ANNUAL REPORT 2012

Year Ended March 31, 2012

CHALLENGE FOR GROWTH

KYOEI STEEL

Company Profile

Kyoei Steel, Ltd., a steel minimill company, was founded in 1947. In December 2006, the Company listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange. Since its launch with capital of ¥180,000 in 1947, Kyoei Steel has expanded greatly including through M&A, and is now an enterprise capitalized at ¥18.5 billion.

Kyoei Steel's core business is the steel business. It focuses on the manufacturing and sales of rebar and other steel products for construction and civil engineering, which involves melting steel scrap in electric arc furnaces, refining, continuous casting, and rolling. In fiscal 2012, the Kyoei Steel Group produced 1.84 million tons of crude steel, making it the second largest minimill steel producer in Japan, and had the largest share of the Japanese market for rebar, its mainstay product. Kyoei Steel's four integrated melting and rolling mills and one billet facility are all located in areas where rebar demand is concentrated in Japan.

Kyoei Steel has also been strengthening its overseas business. In addition to the plant in southern Vietnam that started operation in 1996, the Company established a new manufacturing base in northern Vietnam in September 2011 to expand the Group's production capacity overseas.

For a quarter of a century, Kyoei Steel has been operating a material recycling business in which potentially infectious medical waste and industrial waste are melted and rendered harmless, utilizing the heat from electric arc furnaces that reaches temperatures of thousands of degrees Celsius. This business, which uses the existing infrastructure, primarily electric arc furnaces, of the steel business, has been consistently profitable. As a source of profit, the material recycling business is an important part of Kyoei Steel, second only to the steel business.

The Japanese electric arc furnace industry is ripe for restructuring. As a leading enterprise with a solid financial position, Kyoei Steel aspires to be a linchpin company for industry reorganization and consolidation, aiming to achieve the growth of the Company while enhancing the image of the industry.

Management Principle

Spirit of Challenge

We, at Kyoei Steel Group, strive to become a corporate group getting along with society through resource recycling operations focusing on the steel business, and contributing to the development of the national economy and local communities.

Action Guidelines

We act with fairness and integrity in accordance with high ethical standards.

We cultivate a corporate culture imbued with a spirit of enterprise and innovation, eager to embrace challenges, and enthusiastically committed to the accomplishment of ambitious goals.

We are practical and realistic.

We aspire to be a company where people and technologies are valued, and where work is a source of pride and satisfaction.

Yamaguchi Division

- Rebar (all sizes)
- Merchant bars (flat bar, angle bar, I beam, round bar)

Hirakata Division (Osaka Mill)

- Billet (semi-finished product)

Hirakata Division (Hirakata Mill)

- Rebar (D10, D13, D16)

Nagoya Division

- Rebar (all sizes)
- Threaded rebar

Kanto Steel Ltd. (Wholly owned subsidiary)

- Rebar (D10, D13, D16)

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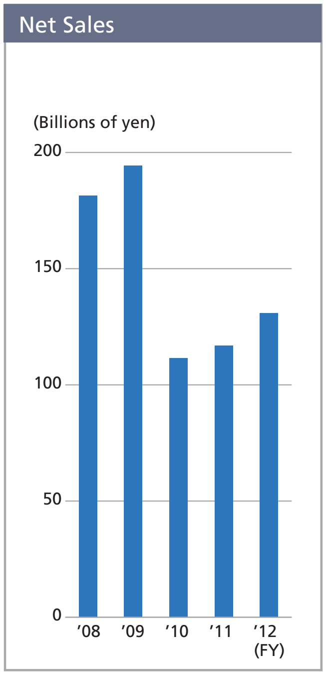
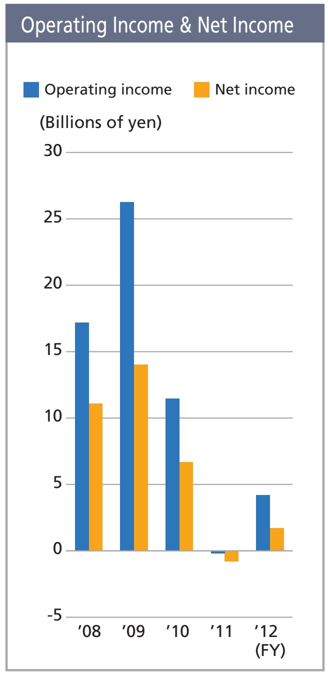
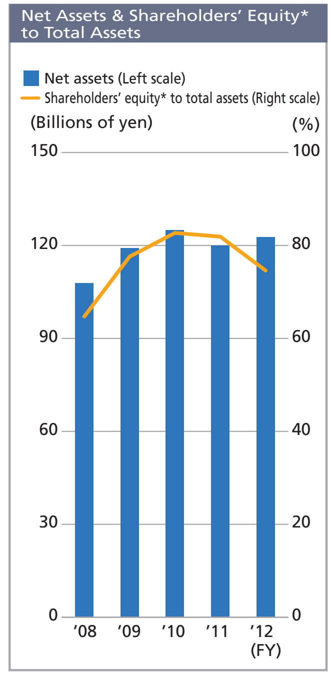
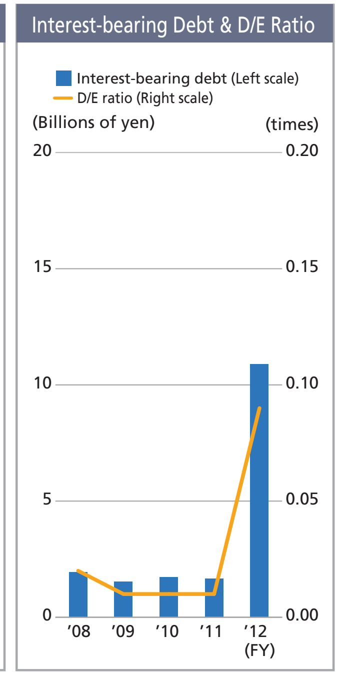
Consolidated Financial Highlights









Kyoei Steel, Ltd. and Consolidated Subsidiaries
Years Ended March 31

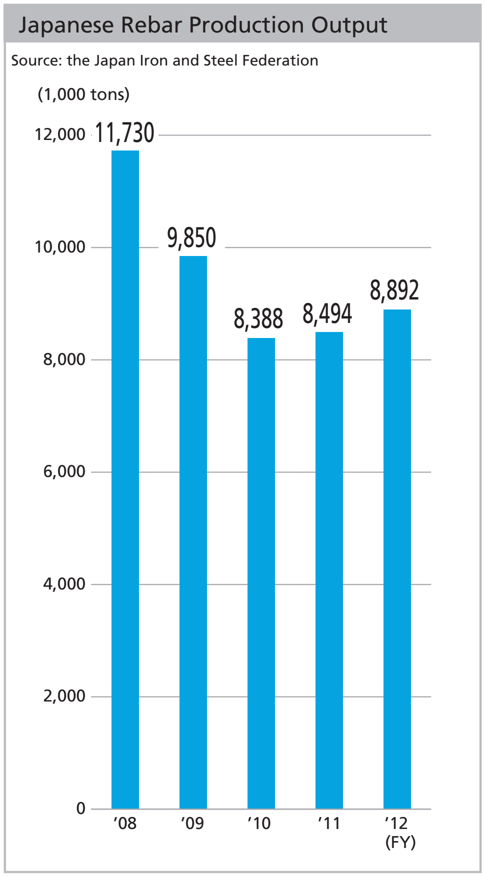
	Millions of yen					Thousands of U.S. dollars
	2008	2009	2010	2011	2012	2012
For the Year:						
Net sales	¥ 181,576	¥ 194,345	¥ 111,485	¥ 116,828	¥ 130,650	$ 1,589,609
Operating income	17,189	26,270	11,454	(206)	4,166	50,687
Net income	11,070	14,009	6,691	(794)	1,692	20,586
Depreciation and amortization	4,738	4,869	4,992	4,806	4,644	56,503
Capital expenditures	5,550	5,173	4,815	2,706	4,991	60,725
At Year-End:						
Total assets	¥ 166,572	¥ 153,711	¥ 151,125	¥ 146,453	¥ 164,486	$ 2,001,290
Interest-bearing debt	1,952	1,540	1,730	1,665	10,877	132,339
Net assets	107,846	119,154	124,905	119,973	122,725	1,493,187
	Yen					U.S. dollars
Amounts per Share :						
Net income, basic	¥ 253.66	¥ 318.72	¥ 152.23	¥ (18.22)	¥ 38.89	$ 0.47
Net income, diluted	—	—	—	—	—	—
Cash dividends applicable to the year	30.00	40.00	40.00	20.00	20.00	0.24
Shareholders' equity* to total assets (%)	64.3	77.0	82.1	81.3	73.2	—
D/E ratio (times)	0.02	0.01	0.01	0.01	0.09	—

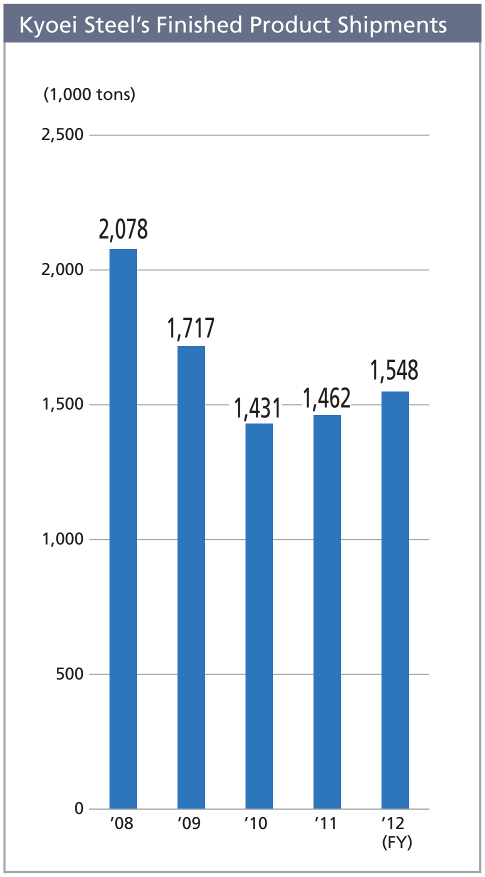
Note: U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥82.19 to US$1 prevailing on March 31, 2012.
*Shareholders' equity = Net assets - Minority interest

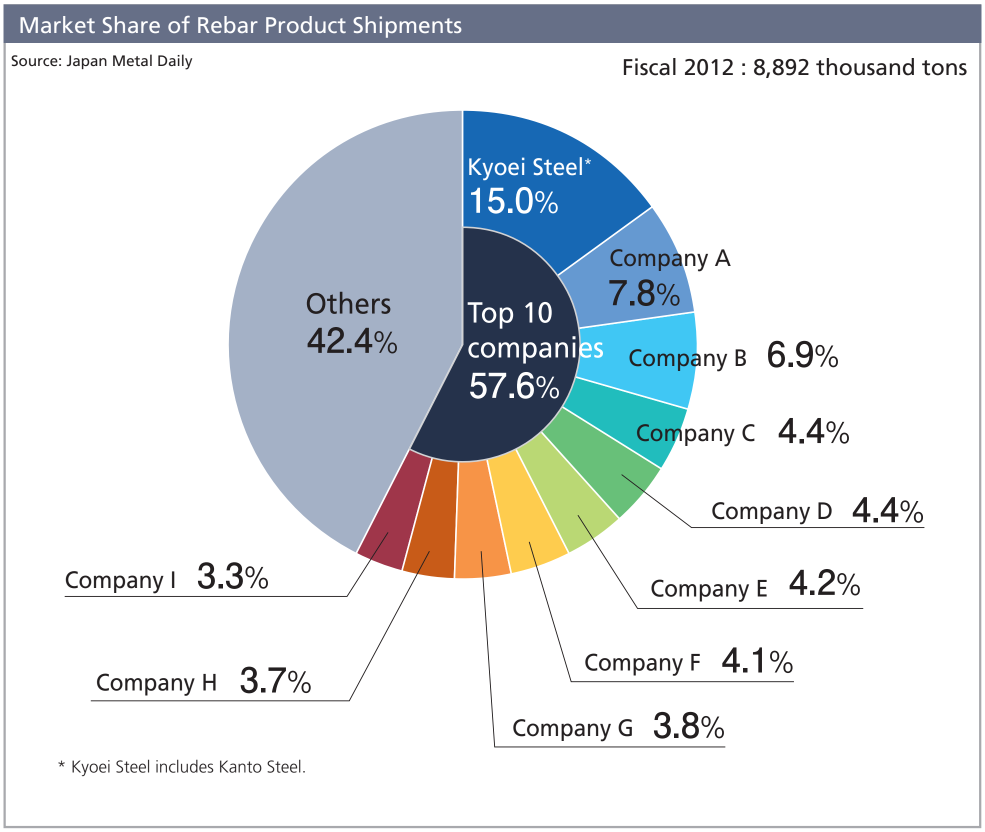
FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements regarding the Kyoei Steel Group's plans, strategies, and beliefs. These forward-looking statements are based on management's assumptions and beliefs in the light of information available at the time of publication. Therefore, you are advised not to rely solely upon these forward-looking statements in making your investment decisions. You should also be aware that certain risks and uncertainties could cause the actual results of Kyoei Steel Ltd. and its Group companies to differ materially from any projections or forward-looking statements discussed in this report. These risks and uncertainties include, but are not limited to, the following: (i) global economic conditions and national economic conditions in Kyoei Steel's markets, mainly the construction market, (ii) fluctuations in demand for Kyoei Steel's products and services, (iii) fluctuations in the price of steel scrap, raw material of Kyoei Steel Group's steel products, (iv) regulatory change and uncertainty and potential legal liability relating to Kyoei Steel Group's business and operations, (v) effects of disasters, power outages and other incidents, (vi) fluctuations in stock markets in Japan and other risk factors.

