b>
Net income (loss) .....	11,335	14,774	(3,559)	(12,888)	<b>(7,601)</b>
Paid-in capital.....	22,251	22,251	22,251	22,251	<b>22,251</b>
Net assets.....	49,039	60,666	55,330	43,125	<b>35,171</b>
Total assets .....	159,220	159,589	130,653	125,705	<b>130,935</b>
<Thousands of shares>					
Total number of shares outstanding .....	123,973	123,973	123,973	123,973	<b>123,973</b>
<Yen>					
Net assets per share.....	¥ 396.05	490.11	447.18	348.62	<b>284.33</b>
Cash dividend per share					
Ordinary shares.....	8.000	10.000	8.000	—	—
Including interim dividend .....	(—)	(5.000)	(5.000)	(—)	<b>(—)</b>
Net income (loss) per share .....	103.38	119.34	(28.76)	(104.17)	<b>(61.45)</b>
Diluted earnings per share .....	—	—	—	—	—
<%>					
Shareholders' equity ratio .....	30.8	38.0	42.3	34.3	<b>26.9</b>
Return on equity.....	26.0	26.9	(6.1)	(26.2)	<b>(21.6)</b>
Payout Ratio.....	7.7	8.4	(27.8)	—	—
<Times>					
Price earnings ratio .....	10.55	6.69	(7.44)	(3.55)	<b>(3.06)</b>
Number of employees.....	159	164	171	205	<b>1,072</b>

- 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. Amounts of diluted earnings per share are omitted for our years of business ended March 31, 2009, 2010 and 2011, as net losses were posted and there exist no dilutive shares.  
4. The significant increase in employees at the filing company at the end of the business year ended March 31, 2011 is due to absorption merger of three consolidated subsidiaries on April 1, 2010.

## Message from the President



Kazuta Sugimori  
*President*

### Dear shareholders,

First of all, I would like to thank all of our shareholders for their continued support.

I would also like to express my deepest sorrow for those who passed away due to the Great East Japan Earthquake, and I extend my heartfelt sympathy to those affected by the disaster.

In presenting the annual report for our 129th year of business (from April 1, 2010 to March 31, 2011), I would like to offer a few words.

During the fiscal year under review, competition intensified in the stainless and specialty steel industry, with companies based in countries such as China increasing their production capacities. As a result, coupled with the yen's continued appreciation, the profitability of exports of domestic companies fell further.

With regard to the Group's business, comprising stainless steel and other processed products, demand

generally remained weak except for the automotive and home appliance sectors, which were favorably affected by the economic stimulus measures implemented by the government. However, when the price of nickel, a major raw material, rose during the latter half of the fiscal year, anticipation of higher prices in the Asian markets converted potential demand for stainless steel sheets and plates into actual demand. As a result, sales volumes increased and consolidated net sales rose 42.6% from the previous fiscal year.

We have been striving to expand sales of high-performance alloys, the most strategically important products of the Group, by centering on highly corrosion-resistant and highly heat-resistant steels. As a result, net sales of the Company soared 70.4% year on year.

On the other hand, the Company failed to generate consolidated ordinary income, partly because of delays in adjusting sales prices to reflect increased raw materials costs. The Company also recorded a net loss, due chiefly to a one-time write-down of deferred tax assets, which was done to establish a sound financial base taking into account the above financial situation.

Given the severe business environment mentioned above, we regrettably decided to forgo payment of a year-end dividend.

The economies of China and other emerging nations are forecasted to continue growing at high rates. Meanwhile, in Japan, economic activity is likely to remain sluggish by the recent earthquake, and short- to medium-term restrictions of power supplies may impact private consumption and corporate production activities, to a certain extent.

In the market for ordinary stainless materials, there is expected to be a substantial supply-demand gap for a certain period, centering on Asian markets, due to a sharp increase in production capacity, mainly by Chinese manufacturers.

With regard to high-performance alloys, the Company's strategic products, the market is likely to continue expanding in the energy and environment fields. At the same time, however, global competition is projected to further intensify, given the progress of the globalization of user markets and rival suppliers.

Based on the above developments, the Group has formulated a new medium-term management plan, titled “Reformation 2011,” under which we aim to establish a highly profitable structure, while meeting worldwide needs for high-performance alloys using core technology-based strategies and measures. The plan consists mainly of the following two key points.

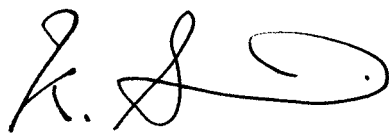
The First is a growth strategy for the global market. We will strive to increase sales in the global market, which is likely to continue expanding, by responding rapidly to changes in market conditions and accurately identifying the needs of customers. To facilitate this, we plan to establish a structure centered on four regions — Japan, the United States, Europe, and Asia; strengthen solution marketing — customer-centered, problem-solving marketing; and establish a production and sales system that can promptly respond to market changes.

The second comprises measures for augmenting competitiveness. Specifically, we will establish a system under which high-performance alloys, the Company’s most strategically important products, are manufactured with nearly the same load as that needed for producing ordinary stainless materials — that is, a generic production system — by enhancing the functions of each process on production lines. We will also develop highly adaptive technologies that can fully utilize various different type of nickel ores as raw materials and make the necessary modifications to these processes. Through these efforts, we will further reduce costs and shorten delivery periods.

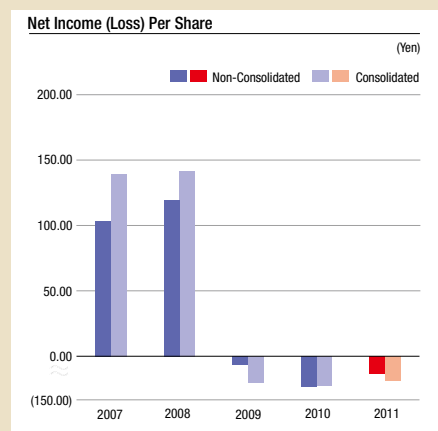
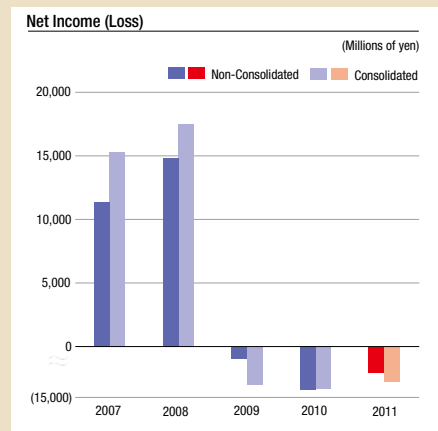
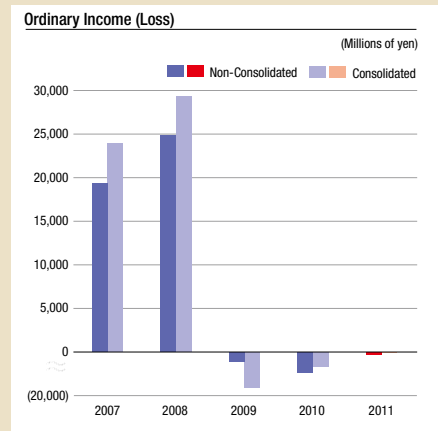
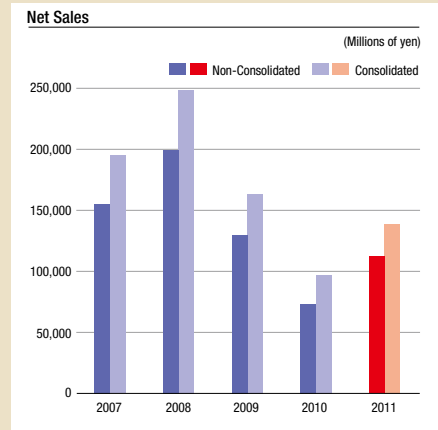
By implementing the plan, as a stainless and specialty steel manufacturer that is highly trusted and is vital to Japan’s economy and overseas markets, we will strengthen our corporate platform. We will also make group-wide efforts to boost earnings.

I would like to ask for your continued support and cooperation.