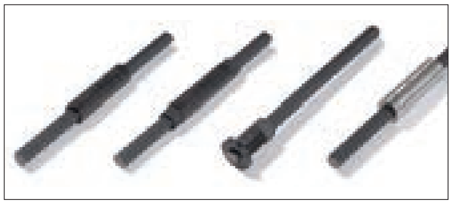
Market Data

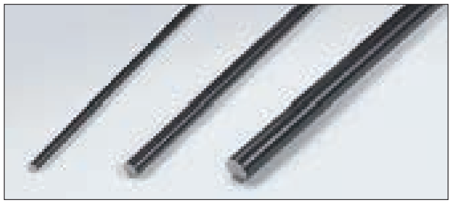


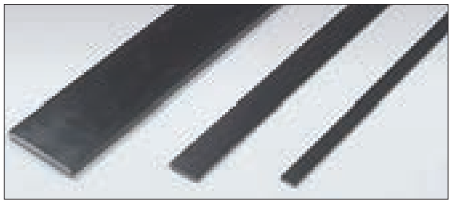


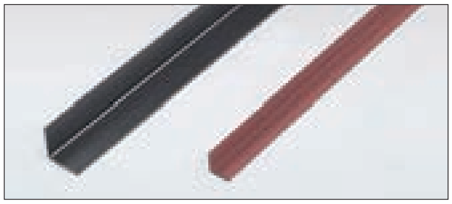


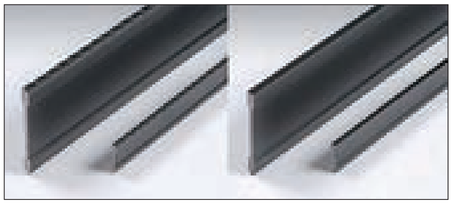

Rebar

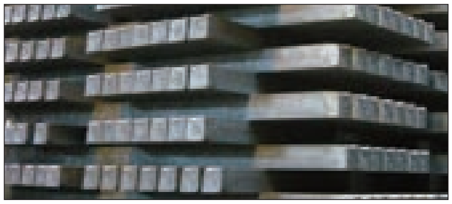

Threaded rebar


Round bar


Flat bar


Angle bar


I beam


Billet (semi-finished product)

Letter to Shareholders

Reinforcing the Management Foundation of Japanese and Overseas Businesses for the Next Round of Business Development

Achievements in Fiscal 2012

Profitability restored through concerted efforts of manufacturing and sales

In the construction sector in Japan, the main market for the Group's Steel Business, following a decline in demand in the first half of fiscal 2012 when many construction projects throughout Japan were delayed or postponed in the aftermath of the Great East Japan Earthquake, demand gradually recovered in the second half. Prices of steel scrap, the principal raw material of the Group's products, were at a low level, reflecting sluggish demand overseas mostly in China and South Korea, and because of lower volumes of steel scrap purchased by integrated steel producers.

In these circumstances, Kyoei Steel strove to secure an appropriate metal spread, i.e., the price difference between the product sales price and the steel scrap price, by attuning production and sales to demand while stepping up efforts to reduce costs in order to secure profits.

These efforts enabled us to restore profitability. On a consolidated basis, net sales amounted to ¥130,650 million, and we recorded operating income of ¥4,166 million and net income of ¥1,692 million.

Measures for Growth

Strengthening technological and development capabilities

Over the years, we have cultivated technological and development capabilities as well as fruitful relationships with our customers. By strengthening these capabilities and relationships, we aim to reinforce our management foundation as a Japanese manufacturing enterprise.

As a rebar manufacturer with the leading market share in Japan, we have long been a source of high-value-added products that meet customer needs, such as high-tensile rebar and threaded rebar, as well as ordinary rebar. We aim to increase the ratio of high-value-added products in our lineup in order to enhance earnings power through differentiation. In a move to strengthen our development capabilities, we are opening a development center at the Nagoya Division. Construction of the new development center was completed in August 2012.

Expansion of the overseas steel business

Two major projects are underway in Vietnam to construct two new production lines, one at Vina Kyoei Steel Ltd. (VKS) and the other at Kyoei Steel Vietnam Co., Ltd. (KSVC). Successful completion of these two projects is our priority task at present. (For details, please refer to the "Special Feature" on Page 6.)

Once these two projects are completed, Kyoei Steel Group's production volume in Japan and that overseas will be roughly equal. We envisage a flourishing Kyoei Steel Group advancing boldly into the future led by two powerful businesses, one based in Japan and the other overseas.

Industry reorganization and consolidation

Kyoei Steel aspires to be a linchpin company for industry reorganization and consolidation. Nippon Steel and Sumitomo Metal Industries will merge this autumn to form a new group. Kyoei Steel will continue to be actively involved in industry reorganization both inside and outside the new Nippon Steel & Sumitomo Metal Group. To this end, we must strengthen our technological and development capabilities and relationships with custom-

Expand the overseas steel business

ers and establish a robust management foundation that earns the trust of all stakeholders. I think persistent low-key efforts will allow us to be a linchpin company for industry reorganization and consolidation.

Dividend policy

At Kyoei Steel, we believe enhancing corporate value is the key to maximizing shareholder value. Our dividend policy is to ensure reasonable profit distribution while securing internal reserves necessary for reinforcing the foundation of the Japanese business and for expansion of the overseas business from a long-term perspective with a view to achieving future growth. In accordance with this policy, the Company paid a year-end dividend of ¥15 per share, unchanged from the forecast, for fiscal 2012.

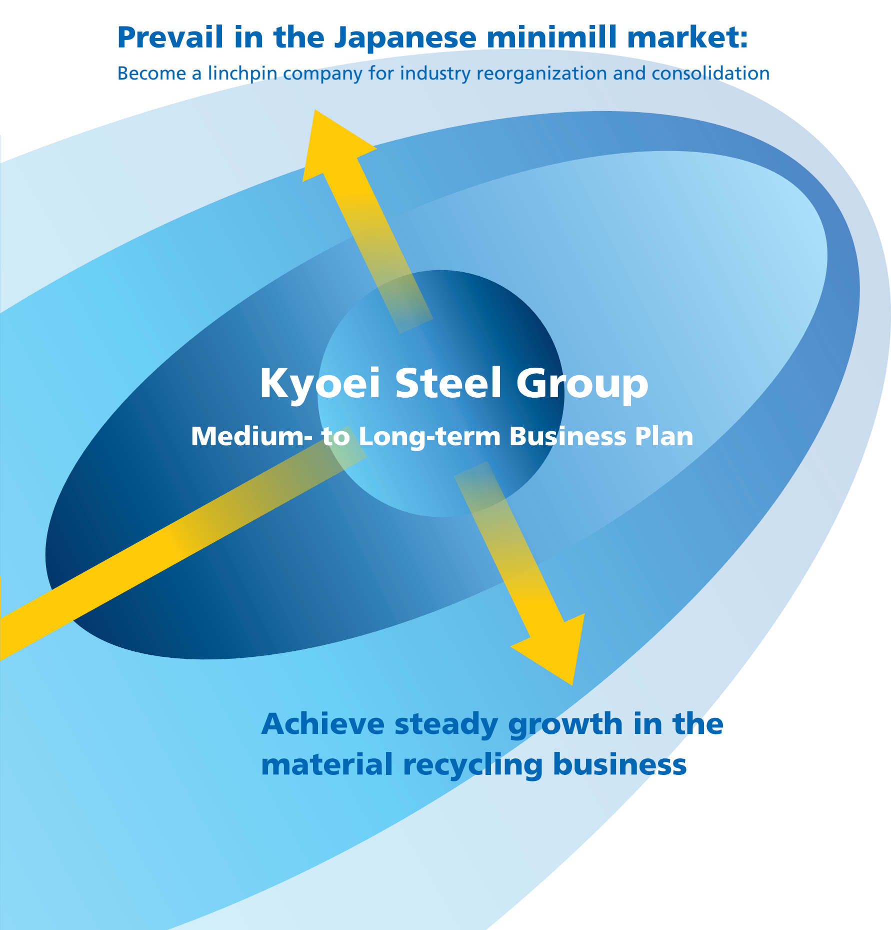
Issues for fiscal 2013

In the fiscal year ending March 31, 2013, we are accelerating measures to achieve the medium to long-term business plan. Regarding the capacity expansion projects of the two plants in Vietnam commenced in fiscal 2012, resources will be concentrated on these two projects as a matter of priority in order to swiftly establish the new production lines.

I would greatly appreciate your continued support and understanding.

July 2012

Koji Morita Representative Director



Expansion of the Overseas Steel Business: Business Development in Vietnam

We made substantial progress in our concerted effort to expand the overseas steel business, one of the key elements of our medium- to long-term business plan.

Kyoei Steel Group's overseas business

In 1963, Kyoei Steel became the first Japanese steel minimill company to start doing business overseas. During subsequent decades, we have accumulated a track record in manufacturing, sales, and technical guidance, gaining experience in many countries.

In Vietnam, we established Vina Kyoei Steel Ltd. (VKS) in the suburbs of Ho Chi Minh City, southern Vietnam, in 1994. Since it started production and sales in 1996, VKS has shipped 4.47 million tons of products to date and contributed to the development of Vietnam. VKS's Japanese-style management and its product quality based on Japanese technology are highly regarded in Vietnam.

In step with the expansion of the Vietnamese steel market, VKS has increased its production capacity and continues to grow. VKS had doubled its original annual production capacity to 450,000 tons by 2010 and in 2011 started production and sales of threaded rebar, a high-value-added product.

We also launched business operations in northern Vietnam as Kyoei Steel Group continues its drive to expand business overseas.

Construction of a new production line at VKS

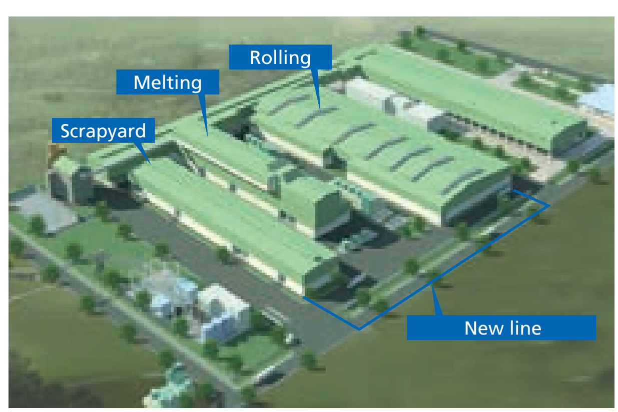
In order to respond to rising demand in southern Vietnam, VKS formulated a plan to construct a new production line with integrated melting and rolling facilities. Having an investment license from the Vietnamese government, we started construction of the new line in October 2011. This new line, scheduled to start operation in 2014, will have annual production capacity of 500,000 tons. Once the new line is completed, combined with the existing rolling line's annual production capacity of 450,000 tons, VKS will be able to supply approximately 1 million tons of products a year.

VKS is the sole company in Vietnam capable of manufacturing full-size rebars. VKS plans to use the new production line mainly for production of large-size products and to supply products for large-scale civil engineering projects and high-rise construction projects, which are expected to increase in line with economic growth.

At present, VKS only has a rolling line (downstream process) and purchases billets from suppliers. Having a melting line (upstream process) will allow VKS to produce billets in house, enabling it to manufacture more advanced products stably and efficiently.

Establishment of KSVC and construction of a new production line

Northern Vietnam is expected to achieve substantial economic growth. It is where Hanoi, the country's capital, is



Artist's rendition of the new line at VKS located, and northern Vietnam's market is already larger than that of southern Vietnam. However, as Hanoi is about 1,500 km from southern Vietnam, there are difficulties in supplying products from VKS, which is located in the south, considering transportation costs and control of delivery schedules.

Therefore, we established Kyoei Steel Vietnam Co., Ltd. (KSVC) in September 2011 as our business base in northern Vietnam, and started business in March 2012. In addition to acquiring a rolling line from a local manufacturer, we started construction of an integrated melting and rolling line, which is scheduled to start operation in

Kyoei Steel Vietnam Company

Approx. 100 km from Hanoi

Company overview	
Company name:	Kyoei Steel Vietnam Company Limited
Established:	September 2011
Paid-in capital:	U.S. $48 million
Ownership ratio:	60%
Products:	Rebars, wire rods

Rolling line of KSVC

Vina Kyoei Steel

Approx. 75 km from Ho Chi Minh City

Company overview	
Company name:	Vina Kyoei Steel Ltd.
Established:	January 1994
Paid-in capital:	U.S.$20 million
Ownership ratio:	45%
Products:	Rebars, wire rods

2014. KSVC will become a leading rebar manufacturer in northern Vietnam with annual production capacity of approximately 800,000 tons.

Capitalizing on the brand power and know-how cultivated in the course of doing business in southern Vietnam for 16 years, we have embraced the new challenge of tackling the northern Vietnamese market.