June 2011



Kazuta Sugimori  
*President*



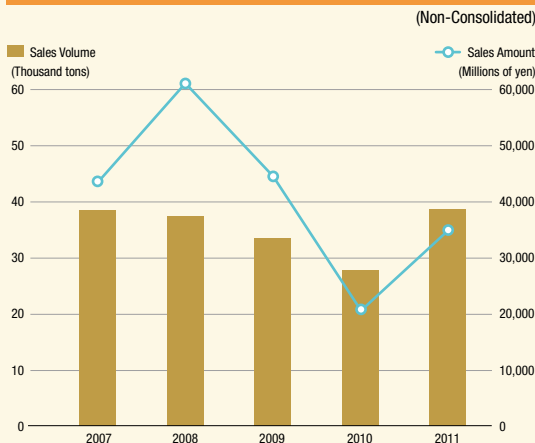
## Strategic Focus

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

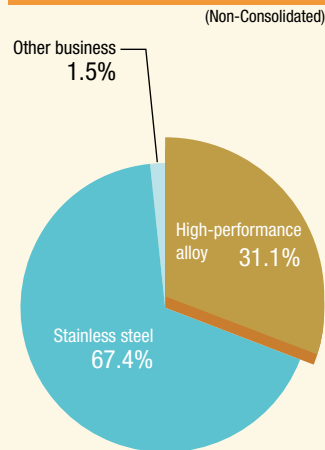
The company has systematized state-of-the-art technologies and integrated production facilities, developed over many years and backed by a comprehensive quality assurance system, enabling it to offer recognized NAS nickel based stainless steels and nickel based high-alloys products to the customers.

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 Volume and Sales Amount of High-performance alloy (Non-Consolidated)



Net Sales Breakdown (Year ended March 2011) (Non-Consolidated)



### NAS800H-based Reactor for Polysilicon Production

From the viewpoint of environmental protection, solar power generation using sunlight, a natural energy resource, is attracting great attention and demand is on the rise. A solar power generation system converts the sun's light energy directly into electricity on the surface of solar panels using semiconductors. High-purity polysilicon is needed to manufacture such semiconductors.

A typical technique for highly purifying silicon materials is the Siemens method, which includes a process in which metal silicon, hydrogen, and chlorine are reacted at high temperatures (about 500°C) and high pressures. Nippon Yakin Kogyo's NAS800H is used as the material of reactors which are used under such a severe environment, due to its excellent heat resistance.



Demand for solar power generation has been increasing remarkably in recent years

NAS800H-based reactor for polysilicon production (Picture courtesy of Nanjing Doble Metal Equipment Engineering Co., Ltd)



# "Reformation 2011"

Achieving competitive quality, costs, and lead times

## Targets of Medium-term Management Plan

To outperform rivals as a competitive stainless and specialty steel manufacturer in Asia

### Establishment of stable financial base

To post ordinary income

To resume dividend payments as soon as possible

To boost shareholders' equity

### Ordinary income target

Consolidated: ¥4.0 billion  
Non-consolidated: ¥3.0 billion

### Sales volume of the high-performance alloy sector

Increase of 50% from 2010

### Measure 1: Growth strategy for the global market

- (1) Establishment of a structure for expanding sales of high-performance alloys



Establish a structure centered on four regions—Japan, U.S., Europe, and Asia

- (2) Proactive efforts to secure overseas demand
- ① Promotion of marketing through overseas operating bases in the four key regions
  - ② Establishment of supply chains, including processing and wholesale functions to shorten lead times for overseas customers
  - ③ Further expansion of overseas operations at Group companies

### Measure 2: Measures for augmenting competitiveness

- (1) Innovations in production process for high-performance alloys (establishment of a generic production system)

#### Generic Production System

Aim to produce high-performance alloys with nearly the same load as that needed for producing ordinary stainless, by improving the entire production process through further innovative, technical improvements and additional capital investment

Achievement of quality improvements, cost reductions, and short lead times

- (2) Augmenting competitiveness through diversification of raw materials base
- ① Augmenting competitiveness of Oheyama ferronickel
  - ② Blending of Oheyama ferronickel with high-performance alloys
  - ③ Effectively using scrap raw materials

# Corporate Social Responsibility

## 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.

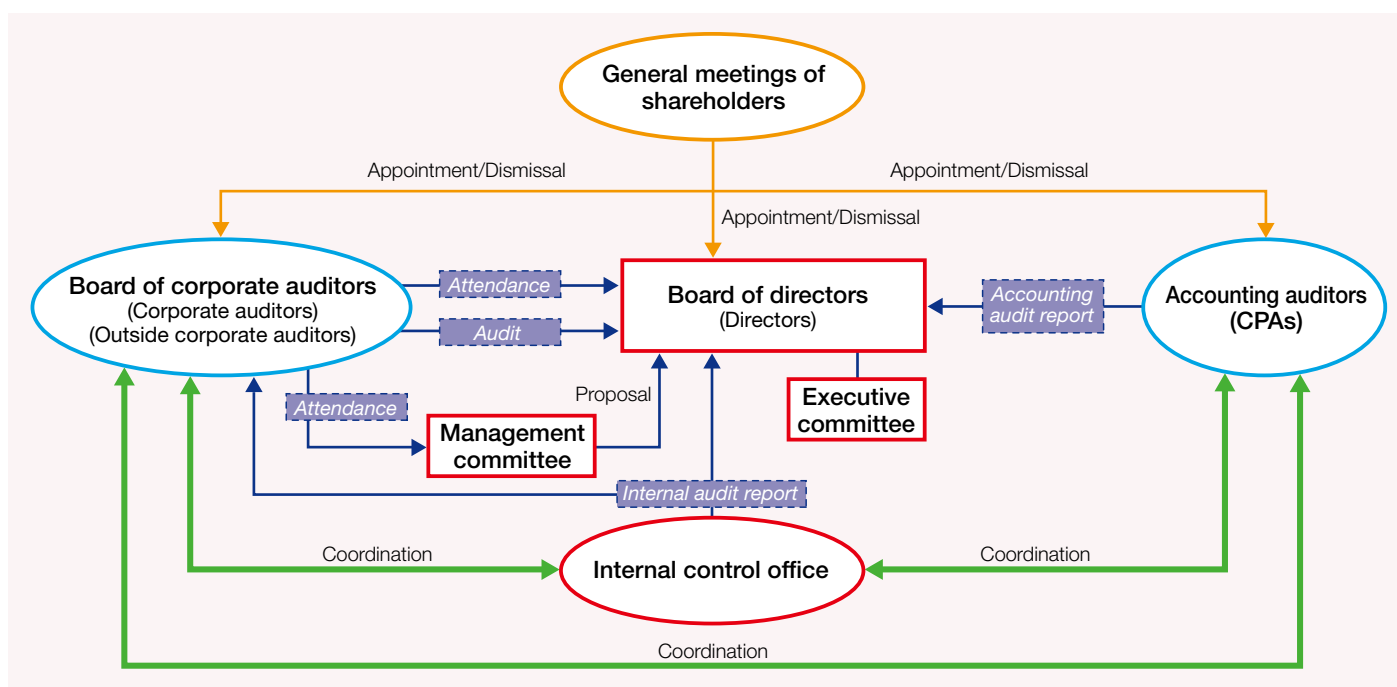
The Company, with respect to the selection resolution of directors, the articles of incorporation provides that the election shall be by a majority of the shareholders with voting rights present with a quorum of one third of all shareholders with voting rights present. Further, selection resolution for 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 paragraph 1.

Both corporate auditors and accounting auditors mutually submit audit plans. Corporate auditors receive reports and explanations on the methods used and



results of audits from accounting auditors on a quarterly basis. Corporate auditors in turn report on the results of business audits undertaken to accounting auditors. In both instances, corporate auditors and accounting auditors engage in a lively exchange of opinions. Moreover, corporate auditors audit the activities of accounting auditors through various measures. This entails attending meetings and witnessing accounting auditors in the conduct of their duties.

Corporate auditors and the Internal Control Office mutually submit audit plans while convening meetings once every two months. Corporate auditors receive reports on the results of internal audits concerning business execution conducted by the Internal Control Office. Corporate auditors then report these results to the Internal Control Office. The details of each report are then the subject of lively exchange.