Kyoei Steel Group's Business Development in Vietnam

VKS (Vina Kyoei Steel Ltd.)	KSVC (Kyoei Steel Vietnam Co., Ltd.)
Construction of a new melting and rolling line → Annual production capacity of 1 million tons **Became a consolidated subsidiary**	**Acquisition of a rolling line from a local manufacturer** **Construction of a new melting and rolling line** → Annual production capacity of 800,000 tons

Establish a structure led by two powerful businesses, one in Japan and the other overseas

Japan: Approx. 1.6 million tons/year (Planned product shipment in FY2013) ⟷ Overseas: Approx. 1.8 million tons/year (Production capacity after construction of new lines)

Vietnam, a Country with Great Possibilities

Vietnam's population of about 90 million, ranked 13th in the world, is still increasing. The average age of the country's population is 28.2 (44.7 in Japan). The combination of a large population and youthfulness is the source of medium- to long-term economic growth. Vietnam has high educational standards (the adult literacy rate is 93.5%) and diligent people, political and social stability, and abundant natural resources, including oil and coal.
The compound annual growth rate (CAGR) of real GDP in the 10 years to 2010 was 7.3%. Although economic growth slowed somewhat in 2011 owing to the fiscal tightening policy, the Vietnamese economy recorded 5.9% growth. In line with this high economic growth, plans call for development of infrastructure, including roads, railways, and ports, and construction of numerous high-rise commercial and residential buildings.

Demand for steel products for construction, the main products of VKS and KSVC, is expected to increase greatly. The scale of the Vietnamese market for rebars in 2011 was approx. 5.8 million tons (whereas the Japanese market was approx. 8.9 million tons in fiscal 2011). We forecast that the market scale will reach 10 million tons by around 2020.

ASEAN plans to remove all tariff barriers among member countries in 2015. A huge market formed by the 10 ASEAN countries should be conducive to the growth of exports from Vietnam to other ASEAN countries. Vietnam is a country with great possibilities.

Vietnam data

Official name:	Socialist Republic of Vietnam
Population:	Approx. 90 million
Land Area:	330,000 km^2, stretching 1,650 km from north to south

Topics

Development Center (Evacuation Facility) Constructed at the Nagoya Division

Requirements in Japan for rebar to support concrete structures are becoming increasingly sophisticated and diverse in terms of strength, function, workability, etc. In order to satisfy these customer needs, Kyoei Steel constructed the Development Center at the Nagoya Division as a corporate technology and development base.

The Development Center, equipped with a 250-ton tensile testing machine and various testers and analyzers, will spearhead development of high-tensile rebar and other high-value-added and differentiated products.

It will also serve as an evacuation facility as the simultaneous occurrence of three earthquakes along the Nankai Trough in the Pacific off the southern coast of Honshu is a possibility, and such an eventuality could trigger a tsunami. The Development Center is designed to safely accommodate all employees of the Nagoya Division as well as people living and working in the neighborhood.

The Development Center opend in September 2012.

Development Center (Evacuation Facility)

High-tensile Rebar

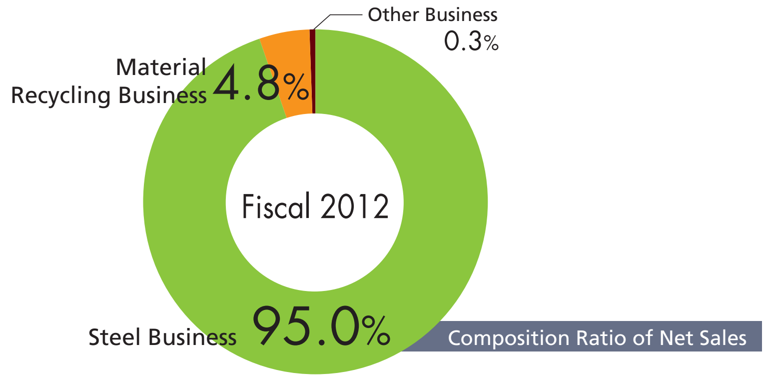
High-tensile rebar steel products are indispensable for high-rise office buildings and condominiums. Increased rebar strength enhances the seismic resistance of pillars and beams. In addition, compared with conventional rebar, less volume is required, allowing slimmer pillars, which frees up more space in buildings. Another major advantage is excellent workability because of the use of threaded rebar and mechanical joints suitable for high-tensile rebar, leading to shorter construction periods.

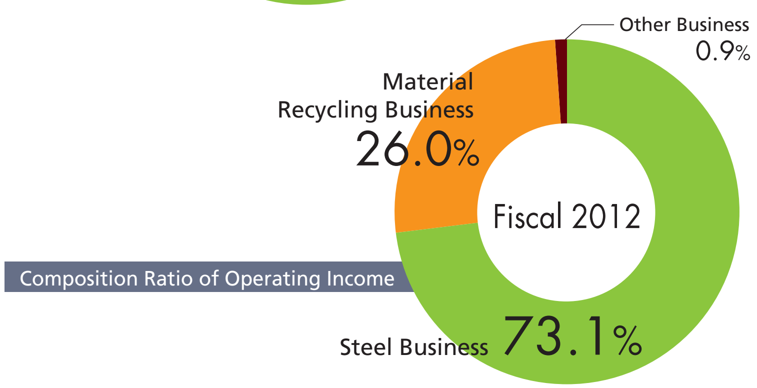
Kyoei Steel's high-tensile rebar products are also used for large civil structures requiring high seismic resistance, such as seawalls, breakwaters, and tsunami prevention walls and piers for elevated expressways.

Kyoei at a Glance

Kyoei Steel's main business segments are the steel business and the material recycling business, with the steel business using electric arc furnaces comprising Kyoei Steel's core business. Sales from the steel business account for more than 90% of total sales, while the material recycling business, despite accounting for only a small percentage of the Group's sales, makes an important contribution to the Group's financial performance because of its high profit margins, thanks to its leveraging of the steel business infrastructure.

In fiscal 2012 the Company recorded net sales of ¥124,067 million in the steel business and ¥6,221 million in the material recycling business, while operating income was ¥3,493 million for the steel business and ¥1,241 million for the material recycling business.





Steel Business

The steel business, which melts steel scrap in electric arc furnaces and brings it back to life as new steel, is the core business of Kyoei Steel. The Company provides a stable supply of high-quality steel products by utilizing its technological capabilities nurtured for over half a century since its founding. Main products include rebars, threaded rebars, round bars, flat bars, angle bars, I beams, billets (semi-finished products), and fabricated steel products. The Company has the No.1 market share in Japan for rebars, which are indispensable for construction and civil engineering for high-rise buildings and condominiums, roads and other social infrastructure. Deploying its advanced technological capabilities, the Company is addressing the diverse needs of the construction industry by offering stronger and more durable steel products and developing high-value-added products.

Material Recycling Business

The Company's material recycling business, which utilizes the heat from the electric arc furnaces reaching thousands of degrees Celsius to melt and render potentially infectious medical waste and industrial waste harmless, was the first commercially successful business of that kind established by a Japanese electric arc steelmaker and has been operating for over 20 years. In the patented MESSCUD system, the company distributes specially designed containers for medical waste to partner medical institutions, and collects and melts the waste in an electric arc furnace together with the containers. Furthermore, in 2005, a gasification furnace was built to complement the electric arc furnace at the Yamaguchi Division and a system that reuses automobile shredder residue (ASR) and organic non-metal waste was developed. The gas produced by this system is used in the rolling process at the same plant.

Other Business

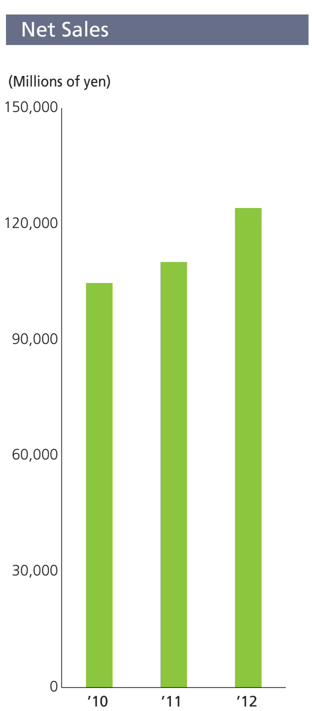
The other business segment consists of sales of civil engineering materials and the operation of insurance agencies through a consolidated subsidiary.

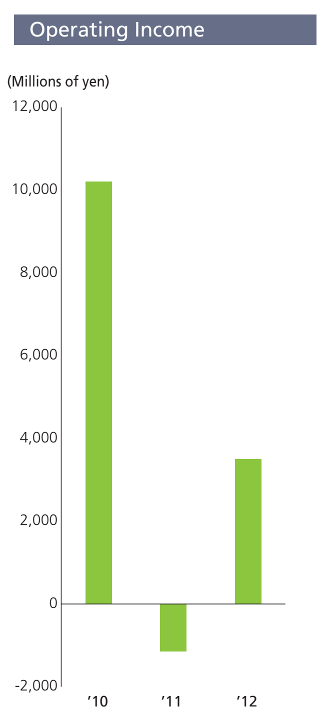
Steel Business

Product shipments increased approximately 90,000 tons or 5.9% year on year and the product price increased ¥2,600 per ton, reflecting a trend toward the recovery of demand in the second half of fiscal 2012.

The price of steel scrap, the raw material of the steel business, decreased ¥500 per ton mainly owing to lower demand abroad and from integrated steel producers in Japan. As a result, the metal spread (price difference between the steel product sales price and the steel scrap price) increased ¥3,100.

Segment sales increased ¥13,966 million or 12.7% year on year to ¥124,067 million and operating income of ¥3,493 million was recorded, an increase of ¥4,631 million from the operating loss of ¥1,138 million recorded for the previous year.

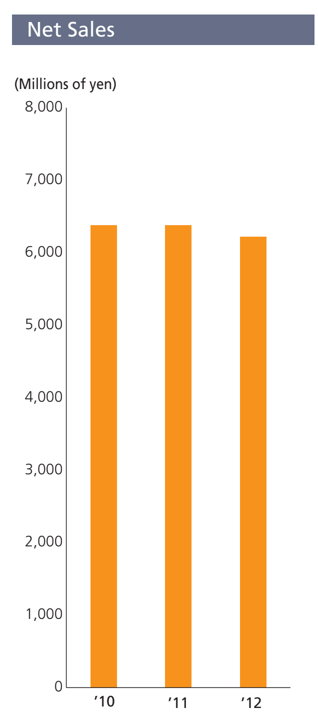


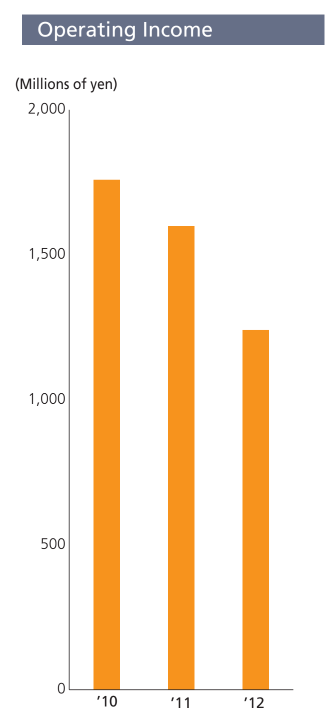


Material Recycling Business

Both sales and operating income declined from the previous year. These declines reflected a downward trend of processing unit prices resulting from intensified competition and the lower volume of industrial waste accepted at controlled final landfill sites as well as the lower volume of industrial waste generated.

Segment sales decreased ¥157 million or 2.5% year on year to ¥6,221 million and operating income declined ¥358 million or 22.4% to ¥1,241 million.



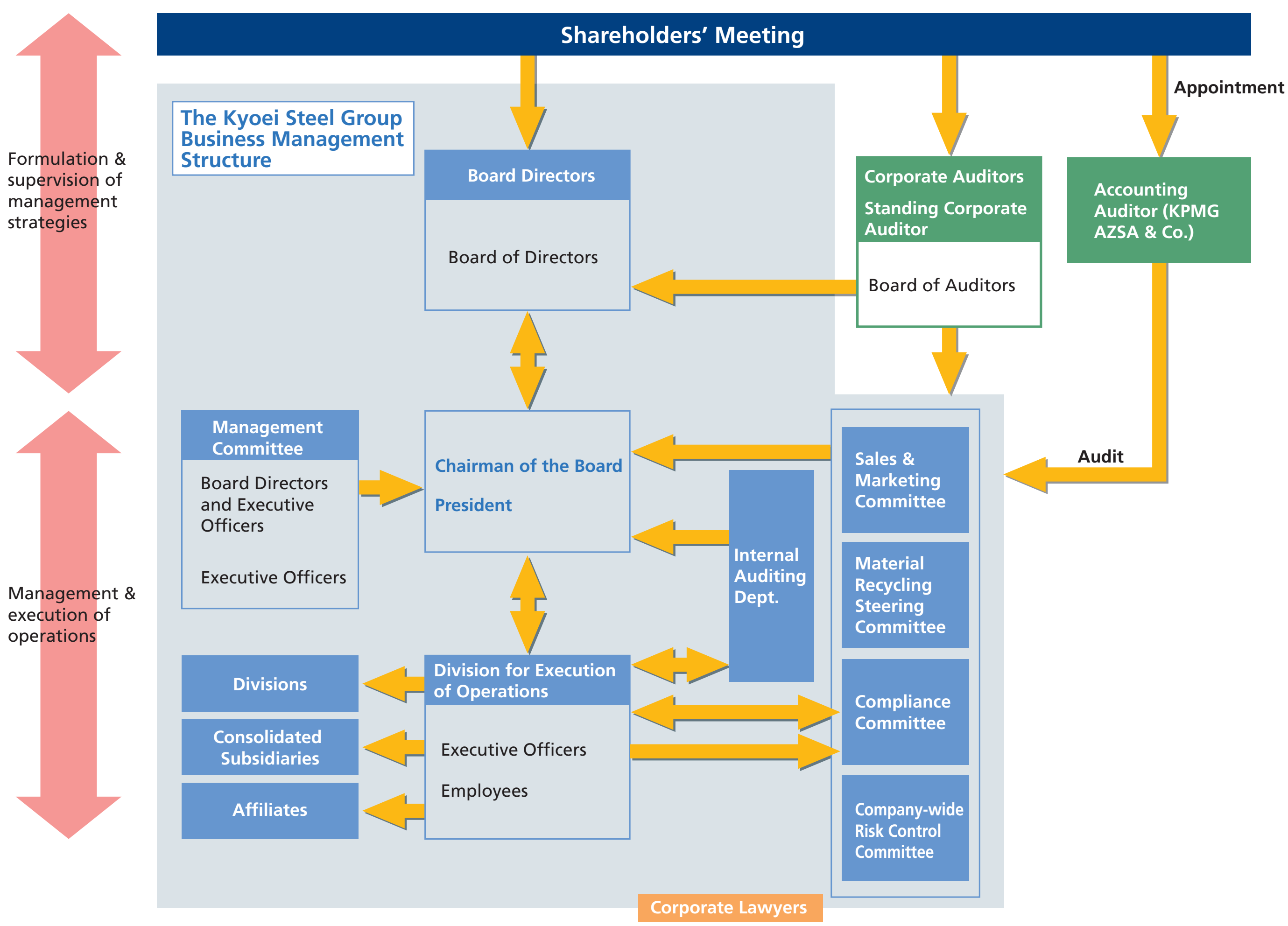


Corporate Governance

Basic Concept

Kyoei Steel believes that in order to coexist with society and be a good corporate citizen making meaningful contributions to society, it must practice a highly transparent form of management. To this end, the Company has set as its management goals:
1) a management structure that is capable of promptly and appropriately responding to changes in the business environment, 2) rational management decision-making and effective execution of duties that fulfill the demands of accountability, 3) prompt/appropriate disclosures to stakeholders, and 4) a sound set of ethics not only from the viewpoint of legal compliance but also from the viewpoint of conformity with social norms. And in order to achieve these goals and put the organization into action, the Company, considering the enhancement of corporate governance as a crucially important task at hand, is establishing an appropriate organizational structure and implementing necessary measures.

Corporate Governance Structure



Board of Directors, Corporate Auditors and Executive Officers

Back row from left to right: Hirotaka Kimura, Toshimasa Zako, Takeshi Ogata, Nobuyuki Fukada, Koji Kawasaki, Naoyoshi Goroku and Yoshihiro Matsuda.
Front row from left to right: Hideichiro Takashima, Chairman and Representative Director, and Koji Morita, Representative Director.

Board Directors and Corporate Auditors

Chairman and Representative Director	Hideichiro Takashima
Representative Director	Koji Morita
Board Directors	Nobuyuki Fukada
	Takeshi Ogata
	Koji Kawasaki
	Toshimasa Zako
	Naoyoshi Goroku
	Hirotaka Kimura
	Yoshihiro Matsuda
	Akira Okada
	Kazuyoshi Ohta
	Yoshihiro Shima
	Haruo Hiraiwa
	Yasuo Imai
Corporate Counselors	Akihiko Takashima
	Ryutaro Yoshioka
	Hirofumi Nagata
Standing Corporate Auditor	Shuji Ichihara
Corporate Auditors	Hirofumi Iseki
	Shin Nishiura

Executive Officers

President	Koji Morita
Senior Executive Managing Officers	Nobuyuki Fukada
	Takeshi Ogata
Executive Managing Officers	Koji Kawasaki
	Toshimasa Zako
	Naoyoshi Goroku
	Hirotaka Kimura
	Yoshihiro Matsuda
Executive Officers	Akira Okada
	Kazuyoshi Ohta
	Yoshihiro Shima
	Haruo Hiraiwa
	Yoshio Nozaki
	Kenji Ishihara
	Osamu Narumi
	Shigeru Asami
	Yoshiki Hoshi
	Atsushi Okayama

FINANCIAL SECTION

DATA SECTION

Consolidated Five-Year Summary

For the years ended March 31, 2008, 2009, 2010, 2011 and 2012

	2008	2009	2010	2011	**2012**
			Thousands of tons		
Product shipments					
Finished products	2,078	1,717	1,431	1,462	**1,549**
Billet (semi-finished products)	284	259	205	243	**297**
			Millions of yen		
For the year:					
Net sales	¥181,576	¥194,345	¥111,485	¥116,828	**¥130,650**
Gross profit	27,456	36,672	19,999	8,124	**12,780**
Operating income (loss)	17,189	26,270	11,454	(206)	**4,166**
Income (loss) before income taxes	17,195	23,388	11,121	(386)	**3,151**
Net income (loss)	11,070	14,009	6,691	(794)	**1,692**
Research and development expenses	26	152	44	43	**29**
Depreciation and amortization	4,738	4,869	4,992	4,806	**4,644**
Capital expenditures	5,550	5,173	4,815	2,706	**4,991**
Per share amounts (yen):					
Net income (loss), basic	253.66	318.72	152.23	(18.22)	**38.89**
Net income (loss), diluted	—	—	—	—	**—**
Cash dividends applicable to the year	30.00	40.00	40.00	20.00	**20.00**
At year-end:					
Total assets	¥166,572	¥153,711	¥151,125	¥146,453	**¥164,486**
Working capital	28,316	43,120	50,334	51,265	**61,950**
Interest bearing debt	1,952	1,540	1,729	1,665	**10,877**
Net assets	107,846	119,154	124,905	119,973	**122,725**
Shareholders' equity*	107,129	118,387	124,076	119,064	**120,344**
Ratios:					
Return on equity (%)	10.8	12.4	5.5	(0.7)	**1.4**
Return on total assets (%)	10.4	16.6	7.7	(0.0)	**2.8**
Debt to equity ratio (times)	0.02	0.01	0.01	0.01	**0.09**
Shareholders' equity* to total assets (%)	64.3	77.0	82.1	81.3	**73.2**
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	**44,899**
Number of employees	1,049	1,045	1,061	1,077	**1,299**
Stock prices (yen):					
High	¥3,750	¥2,590	¥2,805	¥2,082	**¥1,692**
Low	¥1,532	¥911	¥1,544	¥876	**¥1,011**

*Shareholders' equity = Net assets - Minority interest

Financial Review (Consolidated)

1. Consolidated Operating Results

Analysis of Operating Results

The Japanese economy in the fiscal year under review began recovering from the impact of the Great East Japan Earthquake of March 2011, but the recovery was only gradual due to uncertainties associated with the nuclear accident at the Tokyo Electric Power Company (TEPCO) Fukushima Daiichi Nuclear Power Station, the European fiscal crisis, prolonged yen appreciation and other factors.

In the construction sector, the main consumer of the Group's products, the first half was marked by stagnating demand for steel construction materials caused by construction projects nationwide being delayed or postponed due to the impact of the Great East Japan Earthquake. In the second half, however, demand began to gradually recover. At the same time, the price of the main raw material, steel scraps, remained at relatively low levels throughout the year due to slow demand overseas, especially in China and Korea, and reduced scrap purchases by integrated steel producers.

Under these conditions the Group worked to adjust production and sales in line with demand while maintaining a reduced production schedule, and to ensure a margin between product prices and steel scrap prices and endeavor to secure profit by further cost-cutting efforts.

As a result of these developments, the consolidated sales of the Group totaled ¥130,650 million, a year-on-year increase of ¥13,822 million (11.8%). In terms of income, consolidated operating income increased by ¥4,371 million year on year for an operating income of ¥4,166 million (operating loss of ¥206 million, in the previous year). However, since extraordinary loss is recorded as loss on sales of stocks of subsidiaries and affiliate, consolidated net income bottomed out increasing by ¥2,486 million for a net income of ¥1,692 million(net loss of ¥794 million in the previous year).

Performance results by business segment.

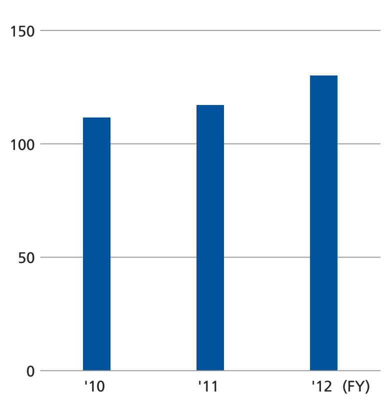
(1) Steel Business

The steel business registered an increase in product shipments of approximately 90,000 tons (5.9%), compared to the previous year due in part to signs of a demand recovery in the second half of the fiscal year, the price of product increased ¥2.6 thousand per ton.

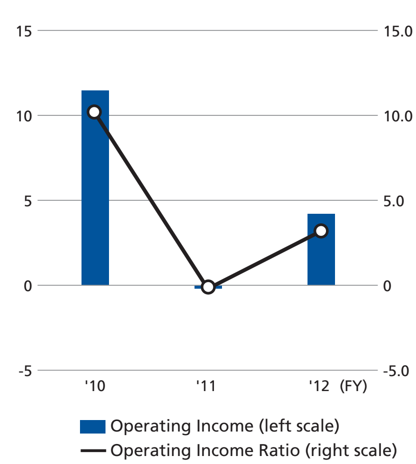
The price of steel scraps, since a demand drop of the abroad and domestic integrated steel producers, the average consumption unit price therefore declined ¥0.5 thousand. Herewith the margin of sale price (margin between price of product and raw material) enlarged ¥3.1 thousand per ton.

The results for the segment were net sales of ¥124,067 million, up ¥13,966 million (12.7%) from the previous year, and report a profit of operating income of ¥3,493 million, up ¥4,631 million net loss of ¥1,138 million in the previous year.

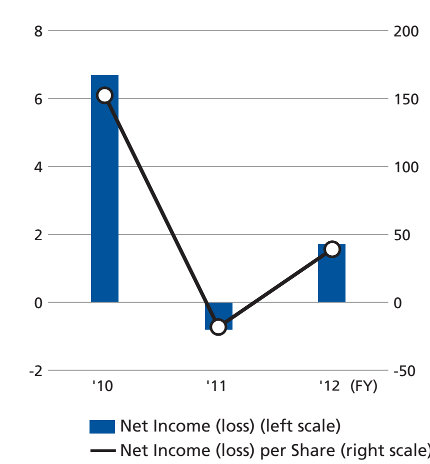
Net Sales
(Billions of yen)



Operating Income (loss)/Operating Income (loss) Ratio
(Billions of yen/%)



Net Income (loss)/Net Income (loss) per Share, Basic
(Billions of yen/yen)



(2) Material Recycling Business

In the material recycling business segment, with industrial waste volume decreasing and processing unit prices declining due to greater industry competition, earnings were captured by acquiring customers for high value-added waste processing and by developing new customers. However, there was also a decrease in the volume of industrial waste received at managed final disposal sites. As a result, segment net sales totaled ¥6,221 million, down ¥157 million (2.5%) from the previous fiscal year, and operating income was ¥1,241 million, a year-on-year decline of ¥358 million (22.4%).

(3) Other Business

The other business segment consists of sales of civil engineering materials through a subsidiary and the operation of insurance dealers. Net sales were ¥361 million, up ¥14 million (4.0%) from the previous year, and operating income was ¥44 million, up ¥12 million (37.9%) from the previous year.

2. Analysis of Financial Situation

i. Consolidated Assets, Liabilities and Net Assets Conditions

(1) Assets

Current assets increased by ¥17,619 million (25.0%) for current assets of ¥88,184 million. This increase can be attributed in part to Cash and deposits ¥3,940 million and notes receivable and accounts receivable ¥11,809 million.

Fixed assets increased by ¥413 million (0.5%) from the previous fiscal year to ¥76,302 million. This increase can be attributed in part to investment securities ¥1,430 million and decreasing of Property, plant and equipment ¥1,030 million.

As a result, total assets increased by ¥18,033 million (12.3%) from the previous fiscal year to ¥164,486 million.

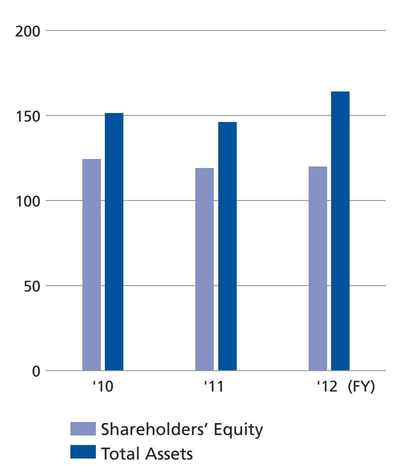
(2) Liabilities

Current liabilities increased by ¥12,152 million (61.5%) from the previous fiscal year to ¥31,922 million. This increase can be attributed in part to increase of payables and accounts payable of ¥3,246 million, short-term debt of ¥5,549 million and other current liabilities of ¥2,269 million.