## Compliance

The Company put in place a set of rules and regulations relating to risk management with the aims of better grasping the risks associated with the Group's business activities and to establish a structure and system to ensure appropriate risk management. In addition to the effective application of these rules and regulations in combination with the pre-existing individual rules and regulations relating to important risks as well as the activities of the Management Committee, which was established to oversee the smooth implementation of these rules, the Company is working diligently to ensure the appropriate management of risk.

The Company's top management issued a Compliance Statement, which set in motion various initiatives. In addition to the establishment of the Compliance Committee, which is charged with the responsibility of discussing, proposing and promoting important policies relating to corporate behavior that adheres strictly to corporate ethics and legal compliance, steps were taken to position compliance as the main priority of the Code of Conduct and to ensure that this Code, which mainly covers corporate activities that

conform with social rules, formed a part of Company's internal regulations. Through these measures, the Company now has in place standards for corporate behavior that instill an awareness of the need for legal compliance in employees and preempt violations.

## Environmental Protection Activities

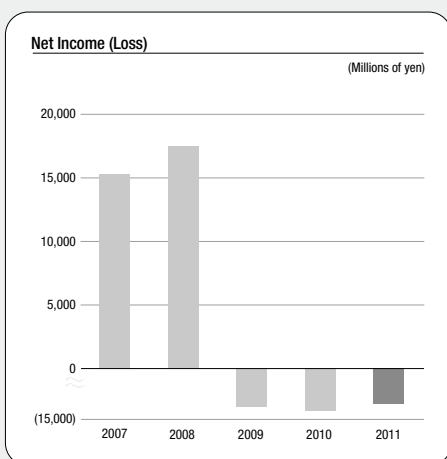
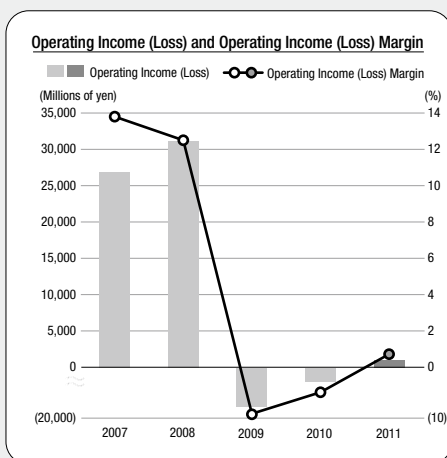
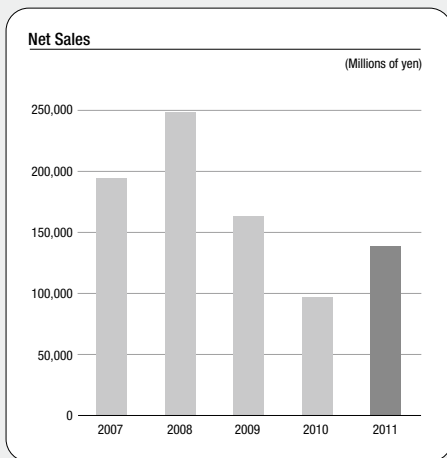
The Group's engages in environmental protection activities under the motto "C&C" (Clean and Circulation), and works to encourage environmental awareness and willingness to promote the environment among its employees.

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 summarizes the results of the Group's businesses for stainless steel and other processed products.

During the consolidated fiscal year under review, the Group focused on overseas demand to boost the volume of orders received, resulting in sales volumes recovering sharply from the previous fiscal year. Consolidated net sales increased 42.6% year on year, to ¥138,781 million (US\$1,669,044 thousand).

Among the products in this business, we continued to expand sales of high-performance alloys, which the Group positions as its most strategically important products, centering on highly corrosion-resistant and highly heat-resistant steels. Consequently, the Company's net sales soared 70.4%, to ¥34,940 million (US\$420,204 thousand).

Of consolidated net sales of ¥138,781 million (US\$1,669,044 thousand), domestic sales accounted for ¥98,832 million (US\$1,188,599 thousand) (71%), while export sales contributed ¥39,949 million (US\$480,445 thousand) (29%).

Unfortunately, the Company failed to generate consolidated ordinary income, partly because of delays in adjusting sales prices to reflect increased raw materials costs. As a result, the Group posted a consolidated ordinary loss of ¥439 million (US\$5,280 thousand) (an improvement of ¥6,196 million (US\$74,516 thousand) from a year earlier).

The Group recorded a net loss of ¥10,467 million (US\$125,881 thousand) (an improvement of ¥2,118 million (US\$25,472 thousand) from a year earlier), due primarily to a one-time write-down of deferred tax assets (worth ¥8,214 million (US\$98,785 thousand)), which was done to establish a sound financial base.

## Issues Facing the Company

The major issues facing Japan are the reconstruction of a safe society, centering on areas affected by the earthquake and tsunami, and the revenue sources needed to achieve this. In addition, Japan faces other real challenges,

including how to regain trust that was seriously damaged by the disaster-related nuclear power plant accidents, and how to use electric power in situations where supply volume is restricted. Under such circumstances, Japanese companies are required to overhaul their production systems, including supply chains and backup systems for emergencies.

In such a situation where Japanese society is being forced to make significant changes, the Group has formulated a new medium-term management plan, titled “Reformation 2011,” under which we aim to establish a highly profitable structure, while meeting worldwide needs for high-performance alloys using core technology-based strategies and measures. By implementing the plan, as a stainless and specialty steel manufacturer that is highly trusted and is vital to Japan’s economy and overseas markets, we will strengthen our corporate platform. We will also make group-wide efforts to boost earnings.

We would like to ask for the continued support and cooperation of our shareholders.

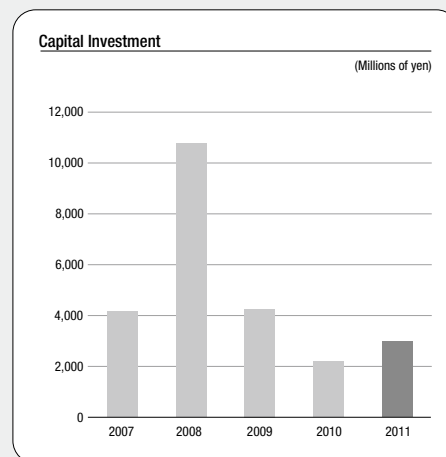
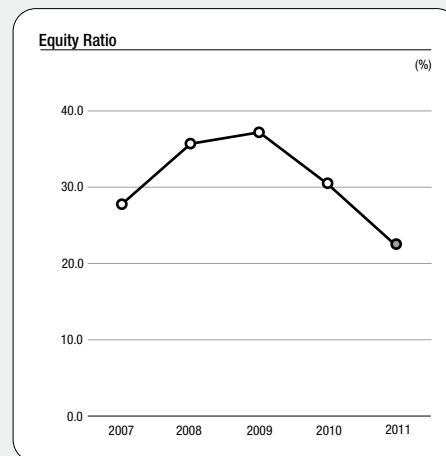
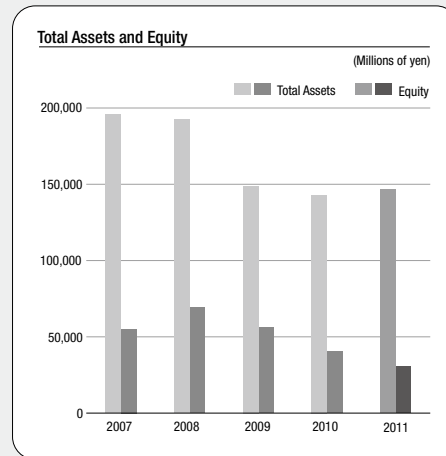
## Capital Investment

The Group took into account trends in the business environment and strove to improve investment efficiency by limiting capital spending to investments aimed at increasing sales of high-performance alloys, which it positions as its most strategically important products, and environment-related investments.

As a result, capital investments during the consolidated fiscal year under review totaled ¥2,985 million (US\$35,899 thousand).