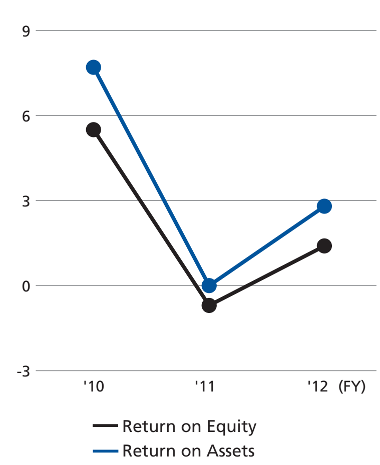
Long-term liabilities increased by ¥3,129 million (46.6%) from the previous fiscal year to ¥9,839 million, the result of factors includes an increase in long-term debt of ¥3,992 million.

As a result, total liabilities increased by ¥15,282 million (57.7 %) from the previous fiscal year to ¥41,761 million.

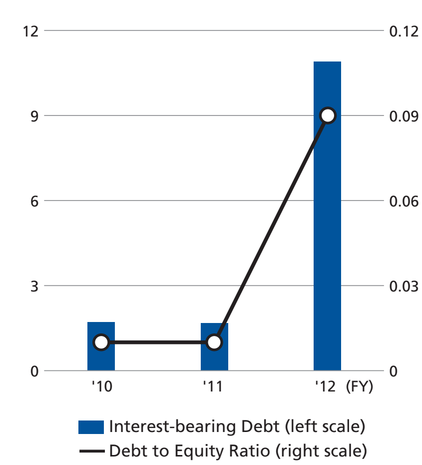
Shareholders' Equity/Total Assets (Billions of yen)



Return on Equity/Return on Assets (%)



Interest-bearing Debt/Debt to Equity Ratio (Billions of yen/times)



(3) Net Assets

Net assets increased by ¥2,751 million (2.3%) from the previous fiscal year to ¥122,725 million due to net income of ¥1,692 million, cash dividends of ¥870 million, increase of ¥566 million in revaluation reserve for land net of tax and increase of ¥1,472 million in minority interests.

As a result, net assets per share increased by ¥29.41 from the previous fiscal year to ¥2,766.24. Capital ratio also fell to 73.2% from 81.3% at the previous fiscal year-end.

ii. Cash Flow Conditions

The ending balance for cash and cash equivalents as of March 31, 2012 increased by ¥7,207 million from the previous fiscal year to ¥23,220 million. Below are the cash flow summaries for the current consolidated fiscal year.

(1) Cash Flows from Operations

Net cash from operating activities was income of ¥6,799 million. The major components of net cash flows from operating activities were earnings before income tax of ¥3,151 million, depreciation of ¥4,644 million, increase of ¥9,883 million in notes and trade account receivable and accounts receivable, increase of ¥4,397 million in trade accounts payable and accounts payable and corporate income tax refund of ¥1,498 million.

(2) Cash Flows from Investments

Net cash from investing activities was expense of ¥5,114 million. The major components of net cash flows from investing activities were payments into time deposits of ¥2,086 million, proceeds from withdrawal of time deposits of ¥2,033 million, purchase of investment securities of ¥1,300 million, proceeds from sales and redemption of investment securities of ¥2,700 million and payment for purchase of property, plant and equipment of ¥3,956 million.

(3) Cash Flows from Financing Activities

Net cash from financing activities was income of ¥3,605 million. The major components of net cash flows from financing activities were ¥5,000 million for proceeds from long-term loans payable and ¥870 million for cash dividends paid.

3. Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. Therefore, we aim to ensure the necessary cash reserve for such important business activities as growth-driven investment in mergers and capital expenditures. For fiscal 2012, we paid an annual dividend of 20 yen per share.

4. Growth strategy

In order to deal with the major changes in the business environment surrounding our corporate group at our Company, we established a Medium- to Long-Term Business Plan in April 2010 in which the following items are designated as business priorities. We put together a team to work for improve of company valuation.

(1) Move ahead on growth strategy

Ⅰ. In order to survive and compete in the domestic steel market, which is expected to contract further, we will carry out the following activities.

- As a key company in the reorganization and integration of our industry, we will promote an alliance strategy linked to realizing synergies and strengthening our competitiveness.
- We will also strengthen our competitiveness by reducing costs and increasing productivity at our various plants.
- We will maximize our entire company's business capabilities by means of a business policy unconstrained by a view of each workplace as an independent entity.
- We will promote the development of new high-value-added products by ascertaining the needs of customers and dealing with them expeditiously.
- We will endeavor to procure raw materials in a consistent and dependable manner by strengthening our network of raw material suppliers.

Ⅱ. Growth in the Overseas Steel Business

The Company previously augmented capacity at its existing site in Southeast Asia (Vina Kyoei Steel Ltd. (VKS)) in order to accommodate increasing demand associated with economic growth overseas, particularly Southeast Asia, and conducted studies on establishing new business sites.

In October of last year, we acquired an investment license for the construction of additional production lines at VKS, our affiliate in southern Vietnam, and commenced construction. Moreover, we increased our effective control of VKS by acquiring the right to designate the company's president on a continuing basis and, taking into account this and other factors, VKS was made a consolidated subsidiary of the Company (previously an equity-method affiliate). Additionally, in March, 2012, the Company began a new steel business (Kyoei Steel Vietnam Co., Ltd.) in the northern part of the country through a merger with a local partner. Construction plans are currently being carried out for a new integrated steel manufacturing and rolling line.

As a result of the two projects in Vietnam, the Group's overseas production capacity is slated to increase to approximately 1.8 million tons annually by 2019, which will enable us to make great strides in achieving our growth strategy.

Ⅲ. Achieve steady growth in the material recycling business

In response to the social demand to build a recycling oriented society, we have expanded our material recycling business and have realized stable profits. In the future, we will step up our efforts in this business, including at workplaces and affiliates where this business is not yet being conducted or is being conducted on a small scale. Upon obtaining licenses from local governments and the understanding of local citizens, we will work to expand this business on a company-wide scale.

(2) Vibrant human resources and operation of measures and policies

In order to promote above growth strategies, we will implement vigorous measures related to both personnel and organizational matters. In particular, we will make use of older employees, recruit young people, carry out personnel rotations based on a human resources map and conduct systematic training measures.

Consolidated Balance Sheets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Assets			
Current assets:			
Cash and time deposits	¥ 15,398	¥ 11,459	$ 187,346
Notes and accounts receivable	39,081	27,272	475,496
Marketable securities (Note 18)	10,400	8,500	126,536
Inventories (Note 5)	21,065	19,438	256,296
Deferred tax assets (Note 10)	493	422	5,998
Other current assets	1,800	3,525	21,902
Allowance for doubtful accounts	(53)	(52)	(645)
Total current assets	88,184	70,564	1,072,929
Property, plant and equipment:			
Buildings and structures (Note 7)	35,398	35,479	430,685
Machinery and equipment (Note 7)	85,063	81,988	1,034,956
Land (Note 7)	26,737	27,053	325,307
Construction in progress	423	294	5,147
Other (Note 7)	2,117	2,007	25,757
Total	149,738	146,821	1,821,852
Accumulated depreciation	(89,240)	(85,293)	(1,085,777)
Net property, plant and equipment	60,498	61,528	736,075
Investments and other assets:			
Investments in securities (Note 18)	6,062	6,246	73,756
Unconsolidated subsidiaries and affiliated companies	5,623	4,008	68,415
Investments in long-term loans receivable	789	326	9,600
Intangible assets, net	1,352	1,332	16,450
Deferred tax assets (Note 10)	236	59	2,871
Other noncurrent assets	1,823	2,481	22,180
Allowance for doubtful accounts	(81)	(91)	(986)
Total investments and other assets	15,804	14,361	192,286
Total assets	¥164,486	¥146,453	$2,001,290

The accompanying notes to the consolidated financial statements are an integral part of these statements.

KYOEI STEEL, LTD. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	¥ 16,875	¥ 13,629	$ 205,317
Bank loans (Note 7)	5,549	—	67,514
Long-term debt due within one year (Note 7)	139	471	1,691
Income taxes payable	1,578	158	19,199
Accrued employees' bonuses	597	621	7,264
Accrued directors' bonuses	35	10	426
Other current liabilities	7,149	4,881	86,982
Total current liabilities	31,922	19,770	388,393
Long-term liabilities:			
Long-term debt (Note 7)	5,168	1,176	62,879
Deferred tax liabilities (Note 10)	372	604	4,526
Deferred tax liabilities for revaluation (Note 10)	3,492	3,987	42,487
Accrued employees' severance and retirement benefits (Note 14)	229	279	2,786
Accrued directors' severance and retirement benefits	14	15	170
Other long-term liabilities	564	649	6,862
Total long-term liabilities	9,839	6,710	119,710
Total liabilities:	41,761	26,480	508,103
Contingent liabilities (Note 6)			
Net assets (Note 9)			
Shareholders' equity			
Common stock	18,516	18,516	225,283
Authorized – 150,300,000 shares in 2012			
150,300,000 shares in 2011			
Issued – 44,898,730 shares in 2012			
44,898,730 shares in 2011			
Capital surplus	21,493	21,493	261,504
Retained earnings	76,101	75,322	925,916
Treasury stock	(1,635)	(1,635)	(19,894)
Total shareholders' equity	114,475	113,696	1,392,809
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	965	982	11,741
Deferred gains or losses on hedges	1	—	12
Revaluation reserve for land	5,329	4,762	64,838
Foreign currency translation adjustments	(426)	(376)	(5,183)
Total accumulated other comprehensive income	5,869	5,368	71,408
Minority interests	2,381	909	28,970
Total net assets	122,725	119,973	1,493,187
Total liabilities and net assets	¥164,486	¥146,453	$2,001,290

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Operations

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales	¥130,650	¥116,828	$1,589,609
Cost of sales	117,870	108,704	1,434,116
Gross profit	12,780	8,124	155,493
Selling, general and administrative expenses (Note 8)	8,614	8,330	104,806
Operating income (loss)	4,166	(206)	50,687
Other income (expenses):			
Interest income	35	44	426
Dividend income	123	135	1,497
Interest expense	(109)	(76)	(1,326)
Equity in net income (losses) of unconsolidated subsidiaries and affiliates	292	(140)	3,553
Gain on sale and disposal of property, plant and equipment	41	28	499
Gain on sale and disposal of scrap	67	47	815
Reversal of allowance for doubtful accounts	—	1	—
Gain on insurance claim	—	129	—
Loss on sale and disposal of property, plant and equipment	(365)	(255)	(4,441)
Loss on sale of investments in securities	—	(15)	—
Loss on devaluation of investments in securities	—	(180)	—
Impairment loss on fixed assets (Note 19)	(526)	—	(6,400)
Cash sales discount	(49)	(47)	(596)
Commitment fees	(4)	(17)	(49)
Loss on sales of stocks of subsidiaries and affiliates	(577)	—	(7,020)
Other, net	57	166	693
Other income (expenses), net	(1,015)	(180)	(12,349)
Net income (loss) before income taxes	3,151	(386)	38,338
Income taxes (Note 10)			
Current	1,643	289	19,990
Deferred	(254)	(2)	(3,090)
Total income taxes	1,389	287	16,900
Income (loss) before minority interests	1,762	(673)	21,438
Minority interests in net income of consolidated subsidiaries	70	121	852
Net income (loss)	¥ 1,692	¥ (794)	$ 20,586

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 15)	2012	2011	2012
Net income (loss)			
Basic	¥38.89	¥(18.22)	$0.47
Diluted	—	—	—
Cash dividends applicable to the year	¥20.00	¥20.00	$0.24

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Income (loss) before minority interest	¥1,762	¥ (673)	$21,438
Other comprehensive income (loss)			
Valuation difference on available-for-sale securities	(18)	(872)	(219)
Deferred gains or losses on hedges	1	—	12
Revaluation reserve for land	524	—	6,376
Share of other comprehensive income of affiliates accounted for using equity method	(49)	(113)	(596)
Other comprehensive income (loss), net (Note 20)	458	(985)	5,573
Comprehensive income (loss)	¥2,220	¥(1,658)	$27,011
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of the parent	¥2,149	¥(1,779)	$26,147
Comprehensive income attributable to minority interests	¥ 71	¥ 121	$ 864

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Shareholders' equity			
Common stock			
Balance at beginning of year	¥ 18,516	¥ 18,516	$ 225,283
Balance at end of current fiscal year	18,516	18,516	225,283
Additional paid-in capital			
Balance at beginning of year	21,493	21,493	261,504
Balance at end of current fiscal year	21,493	21,493	261,504
Retained earnings			
Balance at beginning of year	75,322	78,685	916,438
Changes during the period			
Cash dividends	(870)	(1,317)	(10,585)
Net income (loss)	1,692	(794)	20,586
Change of scope of equity method	—	(1,254)	—
Reversal of revaluation reserve for land	(43)	2	(523)
Total changes during the period	779	(3,363)	9,478
Balance at end of current fiscal year	76,101	75,322	925,916
Treasury stock			
Balance at beginning of year	(1,635)	(973)	(19,894)
Changes during the period			
Repurchase of treasury stock	(0)	(662)	(0)
Total changes during the period	(0)	(662)	(0)
Balance at end of current fiscal year	(1,635)	(1,635)	(19,894)
Total shareholders' equity			
Balance at beginning of year	113,696	117,721	1,383,331
Changes during the period			
Cash dividends	(870)	(1,317)	(10,585)
Net income (loss)	1,692	(794)	20,586
Change of scope of equity method	—	(1,254)	—
Reversal of revaluation reserve for land	(43)	2	(523)
Repurchase of treasury stock	(0)	(662)	(0)
Total changes during the period	779	(4,025)	9,478
Balance at end of current fiscal year	¥114,475	¥113,696	$1,392,809

The accompanying notes to the consolidated financial statements are an integral part of these statements.