## Fund Procurement

Working capital and equipment funds were financed from the Company’s own funds and bank borrowings.



# Consolidated Balance Sheets

As of March 31, 2010 and 2011

2010 (¥ million)

2011 (¥ million)

## Assets

### Current assets

Cash and deposits .....	7,330	<b>6,938</b>
Notes and accounts receivable .....	19,993	<b>23,651</b>
Marketable securities .....	30	<b>30</b>
Merchandise and finished products .....	6,592	<b>7,129</b>
Work in progress .....	12,226	<b>14,314</b>
Raw materials and purchased supplies .....	7,118	<b>10,418</b>
Deferred tax assets .....	722	<b>449</b>
Consumption taxes receivable .....	1,509	<b>248</b>
Other current assets .....	580	<b>692</b>
Allowance for doubtful receivables .....	(565)	<b>(663)</b>
Total current assets .....	55,535	<b>63,205</b>

### Fixed assets

#### Tangible fixed assets

Buildings and structures *3 .....	48,698	<b>48,832</b>
Accumulated depreciation .....	(33,255)	<b>(34,462)</b>
Buildings and structures (net) *3 .....	15,443	<b>14,369</b>
Machinery, equipment and vehicles *3 .....	136,287	<b>138,093</b>
Accumulated depreciation .....	(115,451)	<b>(118,282)</b>
Machinery, equipment and vehicles (net) *3 .....	20,836	<b>19,811</b>
Land *2 and *3 .....	40,198	<b>39,402</b>
Construction in progress .....	574	<b>557</b>
Other tangible fixed assets .....	6,672	<b>7,097</b>
Accumulated depreciation .....	(5,599)	<b>(5,803)</b>
Other tangible fixed assets (net) .....	1,072	<b>1,294</b>
Total tangible fixed assets .....	78,123	<b>75,433</b>

#### Intangible fixed assets

Software .....	1,621	<b>1,274</b>
Other intangible fixed assets .....	117	<b>207</b>
Total intangible fixed assets .....	1,738	<b>1,481</b>

#### Investments and other assets

Investment securities *1 .....	5,460	<b>5,045</b>
Deferred tax assets .....	1,293	<b>417</b>
Other investments and other assets .....	855	<b>833</b>
Allowance for doubtful receivables .....	(69)	<b>(84)</b>
Total investments and other assets .....	7,539	<b>6,211</b>

Total fixed assets .....	87,399	<b>83,125</b>
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Total assets .....	142,934	<b>146,330</b>
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\*1 to \*3 above refer to the section, "Notes to Consolidated Balance Sheets," under the accompanying Notes to Consolidated Financial Statements.

	2010 (¥ million)	2011 (¥ million)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable .....	17,606	<b>21,531</b>
Short-term debt *3 .....	25,668	<b>30,891</b>
Current portion of long-term debt *3 .....	6,373	<b>12,374</b>
Accrued income taxes .....	468	<b>127</b>
Accrued consumption taxes .....	195	<b>78</b>
Reserve for employees' bonuses .....	849	<b>828</b>
Other current liabilities .....	3,342	<b>4,013</b>
Total current liabilities .....	54,502	<b>69,842</b>
Long-term liabilities		
Long-term debt *3 .....	27,821	<b>20,713</b>
Deferred tax liabilities .....	2,550	<b>9,900</b>
Deferred tax liabilities on land revaluation *2 .....	1,926	<b>1,616</b>
Reserve for employees' retirement benefits .....	9,296	<b>9,371</b>
Reserve for environmental measures .....	439	<b>121</b>
Other long-term liabilities .....	2,395	<b>2,135</b>
Total long-term liabilities .....	44,427	<b>43,858</b>
Total liabilities .....	98,929	<b>113,700</b>
<b>Net assets</b>		
Equity		
Common stock .....	22,251	<b>22,251</b>
Capital surplus .....	7,492	<b>7,492</b>
Retained earnings .....	10,888	<b>871</b>
Treasury stock .....	(130)	<b>(131)</b>
Total Equity .....	40,500	<b>30,482</b>
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities .....	889	<b>541</b>
Net deferred losses on hedges .....	—	<b>(0)</b>
Land revaluation reserve *2 .....	2,059	<b>1,609</b>
Foreign currency translation adjustments .....	(25)	<b>(33)</b>
Total accumulated other comprehensive income .....	2,923	<b>2,117</b>
Minority interests .....	581	<b>30</b>
Total net assets .....	44,005	<b>32,629</b>
Total liabilities and net assets .....	142,934	<b>146,330</b>

# Consolidated Statements of Operations

Terms ended March 31, 2010 and 2011	2010 (¥ million)	2011 (¥ million)
Sales .....	97,343	<b>138,781</b>
Cost of sales *2 and *5 .....	91,608	<b>126,772</b>
Gross profit .....	5,735	<b>12,009</b>
Selling, general and administrative expenses *1 and *2 .....	11,047	<b>10,975</b>
Operating income (loss) .....	(5,312)	<b>1,034</b>
Non-operating income		
Interest income .....	12	<b>1</b>
Dividend income .....	101	<b>118</b>
Rent of fixed assets .....	36	<b>36</b>
Exchange gain .....	48	—
Other non-operating income .....	173	<b>133</b>
Total non-operating income .....	370	<b>288</b>
Non-operating expenses		
Interest paid .....	1,325	<b>1,161</b>
Loss on sale of trade notes receivable .....	74	<b>101</b>
Other non-operating expenses .....	294	<b>500</b>
Total non-operating expenses .....	1,694	<b>1,761</b>
Ordinary income (loss) .....	(6,635)	<b>(439)</b>
Extraordinary profits		
Reversal of reserve for environmental measures .....	—	<b>23</b>
Gain on sales of fixed assets *3 .....	7	<b>9</b>
Gain on sale of investment securities .....	—	<b>36</b>
Reversal of allowance for doubtful accounts .....	138	—
Gains on negative goodwill .....	—	<b>20</b>
Other extraordinary profits .....	2	<b>4</b>
Total extraordinary profits .....	147	<b>92</b>
Extraordinary losses		
Loss on sale of tangible fixed assets *4 .....	0	<b>5</b>
Impairment loss *6 .....	2,529	<b>1,076</b>
Loss on valuation of investment securities .....	3	<b>25</b>
Loss on valuation of inventories .....	94	—
Provision to reserve for environmental measures .....	439	—
Losses due to disaster .....	—	<b>191</b>
Special maintenance-related costs .....	—	<b>183</b>
Other extraordinary losses .....	304	<b>41</b>
Total extraordinary losses .....	3,369	<b>1,521</b>
Income (loss) before income taxes and minority interests .....	(9,857)	<b>(1,867)</b>
Income taxes (corporate tax, residential tax and enterprise tax) .....	371	<b>247</b>
Income tax adjustment .....	2,326	<b>8,214</b>
Total income tax payments .....	2,697	<b>8,460</b>
Loss before minority interests .....	—	<b>(10,328)</b>
Minority interest-income (loss) .....	31	<b>139</b>
Net income (loss) .....	(12,585)	<b>(10,467)</b>

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

## Consolidated Statements of Comprehensive Income

Terms ended March 31, 2010 and 2011	2010 (¥ million)	2011 (¥ million)
Loss before minority interests .....	—	<b>(10,328)</b>
Other comprehensive income		
Unrealized gain on available-for-sale securities .....	—	<b>(347)</b>
Net deferred losses on hedges .....	—	<b>(0)</b>
Foreign currency translation adjustments .....	—	<b>(8)</b>
Total other comprehensive income *2 .....	—	<b>(356)</b>
Comprehensive income *1 .....	—	<b>(10,684)</b>
(Breakdown)		
Comprehensive income attributable to owners of the parent company ...	—	<b>(10,823)</b>
Comprehensive income attributable to minority interests .....	—	<b>139</b>

\*1 and \*2 above refer to the section, "Notes to Consolidated Statements of Comprehensive Income," under the accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Equity

Terms ended March 31, 2010 and 2011	2010 (¥ million)	2011 (¥ million)
<b>Equity</b>		
Common stock		
Balance at the end of previous period.....	22,251	<b>22,251</b>
Balance at the end of current period .....	22,251	<b>22,251</b>
Capital surplus		
Balance at the end of previous period.....	7,492	<b>7,492</b>
Balance at the end of current period .....	7,492	<b>7,492</b>
Retained earnings		
Balance at the end of previous period.....	22,776	<b>10,888</b>
Changes of items during the period		
Cash dividends .....	(371)	—
Net income (loss).....	(12,585)	<b>(10,467)</b>
Disposal of treasury stock .....	(0)	<b>(0)</b>
Reversal of land revaluation reserve .....	1,068	<b>450</b>
Total changes of items during the period .....	(11,888)	<b>(10,017)</b>
Balance at the end of current period .....	10,888	<b>871</b>
Treasury stock		
Balance at the end of previous period.....	(121)	<b>(130)</b>
Changes of items during the period		
Purchase of treasury stock.....	(10)	<b>(1)</b>
Disposal of treasury stock .....	0	<b>0</b>
Total changes of items during the period .....	(10)	<b>(1)</b>
Balance at the end of current period .....	(130)	<b>(131)</b>
Total equity		
Balance at the end of previous period.....	52,398	<b>40,500</b>
Changes of items during the period		
Cash dividends .....	(371)	—
Net income (loss).....	(12,585)	<b>(10,467)</b>
Purchase of treasury stock.....	(10)	<b>(1)</b>
Disposal of treasury stock .....	0	<b>0</b>
Reversal of land revaluation reserve .....	1,068	<b>450</b>
Total changes of items during the period .....	(11,898)	<b>(10,018)</b>
Balance at the end of current period .....	40,500	<b>30,482</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities		
Balance at the end of previous period.....	(191)	<b>889</b>
Changes of items during the period		
Changes outside scope of equity — net .....	1,080	<b>(348)</b>
Total changes of items during the period .....	1,080	<b>(348)</b>
Balance at the end of current period .....	889	<b>541</b>

	2010 (¥ million)	2011 (¥ million)
Net deferred losses on hedges		
Balance at the end of previous period.....	—	—
Changes of items during the period		
Changes outside scope of equity — net.....	—	<b>(0)</b>
Total changes of items during the period.....	—	<b>(0)</b>
Balance at the end of current period.....	—	<b>(0)</b>
Land revaluation reserve		
Balance at the end of previous period.....	3,127	<b>2,059</b>
Changes of items during the period		
Reversal of land revaluation reserve.....	(1,068)	<b>(450)</b>
Total changes of items during the period.....	(1,068)	<b>(450)</b>
Balance at the end of current period.....	2,059	<b>1,609</b>
Foreign currency translation adjustments		
Balance at the end of previous period.....	(29)	<b>(25)</b>
Changes of items during the period		
Changes outside scope of equity — net.....	4	<b>(8)</b>
Total changes of items during the period.....	4	<b>(8)</b>
Balance at the end of current period.....	(25)	<b>(33)</b>
Total accumulated other comprehensive income		
Balance at the end of previous period.....	2,908	<b>2,923</b>
Changes of items during the period		
Reversal of land revaluation reserve.....	(1,068)	<b>(450)</b>
Changes outside scope of equity — net.....	1,084	<b>(356)</b>
Total changes of items during the period.....	16	<b>(806)</b>
Balance at the end of current period.....	2,923	<b>2,117</b>
<b>Minority interests</b>		
Balance at the end of previous period.....	556	<b>581</b>
Changes of items during the period		
Changes outside scope of equity — net.....	26	<b>(552)</b>
Total changes of items during the period.....	26	<b>(552)</b>
Balance at the end of current period.....	581	<b>30</b>
<b>Total net assets</b>		
Balance at the end of previous period.....	55,861	<b>44,005</b>
Changes of items during the period		
Cash dividends.....	(371)	—
Net income (loss).....	(12,585)	<b>(10,467)</b>
Purchase of treasury stock.....	(10)	<b>(1)</b>
Disposal of treasury stock.....	0	<b>0</b>
Changes outside scope of equity — net.....	1,110	<b>(908)</b>
Total changes of items during the period.....	(11,856)	<b>(11,376)</b>
Balance at the end of current period.....	44,005	<b>32,629</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Terms ended March 31, 2010 and 2011	2010 (¥ million)	2011 (¥ million)
<b>Cash flows from operating activities</b>		
Income (loss) before income taxes and minority interests.....	(9,857)	<b>(1,867)</b>
Depreciation and amortization.....	5,712	<b>5,388</b>
Impairment loss.....	2,529	<b>1,076</b>
Amortization of negative goodwill.....	(1)	—
Decrease in allowance for doubtful receivables.....	(219)	<b>113</b>
Increase (decrease) in reserve for employees' bonuses.....	(136)	<b>(21)</b>
Decrease in reserve for employees' retirement benefits.....	(379)	<b>75</b>
Decrease in reserve for directors' retirement benefits.....	439	<b>(318)</b>
Interest and dividends received.....	(113)	<b>(119)</b>
Interest expense.....	1,325	<b>1,161</b>
Loss on valuation of investment securities.....	3	<b>25</b>
Loss on sale of tangible fixed assets.....	(7)	<b>(4)</b>
Loss of disposal of tangible fixed assets.....	224	<b>58</b>
Decrease in trade notes receivable.....	(1,345)	<b>(3,658)</b>
Increase (decrease) in inventories.....	(1,134)	<b>(5,925)</b>
Decrease in trade accounts payable.....	1,434	<b>3,926</b>
Increase (decrease) in accrued consumption taxes.....	(569)	<b>1,144</b>
Other.....	239	<b>288</b>
Subtotal.....	(1,856)	<b>1,341</b>
Interest and dividends received.....	119	<b>119</b>
Interest paid.....	(1,293)	<b>(1,169)</b>
Special retirement benefits paid.....	(53)	—
Income taxes paid.....	2,085	<b>(691)</b>
Net cash provided by operating activities.....	(999)	<b>(399)</b>
<b>Cash flows from investing activities</b>		
Expenditures for deposits in time deposits.....	(421)	<b>(21)</b>
Proceeds from maturity of time deposits.....	49	<b>268</b>
Purchases of noncurrent assets.....	(2,552)	<b>(2,906)</b>
Proceeds from sale of noncurrent assets.....	77	<b>30</b>
Purchases of investment securities.....	(14)	<b>(18)</b>
Proceeds from sale of investment securities.....	—	<b>(685)</b>
Other.....	125	<b>82</b>
Net cash used in investing activities.....	(2,736)	<b>(3,251)</b>
<b>Cash flows from financing activities</b>		
Net decrease (increase) in short-term debt.....	(1,058)	<b>5,237</b>
Proceeds from long-term debt.....	18,930	<b>5,790</b>
Repayment of long-term debt.....	(16,178)	<b>(6,897)</b>
Proceeds from increase in accounts payable — installment purchase.....	1,726	—
Payment of installment payable.....	(167)	<b>(334)</b>
Payment for purchase of treasury stock.....	(10)	<b>(1)</b>
Payment of cash dividends.....	(371)	—
Cash dividends paid to minority shareholders.....	(1)	<b>(62)</b>
Other.....	(74)	<b>(217)</b>
Net cash used in financing activities.....	2,796	<b>3,516</b>
Foreign currency translation adjustment of cash and cash equivalents.....	5	<b>(11)</b>
Net (decrease) increase in cash and cash equivalents.....	(933)	<b>(146)</b>
Cash and cash equivalents at the beginning of the term.....	7,803	<b>6,870</b>
Balance of cash and cash equivalents at the end of the term*.....	6,870	<b>6,724</b>

\* Above refer to the section, "Notes to Consolidated Statements of Cash Flows," under the accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Term ended March 31, 2011 (April 1, 2010 to March 31, 2011)

## Basis for Preparing the Consolidated Financial Statements

### 1. Scope of consolidation

(1) Number of consolidated subsidiaries: 9 companies

YAKIN Kawasaki Co., Ltd., YAKIN Oheyama Co., Ltd. and Nas Business Service Co., Ltd., consolidated subsidiaries up to the previous fiscal year, no longer come under the scope of consolidation during the fiscal year under review, following their liquidation due to absorption-type merger on April 1, 2010, with the Company as the surviving company.