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Accumulated other comprehensive income			
Valuation difference on available for sale securities			
Balance at beginning of year	¥ 982	¥ 1,854	$ 11,948
Changes during the period			
Net changes in items other than shareholders' equity	(17)	(872)	(207)
Total changes during the period	(17)	(872)	(207)
Balance at end of current fiscal year	965	982	11,741
Deferred gains or losses on hedges			
Balance at beginning of year	—	—	—
Change during the period			
Net changes in items other than shareholders' equity	1	—	12
Total changes during the period	1	—	12
Balance at end of current fiscal year	1	—	12
Revaluation reserve for land			
Balance at beginning of year	4,762	4,765	57,939
Changes during the period			
Net changes in items other than shareholders' equity	567	(3)	6,899
Total changes during the period	567	(3)	6,899
Balance at end of current fiscal year	5,329	4,762	64,838
Foreign currency translation adjustments			
Balance at beginning of year	(376)	(264)	(4,575)
Changes during the period			
Net changes in items other than shareholders' equity	(50)	(112)	(608)
Total changes during the period	(50)	(112)	(608)
Balance at end of current fiscal year	(426)	(376)	(5,183)
Total accumulated other comprehensive income			
Balance at beginning of year	5,368	6,355	65,312
Changes during the period			
Net changes in items other than shareholders' equity	501	(987)	6,096
Total changes during the period	501	(987)	6,096
Balance at end of current fiscal year	5,869	5,368	71,408
Minority interests			
Balance at beginning of year	909	829	11,060
Changes during the period			
Net changes in items other than shareholders' equity	1,472	80	17,910
Total changes during the period	1,472	80	17,910
Balance at end of current fiscal year	2,381	909	28,970
Total net assets			
Balance at beginning of year	119,973	124,905	1,459,703
Changes during the period			
Cash dividends	(870)	(1,317)	(10,585)
Net income (loss)	1,692	(794)	20,586
Change of scope of equity method	—	(1,254)	—
Reversal of revaluation reserve for land	(43)	2	(523)
Repurchase of treasury stock	(0)	(662)	(0)
Net changes in items other than shareholders' equity	1,973	(907)	24,006
Total changes during the period	2,752	(4,932)	33,484
Balance at end of current fiscal year	¥122,725	¥119,973	$1,493,187

Consolidated Statements of Cash Flows

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Net income (loss) before income taxes	¥ 3,151	¥ (386)	$ 38,338
Depreciation and amortization	4,644	4,806	56,503
Impairment loss on fixed assets	526	—	6,400
Decrease (increase) in reserves	(60)	(100)	(730)
Equity in net (income) loss of unconsolidated subsidiaries and affiliates	(292)	140	(3,553)
Loss on sale of investments in securities	—	15	—
Loss on devaluation of investments in securities	—	180	—
Loss on sales of stocks of subsidiaries and affiliates	577	—	7,020
Loss on sale and disposal of property, plant and equipment	324	227	3,942
Interest and dividend income	(158)	(179)	(1,922)
Interest expense	109	76	1,326
Gain on insurance claim	—	(129)	—
Decrease (increase) in notes and accounts receivable	(9,883)	(3,334)	(120,246)
Decrease (increase) in inventories	611	(2,058)	7,434
Increase (decrease) in trade notes and accounts payable	4,397	1,360	53,498
Other	1,282	1,288	15,599
Subtotal	5,228	1,906	63,609
Interest and dividends received	158	181	1,922
Interest paid	(85)	(77)	(1,034)
Insurance claim received	—	129	—
Income taxes paid	1,498	(2,068)	18,226
Net cash provided by operating activities	6,799	71	82,723
Cash flows from investing activities:			
Increase in time deposits	(2,086)	(1,890)	(25,380)
Decrease in time deposits	2,033	4,012	24,735
Payment for acquisition of investments in securities	(1,300)	(2,875)	(15,817)
Proceeds from sale and redemption of investment securities	2,700	8,206	32,851
Payment for purchase of securities	(1,466)	(65)	(17,837)
Proceeds from sales of marketable securities and investments	—	64	—
Payments for sales of investments in subsidiaries resulting in change of scope of consolidation (Note 13)	(354)	—	(4,307)
Increase in money deposited	(100)	(1,300)	(1,217)
Decrease in money deposited	100	800	1,217
Investments in loans	(68)	(12)	(827)
Collection of loans	79	56	961
Payment for purchase of property, plant and equipment	(3,956)	(3,126)	(48,132)
Proceeds from sale of property, plant and equipment	88	436	1,071
Payment for purchase of intangibles	(196)	(224)	(2,385)
Other	(588)	(353)	(7,155)
Net cash used in investing activities	(5,114)	3,729	(62,222)
Cash flows from financing activities:			
Proceeds from long-term debt	5,000	400	60,835
Repayment of long-term debt	(468)	(443)	(5,694)
Repayments of installment payables	(6)	(6)	(73)
Payment for pay back of treasury stock	(0)	(662)	(0)
Cash dividends paid	(870)	(1,317)	(10,585)
Dividends paid to minority shareholders of consideration subsidiaries	(49)	(41)	(596)
Other	(2)	—	(25)
Net cash provided by financing activities	3,605	(2,069)	43,862
Effect of exchange rate changes on cash and cash equivalents	(0)	(9)	(0)
Net increase (decrease) in cash and cash equivalents	5,290	1,722	64,363
Cash and cash equivalents at the beginning of the period	16,014	14,292	194,841
Increase in cash and cash equivalents from newly consolidated subsidiary (Note 13)	1,916	—	23,312
Cash and cash equivalents at the end of the period (Note 13)	¥23,220	¥16,014	$282,516

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

KYOEI STEEL, LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of KYOEI STEEL, LTD. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82.19 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the parent company and all the subsidiaries over which it exerts substantial control either through majority ownership of voting stock or by other means. As a result, the accompanying consolidated financial statements include the accounts of the Company and eight consolidated subsidiaries for the years ended March 31, 2012 and 2011. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (other than subsidiaries as defined above) whose decision making and control over their own operations is significantly affected in various ways by the Company Group are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

(b) Foreign currency translation

Monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the exchange rates in effect at each balance sheet date if not hedged by forward foreign exchange contracts or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting gain or loss is recognized as other income or expense.

Assets and liabilities of the overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date, and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as a component of net assets and minority interests in the consolidated financial statements.

From the fiscal year ended March 31, 2012 Vina Kyoei Steel Ltd is included in consolidation criteria based on the effective control standards, and Kyoei Kenzai Ltd, consolidated subsidiary on the fiscal year ended March 31, 2012, is excluded by assignment of stock.

(c) Cash and cash equivalents

Cash on hand and in banks, and generally all highly liquid investments with maturities of three months or less when purchased are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of change in value attributable to changes in interest rates are considered cash and cash equivalents.

(d) Securities

Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method.

Nonmarketable securities classified as other securities are carried at cost determined by the moving average method.

If the market value of marketable securities classified as other securities declines significantly, the securities are written down to fair value, thus establishing a new cost basis.

(e) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as “hedging instruments”.

(f) Inventories

Rolls are stated at cost determined by the specific identification method. Other inventories are mainly stated at cost determined by the average method. For figures shown on the balance sheet, the book value write-down method based on decreased profitability is used.

(g) Depreciation and amortization

(1) Property, plant and equipment (excluding lease assets)
Depreciation of property, plant and equipment is calculated principally by the straight-line method (except that certain consolidated subsidiaries employ the declining balance method).

Estimated useful lives of the property, plant and equipment are summarized as follows:

Buildings and structures:	3-60 years
Machinery and equipment:	2-17 years

Additional information (year ended March 31, 2011)

Previously, it was assumed that land used for managed final disposal sites for waste landfill operations would be used as the company’s commercial land after landfills were complete, so such land was stated on the consolidated balance sheets at its acquisition price, but starting in the fiscal year under review, after landfill completion land used for managed final disposal sites will be depreciated based on waste landfill ratios as a result of changes to the usage objective of such land.

(2) Intangible fixed assets (excluding lease assets)
Most items are depreciated by the straight-line method
Expenditures related to computer software intended for internal use are amortized over the useful life of the respective asset (in general, 5 years).

(3) Lease assets
Lease assets related to finance lease transactions that commenced after March 31, 2008 and that do not transfer ownership are depreciated by the straight-line method, with the lease term as the useful life and a residual value of zero. Those that started on or before March 31, 2008, are accounted for in the same manner as ordinary rental transactions.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables.
The amount of the provision is based on historical experience with such write-offs plus an estimate of specific doubtful accounts determined by a review of the collectability of the individual receivables.

(i) Accrued employees’ bonuses

To provide for the payment of bonuses to employees, the projected amount of such bonuses is set aside as a reserve.

(j) Accrued directors’ bonuses

To provide for the payment of bonuses to directors, the projected amount of such bonuses is set aside as a reserve.

(k) Accrued retirement benefits

Accrued employees’ retirement benefits are provided based on the projected retirement benefit obligation and the fair value of pension fund assets. Prior service cost is amortized as incurred by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees participating in the plans. Actuarial gain or loss is amortized from the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees participating in the plans.

The liability for retirement benefits to directors and corporate auditors is provided at the amount which would be required if they retired at the balance sheet date.

(l) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which are expected to be in effect when the differences are expected to be reversed.

(m) Significant hedge accounting

(a) Method of hedge accounting
The Company and its consolidated subsidiaries use mainly deferred hedging.
Hedges that meet conditions for the special treatment of interest-rate swaps are accounted for separately.

(b) Hedging instruments and hedged items
· Hedge instruments: Interest-rate swaps
· Hedge items: Interest-rate

(n) Goodwill

Goodwill is depreciated by the straight-line method within 20 years.

(o) Scope of fund in consolidated statement of cash flows

Cash in hand, bank deposits able to be withdrawn on demand, and short-term investments with original maturities of three months or less and which represent a minor risk of fluctuations in value.

(p) Accounting standard for equity method and immediate handling for account processing of companies accounted for using the equity method

Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries adopted the “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No.16 issued in March 10, 2008) and the “Immediate handling for account processing of companies accounted for using the equity method” (Practical Issue Task force No.24).
This change has a minor material impact on the consolidated financial statements.

3. ADDITIONAL INFORMATION

The Company and its consolidated domestic subsidiaries adopted the “Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan (“ASBJ”) Statement No.24 issued on December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

4. CHANGES IN METHODS OF ACCOUNTING

(1) New accounting standard for asset retirement obligations (year ended March 31, 2011)

Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries adopted the “Accounting Standard for Asset Retirement Obligations” (Accounting Standards Board of Japan (“ASBJ”) Statement No.18, issued on March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.21 issued in March 31, 2008).
This change had no material impact on the consolidated financial statements.

(2) New accounting standard for equity method and immediate handing for account processing of companies accounted for using the equity method (year ended March 31, 2011)

Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries have adopted the "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, issued on March 10, 2008) and the "Immediate handing for account processing of companies accounted for using the equity method" Practical Issue Task force No.24. This change had no material impact on the consolidated financial statements.

5. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise	¥ 4	¥ 9	$ 49
Finished goods	7,702	6,030	93,710
Semi-finished goods	4,130	4,287	50,249
Work-in-process	1,205	694	14,661
Raw materials	2,414	2,929	29,371
Supplies	3,563	3,355	43,350
Rolls	2,047	2,134	24,906
Total	¥21,065	¥19,438	$256,296

6. CONTINGENT LIABILITIES

At March 31, 2012 and 2011, the Company and its consolidated subsidiaries were contingently liable as follows;

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
As endorser of notes discounted	¥ 772	¥300	$ 9,393
As guarantor of indebtedness			
Kyoei steel Vietnam Co., Ltd.	872	—	10,610
Kyoei steel Singapore Co., Ltd.	1,410	—	17,155
Total	¥2,282	¥300	$27,765

7. BANK LOANS

Bank loans consisted of unsecured loans payable to banks at the weighted average interest rate of 10.94% per annum at March 31, 2012.

Long-term debt from banks at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Long-term debt from banks at average rates of 1.92% and 1.13% for current and noncurrent portions, respectively	¥5,307	¥1,647	$64,570
Less current portion	(139)	(471)	(1,691)
Long-term debt from banks	¥5,168	¥1,176	$62,879

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Buildings and structures	¥10,444	¥11,377	$127,071
Machinery and equipment	17,441	17,851	212,203
Land	16,984	17,297	206,643
Other	134	150	1,631
Total	¥45,003	¥46,675	$547,548

The aggregate annual maturities of long-term debt from banks subsequent to March 31, 2012 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥ 139	$ 1,691
2014	127	1,545
2015	385	4,684
2016	731	8,894
2017 and thereafter	3,925	47,756
Total	¥5,307	$64,570

8. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses for the years ended March 31, 2012 and 2011, amounted to ¥29 million ($353 thousand) and ¥43 million, respectively.

9. NET ASSETS

Under the Japanese Corporate Law (“the Law”) and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations. At the Board Directors’ meeting held on April 27, 2012, the Board approved cash dividends amounting to ¥653 million ($7,945 thousand). The appropriation has not been accrued in the consolidated financial statements as of March 31, 2012.

10. INCOME TAXES

(a) Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 44.1% for the years ended March 31, 2012.

The major components of deferred tax assets and liabilities as of March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Impairment losses	¥ 350	¥ 317	$ 4,258
Accrued enterprise taxes	143	16	1,740
Allowance for doubtful accounts	485	551	5,901
Accrued bonuses	228	254	2,774
Accrued directors' retirement benefits	144	164	1,752
Tax carry forward	112	232	1,363
Other	453	531	5,511
Gross deferred tax assets	1,915	2,065	23,299
Valuation allowance	(787)	(1,090)	(9,575)
Total deferred tax assets	1,128	975	13,724
Net deferred tax assets	¥ 357	¥ —	$ 4,343
Deferred tax liabilities:			
Net unrealized gains/losses on other securities	(571)	(719)	(6,947)
Retained earnings appropriated for tax deductible reserves	(39)	(22)	(475)
Reserve for special depreciation for tax purposes	(14)	(9)	(170)
Prepaid pension expenses	(138)	(184)	(1,679)
Other	(9)	(164)	(110)
Total deferred tax liabilities	(771)	(1,098)	(9,381)
Net deferred tax liabilities	¥ —	¥ (123)	$ —

Net deferred tax liabilities at March 31, 2012 and 2011 were included in the consolidated balance sheets as follows;

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets (current)	¥493	¥ 422	$5,998
Deferred tax assets (noncurrent)	236	59	2,871
Deferred tax liabilities (noncurrent)	(372)	(604)	(4,526)
Net deferred tax liabilities	¥357	¥(123)	$4,343

The major components of a reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2012 is as follows:

	2012
Statutory tax rate	40.6%
Increase in valuation reserve	2.4
Dividend income and other excluded from gross revenue	(2.9)
Lower earnings estimate of deferred tax asset by changing of tax rate	1.8
Consolidated adjustment	1.6
Inhabitant tax on per capital basis	1.0
Other	(0.4)
Effective tax rate	44.1%

Loss before income taxes is posted for the year ended March 31, 2011. Therefore, reconciliation between the statutory tax rate and the effective tax rate, has not been disclosed.

(b) Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates
On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 37.96% for years beginning on or after April 1, 2012 and 35.59% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 37.96% and 35.59%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax liabilities and deferred tax liabilities for revaluation decreased by ¥26 million ($316 thousand) and ¥495 million ($6,023 thousand), respectively, so deferred tax income increased by ¥55 million ($669 thousand) as of March 31, 2012.

11. BUSINESS COMBINATIONS AND DIVESTITURES

<Business combination through acquisition>

(1) Outline of the business combination

(a) Name of the acquired company and its business
Vina Kyoei Steel Ltd., (Production and sales of steel)

(b) Main reasons for the business combination
For the Group's performance improvement through taking lively steel demand due to expansion of infrastructure investment accompany economic growth in Vietnam.

(c) Date of business combination
January 1, 2012

(d) Legal form of the business combination
Domination of decision-making body by acquiring power of appointment

(e) Name of the controlling entity after the business combination
Remain unchanged

(f) Percentage share of voting rights

Percentage share of voting rights owned before business combination	45%
Percentage share of voting rights additionally acquired at the date of business combination	—%
Percentage share of voting rights after acquisition	45%

(g) Main reason for deciding to acquire the company
Agreement on the power of appointment for the general director of the Company

(2) Period of the acquired company's financial results included in the consolidated statements of income
From January 1, 2011 to December 31, 2011
The performance is included in consolidated statements of operations by equity method.

(3) Acquisition cost of the acquired company
Acquisition cost ¥ 914 million ($ 11,121 thousand)

(4) Amount of accrued goodwill, cause of accrual, amortization method, amortization period
No relevant items

(5) Amounts of assets and liabilities acquired on the day of the business combination

(a) Assets

	Millions of yen	Thousands of U.S. dollars
Current assets	¥7,907	$ 96,204
Fixed assets	954	11,607
Total assets	¥8,861	$107,811

(b) Liabilities

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥6,207	$75,520
Long-term liabilities	17	207
Total liabilities	¥6,224	$75,727

(6) Approximate amounts of impact on the consolidated statements of operations for the fiscal year ended March 31, 2012, assuming that the business combination had been completed on the commencement date of the fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	¥22,602	$274,997
Operating income	895	10,889
Net income before income taxes	178	2,166
Net income	—	—

(Calculation method of the approximate amounts)
The above estimated amount which impacts our consolidated statements of operations was calculated based on the balance between the estimated sales amount and income summary information on the assumption that the business combination was completed at the beginning of the fiscal year, and sales amount and income summary information in our consolidated statements of operations.

<Sale of stocks of consolidated subsidiary>
(1) Outline of the sale of stocks
(a) Name and the business of the consolidated subsidiary and transferee
Consolidated subsidiary: Kyoei Kenzai Ltd. (Production and sales of steel column, roll-formed section)
Transferee: Nippon Steel & Sumikin Metal Products Co., Ltd.
(Production and sales of cold-formed steel products in the construction and civil engineering fields)

(b) Main reason for the sale of the consolidated subsidiary
To survive severe competition in the domestic steel market, the Company and its subsidiaries promote efficiency in our business by restructuring of our core of business area and centralizing the economic resource.

(c) Date of stocks transfer
April 1, 2012

(d) Legal form of the sale of stocks
Legal form: assignment of stocks
Number of stocks sold: 30,300 shares
Percentage of equity after stocks transfer: —%

(2) Outline of accounting method
Record loss on sales of stocks of subsidiaries and affiliates amounted to ¥577 million ($7,020 thousand) as extraordinary loss.

(3) Name of reporting segment which such company was included
The steel segment

(4) Approximate amount of gain and loss of such business in the consolidated statements of operations for the consolidated fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	¥3,471	$42,231
Operating income	(267)	(3,249)

(5) Outline of ongoing involvement

The company extended a ¥710 million loan to such company as of March 31, 2012.

12. INFORMATION FOR CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the year ended March 31, 2012:

(a) Number of shares issued

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	44,898,730	—	—	44,898,730

(b) Treasury stock

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,394,196	46	—	1,394,242

(c) Cash dividends

Amount of dividend payments

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
April 28, 2011 (Board of Directors)	Common stock	¥653	$7,945	¥ 15	$0.2	March 31, 2011	June 10, 2011

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
October 31, 2011 (Board of Directors)	Common stock	¥218	$2,652	¥ 5	$0.1	September 30, 2011	December 9, 2011

13. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits	¥15,398	¥11,459	$187,346
Time deposits with a maturity of more than three months	(1,778)	(1,745)	(21,633)
Negotiable certificates of deposit with maturities of three months	9,600	6,300	116,802
Cash and cash equivalents	¥23,220	¥16,014	$282,515

(b) Changes in assets and liabilities due to new inclusion to consolidation

The following table represents the components of assets and liabilities as of March 31, 2012.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥7,907	$ 96,204
Fixed assets	954	11,607
Total assets	¥8,861	$107,811

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥6,207	$75,520
Long-term liabilities	17	207
Total liabilities	¥6,224	$75,727

(c) Changes in assets and liabilities due to exclusion from consolidation

The following table represents the components of assets and liabilities as of March 31, 2012.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥2,174	$26,451
Fixed assets	1,603	19,504
Total assets	¥3,777	$45,955

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥1,960	$23,847
Long-term liabilities	1,184	14,406
Total liabilities	¥3,144	$38,253

14. SEVERANCE AND RETIREMENT BENEFITS

The Company and its consolidated subsidiaries have defined benefit plans and defined contribution pension plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2012 and 2011 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Severance and retirement benefit obligation	¥(4,912)	¥(4,798)	$(59,764)
Plan assets at fair value	4,031	4,123	49,045
Unfunded retirement benefit obligation	(881)	(675)	(10,719)
Unrecognized actuarial gain or loss	842	604	10,245
Unrecognized past service cost	204	249	2,482
Net severance and retirement benefit obligation	165	178	2,008
Prepaid pension expenses	394	457	4,794
Accrued severance and retirement benefits	¥ (229)	¥ (279)	$ (2,786)

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥308	¥320	$3,747
Interest cost	79	79	961
Expected return on plan assets	(53)	(56)	(645)
Amortization of past service cost	101	117	1,229
Amortization of actuarial gain or loss	46	46	560
Additional retirement benefit expense	27	28	329
Total	¥508	¥534	$6,181

The assumptions used in accounting for the above plans are as follows:

	2012	2011
Method adopted for periodic distribution of projected retirement benefits	Equal amounts per period	Equal amounts per period
Discount rate	1.5%	2.0%
Expected rate of return on plan assets	1.5%	1.5%
Amortization of past service cost	10 years (straight-line method)	10 years (straight-line method)
Amortization of actuarial gain or loss	10 years (straight-line method)	10 years (straight-line method)

15. AMOUNTS PER SHARE

	Yen		U.S. dollars
Years ended March 31	2012	2011	2012
Net income (loss)	¥ 38.89	¥ (18.22)	$ 0.47

	Yen		U.S. dollars
As of March 31	2012	2011	2012
Net assets	¥2,766.24	¥2,736.83	$33.66

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.

Net assets per share is based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the balance sheet date.

The calculation of basic net income per share was determined as follows:

	Millions of yen		Thousands of U.S dollars
Year ended March 31	2012	2011	2012
Basic net income per share:			
Net income (loss)	¥1,692	¥(794)	$20,586
Amount not attributable to shareholders of common stock:	—	—	—
Amount attributable to shareholders of common stock	¥1,692	¥(794)	$20,586
Weighted average number of shares outstanding	43,505 thousand share	43,572 thousand share	—

16. LEASES

(a) Accounting as lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2012 and 2011 which would have been reflected in the consolidated balance sheets if the finance leases currently accounted for as operating leases had been capitalized:

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2012	Machinery, equipment and vehicles	Tools and equipment	Other	Total	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥—	¥8	¥ 8	¥16	$—	$97	$97	$194
Accumulated depreciation	—	6	8	14	—	73	97	170
Net book value	¥—	¥2	¥—	¥ 2	$—	$24	$—	$ 24

	Millions of yen			
As of March 31, 2011	Machinery, equipment and vehicles	Tools and equipment	Other	Total
Acquisition costs	¥46	¥16	¥8	¥70
Accumulated depreciation	42	12	7	61
Net book value	¥ 4	¥ 4	¥1	¥ 9

Future minimum lease payments subsequent to March 31, 2012 and 2011 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Due within one year	¥1	¥6	$12
Due after one year	1	3	12
Total	¥2	¥9	$24

(b) Operating leases

Operating leases at March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Due within one year	¥ 8	¥ 9	$ 97
Due after one year	2	8	24
Total	¥10	¥17	$121

17. FINANCIAL INSTRUMENTS

(Additional Information – Disclosure of fair values of financial instruments)

1. Qualitative information on financial instruments

(a) Policies for using financial instruments

Surplus capital is managed using financial instruments that carry little or no risk and working capital is procured from bank loans. The Company uses derivatives to mitigate the risks and, as a matter of policy, does not use derivatives for speculative purposes.

(b) Details of financial instruments used and the exposures to risk and how they arise

Notes and accounts receivable expose the Company to customer credit risk. To manage this risk, the Company has established internal procedures for receivables, manages the amounts and settlement dates by the counterparty and monitors the financial condition of counterparties.

Bonds and negotiable deposits expose the Companies to the credit risk of the issuing company. To manage this risk, the Company uses only short-term financial instruments issued by institutions of high credit rating. The risk associated with market price fluctuation of financial instrument is extraordinary low.

Investments in securities expose the Companies to the risk of changes in market prices. However, the issuing companies are mainly related to the Company's business. Moreover, the market price is reported to directors periodically.

Note and accounts payable are due within four months.

All loans are long-term loans (mainly five years) and are procured for capital investment. Loans with variable rates expose the Company to the risk of interest rate fluctuations. To avoid the risk of interest fluctuations, the Company uses interest rate swaps for each business contract to hedge of interest rate fluctuation.

Hedged instruments recognized by individual contracts. The hedge effectiveness of interest rate swaps for hedging treatment that are believed to have high hedge effectiveness are not evaluated, such as in cases where the hedging tools and hedging instruments share the same important characteristics.

(c) Policies and processes for managing the risk

The Companies enter into derivative transactions only with counterparties of high credit rating and with respect to which the Company believes there is almost no credit risk. The derivative transactions are executed in accordance with internal management regulations. The Company and its subsidiaries have not entered into any such derivatives transactions as of March 31, 2012.

While operating payables and loans payable are exposed to liquidity risks, they are managed within the Companies by producing cash flow plans on a monthly basis.

(d) Supplemental information on fair values
The fair value of financial instruments is calculated by reasonable method when market price is not available. To calculate such fair value, certain assumptions must be made, and the fair value may have been determined differently in other assumptions had been made.