### (2) Significant nonconsolidated subsidiaries

There are no significant nonconsolidated subsidiaries.

Seven subsidiaries are excluded from the scope of consolidation as each company is small in terms of total assets, sales, net income or loss (proportional amounts to the Company's equity stakes) and retained earnings (proportional amounts to the Company's equity stakes), and the companies have little effect on the consolidated financial statements of the Company.

### 2. Equity-method subsidiaries

There are no equity-method subsidiaries.

Excluded from the scope of the equity method are seven nonconsolidated subsidiaries and two affiliates, as each company has only a marginal impact on net income or loss and retained earnings (in both cases proportional amounts to the Company's equity stakes) in the consolidated financial statements, and the companies have no significant impact on the Company as a whole.

### 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 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 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 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.

#### (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.

#### (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,<br>Currency swaps   |
| Hedging objectives:      | Foreign currency-denominated transactions,<br>foreign currency-denominated forward<br>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) Method and period of amortization of goodwill

Goodwill is amortized over a period of five years using the straight-line method.

##### (12) Scope of funds in the consolidated statements of cash flows

Funds (cash and cash equivalents) listed in the consolidated statements of cash flows are cash on hand, deposits that can be withdrawn at any time, and short-term investments approaching maturity (three months or less) that can be readily converted to cash and bear only a slight risk of price fluctuation.

##### (13) 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.

### Significant changes in the basis of preparation of consolidated financial statements

#### Accounting standards

##### 1. Application of accounting standards for asset retirement obligations

From the fiscal year under review, the Company is applying Accounting Standards for Asset Retirement Obligations (ASBJ Statement No.18, issued on March 31, 2008), and Guidance on Accounting Standards for Asset Retirement Obligations (ASBJ Guidance No.21, issued March 31, 2008).

The impact of these changes on operating income, ordinary loss and loss before income taxes and minority interests was negligible.

##### 2. Application of Accounting Standard for Business Combinations

From the fiscal year under review, we are applying Accounting Standard for Business Combinations (ASBJ Statement No.21, issued on December 26, 2008), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22, issued December 26, 2008), Partial Amendments to Accounting Standard for Research and Development Costs (ASBJ Statement No.23, issued December 26, 2008), Revised Accounting Standard for Business Divestitures (ASBJ Statement No.7, issued December 26, 2008), Revised Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No.16, issued December 26, 2008), and Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, issued December 26, 2008).

### Changes in Accounting Titles

#### Consolidated statements of operations

From the fiscal year under review, the Company is applying "Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No.5, March 24, 2009), based on Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22, issued December 26, 2008). As a result, Loss before minority interests is presented in the consolidated financial statements.

#### Consolidated statements of cash flows

Amortization of negative goodwill in net cash from operating activities was classified separately in the previous fiscal year, but from the fiscal year under review it is included in Other. The total amount of amortization of negative goodwill included in Other during the fiscal year under review was ¥(1) million.

### Additional information

From the fiscal year under review, we have applied Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No.25, issued June 30, 2010). However, the amounts for Other comprehensive income and Total other comprehensive income in the previous fiscal year are the amounts recorded under Valuation and translation adjustments and Total valuation and translation adjustments.

### Notes to Consolidated Balance Sheets

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

Investment securities (equity shares): ¥520 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: ¥75 million

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

Assets pledged as collateral	Corresponding liabilities
(Details)	
Buildings and structures: ¥8,273 million <¥8,061 million>	Current portion of long-term debt: ¥12,374 million
Machinery, equipment, and vehicles: ¥12,883 million <¥12,790 million>	Long-term debt: ¥20,713 million
Land: ¥31,125 million <¥30,452 million>	Short-term debt: ¥26,314 million
Tangible fixed assets: ¥52,282 million <¥51,304 million>	Notes discounted: ¥1,118 million
(Figures in brackets indicate factory mortgage)	
Total: ¥52,282 million	Total: ¥60,519 million

**4. Contingent liabilities**

Details:	Guarantee for payment of bank loans
Guarantee:	Employees
Amount:	¥83 million
Total	¥83 million

**5. Notes discounted and endorsed**

Notes discounted:	¥2,498 million
Notes endorsed:	¥531 million

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

Shipping expenses and storage fees:	¥2,312 million
Salary and bonuses:	¥2,889 million
Provision to reserve for employees' bonuses:	¥244 million
Provision for reserve for retirement allowance:	¥353 million

**\*2. Research and development expenses**

Research and development expenses included in general and administrative expenses and current cost of sales totaled ¥608 million.

**\*3. Details**

Machinery and equipment:	¥9 million
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**\*4. Details**

Machinery and equipment:	¥5 million
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- \*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 ¥(322) million (amount of reversal).

**\*6. Impairment loss**

In the fiscal year ended March 31, 2011, the Group posted impairment losses for the following asset groups.

Location	Use	Category	Impairment loss
Konan City, etc., Shiga Prefecture	Business assets	Machinery and equipment, land, etc.	¥1,035 million
Katsuura City, etc., Chiba Prefecture	Idle assets	Land, etc.	¥ 41 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, 2011, 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 ¥1,076 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 Statements of Comprehensive Income****\*1. Comprehensive income in the fiscal year immediately preceding the fiscal year under review**

Comprehensive income (loss) attributable to owners of the parent company	¥(11,501) million
Comprehensive income attributable to minority interests	¥32 million
Total	¥(11,469) million

**\*2. Other comprehensive income in the fiscal year immediately preceding the fiscal year under review**

Unrealized gain on available-for-sale securities	¥1,080 million
Foreign currency translation adjustment	¥5 million
Total	¥1,085 million

**Notes to Consolidated Statement of Changes in Equity**

For the fiscal year 2010 (from April 1, 2010 to March 31, 2011)

**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
<b>Shares issued</b>				
Ordinary shares	123,973	—	—	123,973
Total	123,973	—	—	123,973
<b>Treasury stock</b>				
Ordinary shares	269	5	0	274
Total	269	5	0	274

Note: The increase of 5 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**

This is not applicable.

**(2) Dividends for which the base date falls in the year ended March 31, 2011, 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, 2011**

Cash and deposits:	¥6,938 million
Time deposits with a maturity over three months:	¥(224) million
Investment securities with a maturity within three months:	¥10 million
Cash and Cash equivalents:	¥6,724 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
<b>(Tangible fixed assets)</b>			
Machinery, equipment, and vehicles	1,898	1,413	485
Other tangible fixed assets	1,208	1,015	194
<b>(Intangible fixed assets)</b>			
Other intangible fixed assets	241	215	26
Total	3,347	2,642	705

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	329
Over one year	376
Total	705

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:	¥509 million
Depreciation expense:	¥509 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, 2011, 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).

	Book value on the consolidated balance sheet	Fair market value	Difference
(1) Cash and deposits	6,938	6,938	—
(2) Notes and accounts receivable	23,651	23,651	—
(3) Securities and investment securities	3,881	3,881	—
Total assets	34,470	34,470	—
(1) Notes and accounts payable	21,531	21,531	—
(2) Short-term debt	30,891	30,891	—
(3) Long-term debt	33,087	33,222	135
Total liabilities	85,509	85,644	135
Derivatives transactions	[0]	[0]	—

(\*) Claims and liabilities arising from derivatives transactions are presented as net sums, and the liabilities (net) are presented in brackets [ ].

### 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

Long-term debt includes current portion (due within one year)

For long-term debt with fixed interest rates, the value is calculated using the present value discounted by the interest rate assumed in the case that new borrowings were made based on the previous total principal and interest. For long-term debt with floating interest rates, value is based on book value, as the fair value is deemed to be close to book value, given that floating interest rates reflect short-term market interest rate movements and that the credit status of the Company has not changed significantly since transaction completion.

However, for some long-term debt with floating interest rates that is subject to special settlement for interest rate swaps, the value is calculated by discounting the sum of principal and interest in the swap transactions, using interest rates reasonably estimated in case that similar borrowings had been made.

### 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	¥1,194 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

	Within one year	Over one year and within five years	Over five years and within 10 years	Over 10 years
Cash and deposits	6,938	—	—	—
Notes and accounts receivable	23,651	—	—	—
Securities and investment securities				
Available-for-sale securities with maturity	20	—	—	—
Total	30,609	—	—	—

### 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.

## Market Value of Available-for-Sale Securities

Term under review (as of March 31, 2011)

### 1. Available-for-sale securities

	Balance sheet accounts	Acquisition cost	Unrealized gain (loss)
<b>(The figure in the Balance Sheet is larger than acquisition cost.)</b>			
Stock	2,833	1,873	960
Securities	57	50	7
Sub-Total	2,889	1,923	966
<b>(The figure in the Balance Sheet is not larger than the acquisition cost.)</b>			
Stock	961	1,267	(306)
Securities	30	30	—
Sub-Total	991	1,297	(306)
Total	3,881	3,220	661

Note: Unlisted stock (¥674 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

#### (1) Foreign-currency related

Hedge accounting method	Transaction type	Main hedged item	Contract value (¥ million)	Contract value Over one year (¥ million)	Fair market value (¥ million)
Basic method	Forward exchange trades Sell US\$	Accounts receivable	10	—	(0)
Recognition of gains and losses on foreign monetary rights or obligations at a preset price	Forward exchange trades Sell US\$	Accounts receivable	1	—	(Note) 2
Total			12	—	(0)

Notes:

- (1) Fair value calculation method: Based on values displayed by counterparty financial institutions, etc.  
 (2) Forward exchange trades subject to recognition of gains and losses on foreign monetary rights or obligations at a preset price are presented incorporating accounts receivable subject to hedging. For this reason, their fair value is included fair value of relevant accounts receivable.

#### (2) 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	21,106	11,460	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 7 consolidated subsidiaries adopted a lump-sum retirement benefit system.

### 2. Retirement benefit obligations

(as of March 31, 2011)

(a) Retirement benefit obligations	¥(9,371) million
(b) Unfunded portion of retirement benefit obligations	¥(9,371) million
(c) Reserve for employee's retirement benefits	¥(9,371) million

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

### 3. Retirement benefit costs

(From April 1, 2010 to March 31, 2011)

(a) Service cost	¥571 million
(b) Interest cost	¥165 million
(c) Amortization of actuarial losses	¥49 million
Net retirement benefit costs (a+b+c)	¥785 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:	1 year (Lump-sum amortization when recognized)
(e) Amortization period for actuarial losses:	1 year (Lump-sum amortization when recognized)

## Stock Options

Not applicable.

## 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	336
Amount exceeding the limit of non-taxable expenses for provision to reserve for retirement allowances	3,833
Denial of valuation loss on tangible fixed assets	1,428
Loss on impairment of fixed assets	2,354
Difference on land revaluation	351
Denial of valuation loss on inventories	54
Denial of valuation loss on marketable securities	2,032
Unrealized gain/loss included in fixed assets	277
Excess amount of provision for doubtful accounts	417
Tax loss carried forward	15,489
Others	647
Subtotal	27,219
Valuation allowance	(25,939)
Total deferred tax assets	1,280
Deferred tax liabilities:	
Difference on land revaluation	1,616
Difference on revaluation of land belonging to spun-off companies	9,748
Preferred income tax on fixed assets	—
Difference on valuation of other securities	119
Others	448
Total deferred tax liabilities	11,931
Net deferred tax assets	866
Net deferred tax liabilities	11,517

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	449
Fixed assets: Deferred tax assets	417
Long-term liabilities: Deferred tax liabilities	9,900
Long-term liabilities: Deferred tax liabilities on land revaluation	1,616

## 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.

## Business Combinations, etc.

### 1. Common control transactions, etc.

#### (1) Name and nature of business of business combination parties, date of business combination, legal format of business combination, name of the enterprise after business combination and purpose of business combination

##### 1. Names of combined companies

YAKIN Kawasaki Co., Ltd.

YAKIN Oheyama Co., Ltd.

Nas Business Service Co., Ltd.

##### 2. Name of surviving company

Nippon Yakin Kogyo Co., Ltd.

##### 3. Nature of business

YAKIN Kawasaki Co., Ltd.

Manufacture, processing and marketing of special steel and stainless steel, nickel and other nonferrous metals and their alloys

YAKIN Oheyama Co., Ltd.

Smelting and marketing of iron and ferro-nickel

Nas Business Service Co., Ltd.

Development and operation of IT systems and purchase of bills and loans

#### (2) Date of business combination

April 1, 2010

#### (3) Legal form of business combination

The business combination was carried out by absorption-type merger with the Company as the surviving entity, and the three absorbed companies were liquidated.

As the Company purchased all shares in the three companies, no arrangement regarding merger ratio was undertaken.

As the merger did not involve the issue of new shares or an increase in capital stock, no consideration was paid.

#### (4) Name of enterprise after combination

Nippon Yakin Kogyo Co., Ltd. ("the Company")

#### (5) Matters concerning other transactions

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 focusing on technology-based marketing to expand sales of high-performance products and integrate development and manufacturing, while YAKIN Oheyama has been rationalizing management through cost reduction as a base for manufacture of raw materials at low prices. In the face of recent unprecedented changes in the economic and management environments, however, it has become a pressing management

issue to leverage the Group's strength in producing materials through vertical integration from the raw material stage to finished product, and to further improve management efficiency. Another rationale was acceptance of the need for integrated management. It was also necessary to build an appropriate system of governance in response to changes in laws and accounting systems such as the enhancement of internal controls and the application of the lower of cost or market method.

Nas Business Service was engaged mainly in the development and maintenance of information systems for the Group. It has been merged for the purpose of promptly implementing various business reforms and developing IT systems.

## 2. Summary of accounting treatment

Based on the Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, issued December 26, 2008), and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, issued December 26, 2008), these are treated as common control transactions.

## Asset retirement obligations

Notes regarding asset retirement obligations have been omitted here since their totals are negligible.

## Segment Information

Omitted because stainless steel plate and processed product businesses form a single segment.

### Related information

#### 1. Information about product and service categories

Omitted here since sales to external customers by single product and service category account for more than 90% of revenues from operations recorded in the consolidated income statements.

#### 2. Information by region

##### (1) Sales

(¥ million)			
Japan	China	Other	Total
98,832	16,838	23,111	138,781

(Note) Sales are based on location of customer.

##### (2) Tangible fixed assets

Since over 90% of the total value of tangible fixed assets in the consolidated balance sheets relates to tangible fixed assets located in Japan, breakdown by region is omitted.

#### 3. Important information about customers

No single external customer accounts for more than 10% of the revenues from operations reported in the consolidated income statements.

#### Information regarding impairment losses on fixed assets, by reportable segment

Omitted since the Group's stainless steel plate and processed goods business form a single segment. Impairment losses recorded during the fiscal year under review (consolidated basis) totaled ¥1,076 million.

#### Information regarding amortization of goodwill and the balance of unamortized goodwill, by reportable segment

Omitted since the Group's stainless steel plate and processed goods business form a single segment. The total amount of goodwill amortized was ¥7 million, and the outstanding balance of unamortized goodwill stands at ¥69 million.

The amount of negative goodwill amortized during the fiscal year

under review arising from business combinations carried out before April 1, 2010 totaled ¥1 million, and the outstanding balance of unamortized goodwill stood at ¥3 million.

**Information regarding gains from negative goodwill, by reportable segment**

Omitted since the Group's stainless steel plate and processed goods business form a single segment. During the fiscal year under review (consolidated basis), the Company booked ¥20 million in gains from negative goodwill, due to further acquisition of shares in consolidated subsidiaries.

**Additional information**

From the fiscal year under review, the Company has applied Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No.17, issued March 27, 2009), and Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No.20, issued March 21, 2008).