2. Fair values of financial instruments
Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2012 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2012	Carrying amount shown balance sheet	Fair value	Difference	Carrying amount shown balance sheet	Fair value	Difference
Cash and time deposits	¥15,398	¥15,398		$187,346	$187,346	
Notes and accounts receivable	39,081	39,081		475,496	475,496	
Marketable securities	10,400	10,400		126,536	126,536	
Investments in securities						
Other securities	4,731	4,731		57,562	57,562	
Notes and accounts payable	(16,875)	(16,875)		(205,317)	(205,317)	
Bank loans	(5,549)	(5,549)		(67,514)	(67,514)	
Long-term debt						
Due within 1 year	(139)	(140)	1	(1,691)	(1,703)	12
Due over 1 year	(5,168)	(5,228)	60	(62,879)	(63,609)	730

	Millions of yen		
Year ended March 31, 2011	Carrying amount shown balance sheet	Fair value	Difference
Cash and time deposits	¥11,459	¥11,459	
Notes and accounts receivable	27,272	27,272	
Securities	8,500	8,500	
Investments in securities			
Other securities	4,915	4,915	
Notes and accounts payable	(13,629)	(13,629)	
Long-term debt			
Due within 1 year	(471)	(472)	1
Due over 1 year	(1,176)	(1,179)	3

<Additional Information >
Effective from the fiscal year ended March 31, 2011, the Company has adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No.10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008).

18. SECURITIES

(a) Other securities with determinable market value

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	¥ 858	¥2,797	¥1,939	$10,439	$34,031	$23,592
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Securities whose carrying value does not exceed acquisition costs:						
Stock	2,324	1,934	(390)	28,276	23,531	(4,745)
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	¥3,182	¥4,731	¥1,549	$38,715	$57,562	$18,847

	Millions of yen		
As of March 31, 2011	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 863	¥3,015	¥2,152
Bonds	—	—	—
Other	—	—	—
Securities whose carrying value does not exceed acquisition costs:			
Stock	2,337	1,900	(437)
Bonds	—	—	—
Other	—	—	—
Total	¥3,200	¥4,915	¥1,715

(b) Other securities sold during the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Sales of other securities	¥—	¥ 64	$—
Profit (loss) on sales	¥—	¥(15)	$—

(c) Securities without determinable value

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Other securities:			
Unlisted securities	¥1,331	¥1,331	$16,194
Bonds	¥ —	¥ —	$ —
Unconsolidated subsidiary and affiliated company:			
Unlisted securities	¥5,623	¥4,008	$68,415

19. LOSS ON IMPAIRMENT OF FIXED ASSETS

In the year ended March 31, 2012, the Company reported the following loss on impairment of fixed assets;

Use	Place	Type of asset	Millions of yen	Thousands of U.S. dollars
Steel Business plant	Osaka	Buildings and structures	¥ 62	$ 754
		Machinery and equipment	459	5,585
		Land	5	61

The companies grouped their fixed assets based on division, and idle assets were each treated as separate property.

(Impairment Loss on Consolidated Statement of Income)
Regarding fixed assets possessed by the Hirakata Division (Osaka Mill), book values have declined to recoverable values due to lower profitability and the amount of the decline is stated in extraordinary loss as an impairment loss (¥526 million).

Recoverable values used to calculate impairment loss are calculated with use-values, and use-values are calculated by discounting future cash flow to present value (discount rate of 3.7%).

20. STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2012 is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Valuation difference on available for sale securities:		
Current accrual	¥ (78)	$ (949)
Recycling	(88)	(1,071)
Before tax effect adjustment	(166)	(2,020)
Tax effect adjustment	148	1,801
Valuation difference on available for sale securities	(18)	(219)
Deferred gains or losses on hedges:		
Current accrual	1	12
Recycling	—	—
Before tax effect adjustment	1	12
Tax effect adjustment	(0)	(0)
Deferred gains or losses on hedges	1	12
Revaluation reserve for land:		
Current accrual	29	353
Tax effect adjustment	495	6,023
Revaluation reserve for land	524	6,376
Share of other comprehensive income of associates accounted for using equity method:		
Current accrual	(49)	(596)
Recycling	—	—
Share of other comprehensive income of associates accounted for using equity method	(49)	(596)
Total	¥458	$5,573

(Additional information)
Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 issued on June 30, 2010).

However, amounts listed the previous consolidated fiscal year as accumulated other comprehensive income and total accumulated other comprehensive income are stated as amounts in valuation and translation adjustments abstract and total valuation and translation adjustments abstract.

21. SEGMENT INFORMATION

(a) Overview of Reporting Segments

The Group's reporting segments are segments that make up the Group for which separate financial information can be obtained and are subject to regular deliberation by the highest decision-making body in order to make decisions on allocating management resources and assess financial performance.

The Group's organization is made up of three business segments: the steel business, material recycling business and other business segment. Based on these business units, the Group formulates comprehensive domestic and overseas strategies and carries out business activities.

Accordingly, the Group has made these three segments—steel business, material recycling business and other business—its reporting segments.

The steel business is involved in the production, sale and transport of steel products, primarily steel for civil engineering and construction.

The material recycling business is involved in intermediate and final processing of medical waste and industrial waste and gravel recycling.

The other business segment is involved in selling civil engineering materials, financial asset management and insurance services.

(b) Calculation methods for net sales, profit or loss, assets, liabilities and amounts for other items for each reporting segment

The accounting methods of reportable business segments are the same as mentioned in "Significant Accounting Policies for the Preparation of the Consolidated Financial Statements".
Reporting segment profit or loss is operating income or operating loss. Inter-segment transactions are transactions between companies and are based on market prices, etc.

(c) Information related to net sales, profit or loss, assets, liabilities and amounts for other items for each reporting segment

The business and geographical segments and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of yen					
Year ended March 31, 2012	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	¥124,067	¥6,221	¥ 362	¥130,650	¥ —	¥130,650
Intersegment sales and transfers	185	1,552	—	1,737	(1,737)	—
Total	124,252	7,773	362	132,387	(1,737)	130,650
Segment income (loss)	¥3,493	¥1,241	¥44	¥4,778	¥ (612)	¥ 4,166
Segment assets	¥123,099	¥5,614	¥3,310	¥132,023	¥32,463	¥164,486
Other						
Depreciation and amortization	4,319	243	13	4,575	69	4,644
Impairment loss of fixed assets	526	—	—	526	—	526
Increase in property, plant, equipment and intangible assets	4,847	83	29	4,959	32	4,991

(Note) 1. Inter-segment eliminations of ¥19 million and corporate expenses of ¥(631) million not allocated to the reporting segments are included in the ¥(612) million adjustment for "Segment profit (operating income)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.

2. Adjustment amount of segment assets was ¥32,463 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.

3. Adjustment amount of depreciation and amortization was ¥68 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
4. Adjustment amount of expenditure for addition to tangible and intangible assets was ¥32 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
5. Segment profit or loss is adjusted against operating income or loss of consolidated statement of income or loss.

	Thousands of U.S. dollars					
Year ended March 31, 2012	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	$1,509,515	$75,690	$ 4,404	$1,589,609	$ —	$1,589,609
Intersegment sales and transfers	2,251	18,883	—	21,134	(21,134)	—
Total	1,511,765	94,574	4,404	1,610,743	(21,134)	1,589,609
Segment income (loss)	$42,499	$15,099	$ 535	$ 58,134	$ (7,446)	$ 50,687
Segment assets	$1,497,737	$68,305	$40,273	$1,606,315	$394,975	$2,001,290
Other						
Depreciation and amortization	52,549	2,957	170	55,676	827	56,503
Impairment loss of fixed assets	6,400	—	—	6,400	—	6,400
Increase in property, plant, equipment and intangible assets	58,973	1,010	353	60,336	389	60,725

	Millions of yen					
Year ended March 31, 2011	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
Sales						
Sales to external customers	¥110,102	¥6,379	¥ 347	¥116,828	¥ —	¥116,828
Intersegment sales and transfers	35	1,575	—	1,610	(1,610)	—
Total	110,137	7,954	347	118,438	(1,610)	116,828
Segment income (loss)	¥ (1,138)	¥1,599	¥ 32	¥ 493	¥ (699)	¥ (206)
Segment assets	¥109,740	¥5,969	¥3,505	¥119,214	¥27,239	¥146,453
Other						
Depreciation and amortization	4,447	277	13	4,737	69	4,806
Increase in property, plant, equipment and intangible assets	2,436	110	31	2,577	129	2,706

(Note) 1. Inter-segment eliminations of ¥10 million and corporate expenses of ¥(708) million not allocated to the reporting segments are included in the ¥(698) million adjustment for "Segment profit or loss (operating income or loss)". Corporation expenses are mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
2. Adjustment amount of segment assets was ¥27,239 million, mainly related to included the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
3. Adjustment amount of depreciation and amortization was ¥69 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
4. Adjustment amount of expenditure for addition to tangible and intangible assets was ¥129 million, mainly related to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
5. Segment profit or loss is adjusted against operating income or loss of consolidated statement of income or loss.

(Additional information)
Effective from the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan (ASBJ) Statement No.17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, issued on March 21, 2008).

Year ended March 31, 2011	Steel	Material recycling	Others	Total	Eliminations and unallocated amounts	Consolidated
	Thousands of U.S. dollars					
Sales						
Sales to external customers	$1,324,137	$76,717	$ 4,173	$1,405,027	$ —	$1,405,027
Intersegment sales and transfers	421	18,942	—	19,363	(19,363)	—
Total	1,324,558	95,658	4,173	1,424,390	(19,363)	1,405,027
Segment income (loss)	$ (13,686)	$19,230	$ 385	$ 5,929	$ (8,406)	$ (2,477)
Segment assets	$1,319,784	$71,786	$42,152	$1,433,722	$327,589	$1,761,311
Other						
Depreciation and amortization	53,482	3,331	156	56,969	830	57,799
Increase in property, plant, equipment and intangible assets	29,296	1,323	373	30,992	1,552	32,544

<Related information>
Loss on impairment of fixed assets for each reporting segment

Year ended March 31, 2012	Steel	Material recycling	Others	Total	Consolidated
	Millions of yen				
Loss on impairment of fixed assets	¥526	—	—	—	¥526

Year ended March 31, 2012	Steel	Material recycling	Others	Total	Consolidated
	Thousands of U.S. dollars				
Loss on impairment of fixed assets	$6,400	—	—	—	$6,400

22. SUBSEQUENT EVENTS

Dividend distribution of surplus

On April 27, 2012, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥653	$7,945

Cash dividends: ¥15 (U.S. $0.18) per share.

Independent Auditor's Report

To the Board of Directors of KYOEI STEEL,LTD.

We have audited the accompanying consolidated financial statements of KYOEI STEEL,LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYOEI STEEL LTD. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

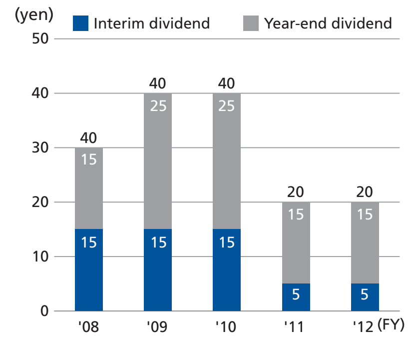
July 4, 2012
Osaka, Japan

Investor Information

(As of March 31, 2012)

Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized: 150,300,000 Issued: 44,898,730
Number of Shareholders	3,249
Number of Employees	1,299 (Consolidated: regular employees)
Stock Listings	Tokyo, Osaka
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

Dividends per Share

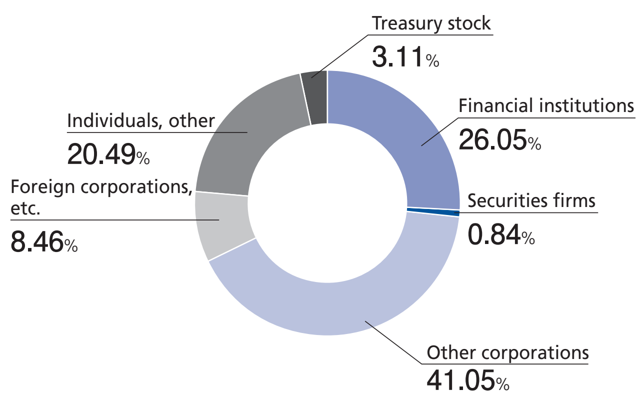


Major Shareholders (As of March 31, 2012)

Name of shareholder	Number of shares owned	% of total-shares issued
Sumitomo Metal Industries, Ltd.	11,592,932	25.82%
Hideichiro Takashima	4,675,460	10.41
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)*	2,600,400	5.79
Akihiko Takashima	2,233,000	4.97
Japan Trustee Services Bank, Ltd. (Trust Account)	2,158,100	4.81
Mitsui & Co., Ltd.	1,470,000	3.27
Kyoei Steel, Ltd. (Treasury stock)	1,394,242	3.11
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,392,000	3.10
Godo Steel, Ltd.	1,347,000	3.00
Japan Trustee Services Bank, Ltd. (Trust Account 9)	716,100	1.59

* The shares are owned beneficially by Air Water Inc. and held as a retirement benefit trust by Japan Trustee Services Bank, Ltd. Air Water Inc. holds the right to direct the voting of these shares. In addition to the above, Japan Trustee Services Bank, Ltd. holds 692,000 shares of the Company included in trust property relating to a retirement benefit trust entrusted by Air Water Safety Service Inc., a wholly owned consolidated subsidiary of Air Water Inc.

Composition of Shareholders by Type



Stock Price Movement and Trading Volume

KYOEI STEEL

KYOEI STEEL

http://www.kyoeisteel.co.jp/