**Related-Party Transactions**

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

**Per Share Information**

	(¥)
Net assets per share	263.54
Net loss per share	84.61

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, 2011
<b>(Earnings per share)</b>	
Net loss for the term (¥ million)	10,467
Amounts not available to distribution to common shareholders (¥ million)	—
Net loss applicable to ordinary shares (¥ million)	10,467
Average numbers of ordinary shares during the term (in thousands)	123,701

**Subsequent Event**

**Merger with consolidated subsidiaries**

Miyazu Koun Co., Ltd., a consolidated subsidiary of the Company, took over Kaya Kosan Co., Ltd., another consolidated subsidiary of the Company, by absorption-type merger on April 1, 2011.

**(1) Purpose of the merger**

Miyazu Koun and Kaya Kosan handle loading and unloading of ores and other raw materials at sea and on land, and maintenance of related facilities, for the Company's Oheyama Plant, which smelts ferro-nickel. The purpose of the merger was to further improve efficiency in loading work within the Oheyama Plant and in facilities maintenance, through integrated operations.

**(2) Summary of the merger**

**(i) Date of the merger (Effective date)**

April 1, 2011

**(ii) Method of the merger**

Absorption-type merger with Miyazu Koun as the surviving company, while Kaya Kosan was liquidated.

**(iii) Merger ratio**

Since both companies are wholly owned subsidiaries of the Company, no arrangement was made regarding merger ratio. As the merger did not involve the issue of new shares or an increase in capital stock, no consideration was paid.

**(3) Overview of the interested parties of the merger**

Registered trade name	Miyazu Koun Co., Ltd. (Surviving company)	Kaya Kosan Co., Ltd. (Liquidated company)
Main business	Harbor transportation, customs brokerage	Freight transportation, facilities repair
Assets	¥704 million	¥829 million
Net assets	¥393 million	¥436 million

**(4) Situation after business combination**

Miyazu Koun Co., Ltd., the surviving company, changed its registered trade name to Miyazu Kairiku Unyu Co., Ltd. on April 1, 2011.

**Division of a consolidated subsidiary**

At a meeting of the Board of Directors held on May 10, 2011, it was decided to spin off the welding machinery business of consolidated subsidiary Nas Toa Co., Ltd. and create a new company, Nas Toa Welding Technologies., Ltd., to continue this business.

**(1) Purpose of the spin-off**

Nas Toa was engaged in the stainless welded steel pipe and welding machinery businesses. To maximize management efficiency in both businesses, it was decided to spin off the welding machinery business and turn it into a new company.

**(2) Details of businesses to be spun off**

Manufacture and marketing of electric welding machinery, electric equipment and welding rods

**(3) Type of divestiture**

Spin-off-type company split

**(4) Profile of successor company**

Registered trade name: Nas Toa Welding Technologies., Ltd.

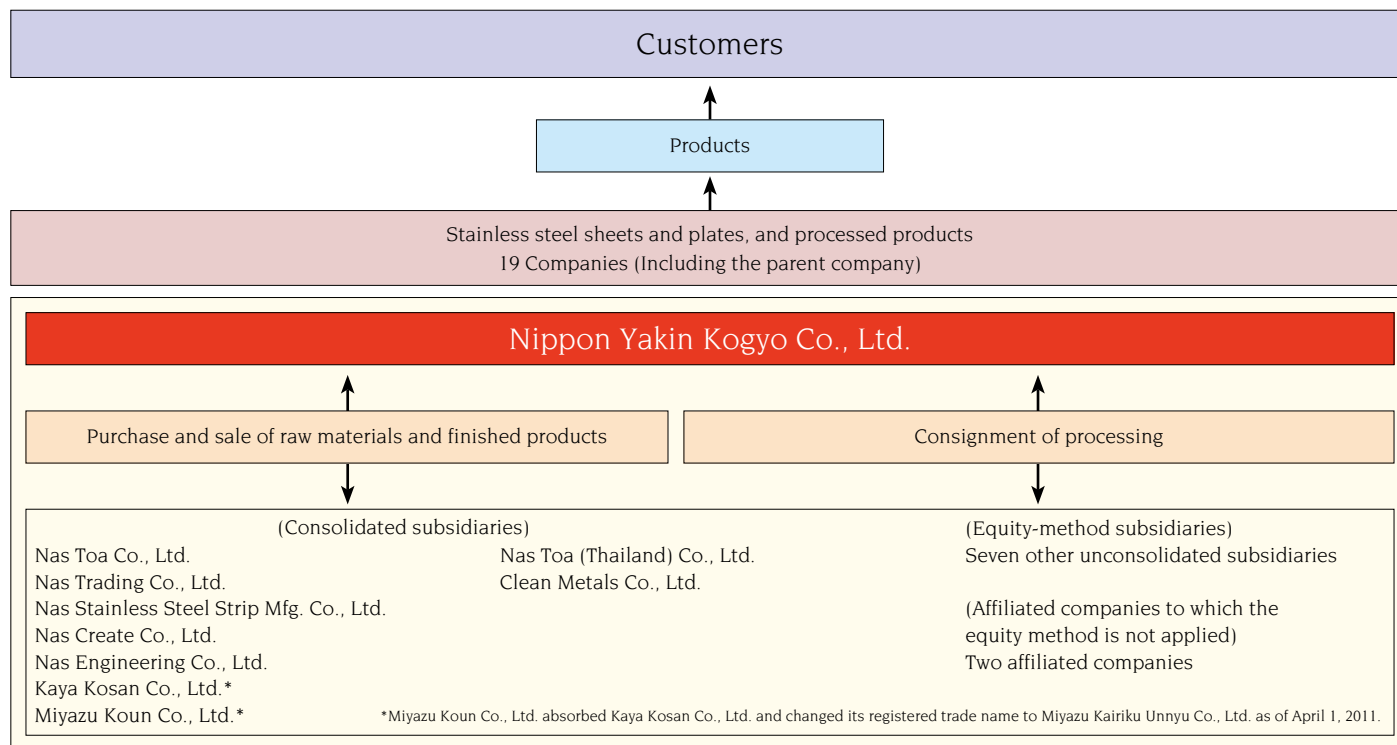
Assets: ¥1.7 billion (as of March 31, 2011)

Net assets: ¥500 million (as of March 31, 2011)

**(5) Date of the spin-off**

July 1, 2011 (planned)

## Subsidiaries and Affiliates



## Corporate Directory

### Board of Directors and Corporate Auditors

#### President

Kazuta Sugimori

#### Vice President

Hajime Kimura

#### Senior Managing Director

Akio Nonaka

#### Managing Directors

Michio Morooka  
Shinichi Sasayama  
Hisashi Kubota

#### Directors

Shigenobu Yamasaki  
Kazuyuki Saka  
Kazunori Nakatani  
Makoto Hashinokuchi  
Tadashi Hasegawa  
Akira Horiuchi

#### Standing Corporate Auditors

Takao Isakari  
Kazuo Ichiki

#### Corporate Auditors

Hayao Tanaka  
Souichi Yamaguchi  
(as of June 28, 2011)

### 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

#### Head Office

Sanei Bldg.,  
5-8, Kyobashi 1-chome, Chuo-ku, Tokyo,  
Japan  
Phone: +81-(0)3-3272-1511  
Facsimile: +81-(0)3-3272-1800

#### Branches

Osaka, Nagoya, Kyushu, Hiroshima, Niigata

#### Manufacturing Base

Kawasaki Plant  
Oheyama Plant

#### Bangkok Office

Nippon Yakin Kogyo Co., Ltd.  
Bangkok Representative Office  
20th Floor Unit 2001-2 Exchange Tower  
388 Sukhumvit Road, Klongtoey, Bangkok  
10110, Thailand  
Phone: +662-663-4301  
Facsimile: +662-663-4303

#### Shanghai Office

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

#### London Office

Nippon Yakin Kogyo Co., Ltd.  
London Representative Office  
72 Hammersmith Road, Hammersmith,  
London, W14 8th, United Kingdom  
Phone: +44-020-7858-0948  
Facsimile: +44-087-0112-8983

#### Chicago Office

Nippon Yakin America, Inc.  
5600 N River Road Suite 800,  
Rosemont, Illinois 60018, U.S.A.  
Phone: +1(847)685-6644  
Facsimile: +1(847)292-4404

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

Head Office

Sanei Bldg.,

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

Phone: +81-(0)3-3272-1511

Facsimile: +81-(0)3-3272-1800

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